Strategic Visions on the Sourcing Market 2016

Advisory

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VOORWOORD

Sourcing heeft anno 2016 meer dan ooit behoefte aan Strategic Visions. Er is immers beweging op tal van vlakken, variërend van technologie en de service provider markt tot de wens om ruimte te geven aan de menselijke maat en de trend van offshoring naar noshoring. De ontwikkelingen zijn niet los van elkaar te zien en grijpen op elkaar in. Sourcing is dan ook simultaan schaken en dat is precies waarom het zo'n boeiend werkveld is.

In lijn met de traditie van de afgelopen jaren geeft KPMG ook dit jaar haar visie op de sourcingmarkt in 2016. We doen dat vanuit de 'SSOA Lifecycle' die al jaren de basisfilosofie is voor onze dienstverlening.

Wij hebben over de lifecycle heen 4 thema's geïdentificeerd, waarvan wij zien dat de markt die van groot belang acht voor de agenda van 2016. Op deze thema's geven wij u in deze publicatie food for thought mee.

De thema's voor 2016 zijn:

- **Strategic Partnerships**
- **Robotic Process Automation**
- **The Future of Procurement**
- **Lean in IT Outsourcing**

Om met het eerste thema te beginnen: partnerships. Een thema dat ook van belang is vanwege toenemende complexiteit en snelheid van de wereldwijde context. We belichten dit thema vanuit 2 invalshoeken. Ten eerste de partnerships tussen organisatie en leveranciers en ten tweede de competitie tussen ecosystemen. De rode draad in het succesvol uitvoeren van partnerships: een partnership selecteer je niet; een partnership bouw je (samen) op.

Het tweede thema, robotic process automation, leidt tot nieuwe business- en verdienmodellen, maar roept ook de vraag op of labour arbitrage nog van toepassing is. Dit gaat zeer wezenlijke impact hebben op de manier waarop werk wordt verplaatst naar lage lonen landen. Wellicht gaan we van near/offshoring naar noshoring?

Dit brengt ons bij het derde onderwerp, de toekomst van procurement. Organisaties zijn meer en meer een netwerk van onderdelen die soepel op elkaar moeten inspelen en interacteren om het gezamenlijke doel te bereiken. Dat stelt hoge eisen aan de competenties van een organisatie.

KPMG SSOA Lifecycle

Strategic Visions on the Sourcing Market 2016

Het vierde thema, Lean in IT outsourcing, komt voort uit de groeiende behoefte om te denken vanuit een End to End (E2E) verantwoordelijkheid (van 'zand tot klant'), de aansluiting van meerdere partijen op het totaalproces en behoud van wendbaarheid. Er komt steeds meer behoefte aan de toepassing van Lean en optimalisatie bij het sourcingvraagstuk in relatie tot efficiënt inregelen van de sourcingsorganisatie.

Voor alle thema's geldt dat we meerdere invalshoeken hanteren. We bieden achtergrondinformatie, methodieken en delen onze visie en ervaringen in een blog. Daarnaast illustreren we het thema met een case study en bieden ruimte voor een kritische blik middels een interview van een externe expert.

Namens het hele team van de Shared Services en Outsourcing practice van KPMG Nederland, mag ik u zeggen dat we meer dan trots zijn op deze publicatie. We hebben er met veel enthousiasme aan gewerkt en vertrouwen erop dat de inhoud u inspireert om binnen uw organisatie met de thema's aan de slag te gaan. Wij gaan graag het gesprek met u aan over de thema's in deze uitgave, maar uiteraard ook over alle andere onderwerpen rondom Shared Services & Outsourcing.

Kees Stigter
Voorzitter KPMG Shared Services & Outsourcing Advisory

VOORWOORD

FOREWORD

Strategic Visions on the Sourcing Market 2016

For the past six years, KPMG's Strategic Visions on the Sourcing Market publication has provided insights into trends, new concepts, and leading practices to inform and educate organisations on ways in which they can excel in sourcing and delivering business and information technology (IT) services. With global views, experiences, trend data, and ideas collected by KPMG's global Shared Services and Outsourcing Advisory (SSOA) Centre of Excellence (CoE) – a global network that consists of and supports over 1,000 KPMG sourcing advisors – the 2016 edition of Strategic Visions on the Sourcing Market offers insights we hope will enable and inspire your enterprise's service delivery capabilities.

Highlights of KPMG's Strategic Visions on the Sourcing Market 2016 include:

Partnerships. The increasing complexity of today's high-speed, globalised environment necessitates partnerships between organisations. However, many businesses are uncertain how to set up and manage partnerships, how to select and evaluate appropriate partners, or what type of relationship they want with their partners. 'A pragmatic approach to current and future business relationships' provides insights into how a new approach to establishing trust and position partnerships as a critical capability can enable companies to reap the full benefits of the globalised, technology-driven era in which we operate.

Robotic process automation. Is your organisation ready for a world in which three out of 10 corporate jobs are done by a robot, and the accompanying shift in the world's capital allocation, with more of the wealth going to a few technology platforms? This is not a hypothesis on the distant horizon; it is already starting to happen because automation is rapidly becoming more intelligent and affordable, while the global supply of talent is getting smaller and more expensive. 'Employees: an endangered species?' explores this phenomenon, the rise of robotics, and how to respond.

The future of procurement. The significant increase of supplier involvement in every organisational business process over the past couple of decades is leading to a new paradigm for the role and impact of the procurement function. 'Changing the value of procurement' discusses procurement's evolution into a real integrated business function focused on value creation with the supplier community, the gaps between procurement priorities and the value creation potential of suppliers, procurement value frameworks, and more.

Applying "Lean" concepts to IT outsourcing relationships. The application of 'Lean' tools, principles, and philosophy in an IT environment differs greatly from its application in manufacturing supply chains. And despite the conceptual similarities, the benefits gained from leveraging Lean in an IT outsourcing arrangement often fall far short of those achieved in supply chain environments. We provide insights, food for thought, and practical advice on the use of Lean to improve outsourced IT to deliver sustainable results in "Applying Lean to leverage IT outsourcing relationships."

Strategic Visions on the Sourcing Market 2016 addresses the four themes of robotic process automation, the future of procurement, Lean in IT outsourcing, and partnerships, not only through the papers referenced above but also through experience-oriented blogs, case studies, and client- and vendor-based interviews, thereby illuminating the topic from multiple points of view.

Wishing you all the best for an inspired and informed sourcing journey,

David J. Brown
Practice Leader, Global Shared Services and Outsourcing Advisory
Global Business Services Centre of Excellence Leader

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WASEEM ALKHATEEB AND MAARTEN VISSER

PAPER

Getting the most out of partnerships

A KPMG model offering a pragmatic approach

This paper is the result of a series of interviews with a wide variety of professionals that deal with partnerships on a daily basis. The group included professors, business & thought leaders, clients and service providers: each of whom brought his/her own experiences, opinions and points of view to the table. Strategic partnerships are all about sharing. By that we mean not only sharing resources and expertise but also having a shared vision, goal and trust. Companies need to approach partnerships strategically and seek to align their people, processes and technology. A new approach to establishing trust and position partnerships as a critical capability enables companies to reap the full benefits of our globalised, technology-driven era. This paper provides an analysis of the importance of partnerships and a model to optimise them.

Partnerships are a widespread and important element of the current business environment. Partnerships are everywhere nowadays, whether it is a car manufacturer and a technology company jointly developing a software platform for electric vehicles, a delivery firm working together with a drone manufacturer to deliver medication to remote areas or a fast food company partnering with a gas station company to develop into one of the fastest-growing global businesses, and so on…

The growing importance of partnerships is fuelled by the increasing complexity of the high-speed, globalised environment in which we operate. This new world requires new solutions, and most of all, different collaboration models. It raises many questions for management. How do I set up a partnership? How do I recognise and select an appropriate partner? Which types of relationships exist? What does a partnership contract look like? How can I appropriately manage my partner going forward?

Organisations have been setting up partnerships as long as business and entrepreneurship have existed

Many studies have been dedicated to the phenomenon of partnerships (e.g. Wildridge, Childs, Cawthra, & Madge, 2004), especially on the topic of achieving a competitive advantage through partnerships. The characteristics of successful partnerships have also been subject of research as far back as the early nineties (e.g. Mohr & Spekman, 1994). Despite the growing importance of partnerships, there is still limited understanding of how partnerships work in practice. The aim of this paper is to provide practical guidance for setting up or executing a partnership. It outlines our vision of how partnerships will develop over time, how they could be treated and the value they can bring to your business environment. These partnership guidelines are generic, and the way they are used will vary according to the context of the partnership. Beyond the fact that it will improve understanding of partnerships, it will also enable firms to benefit from better decision-making. For this reason it is important to stress that partnerships are not appropriate in all contexts and will not always be the solution to the problem an organisation faces at any given time.

Partnerships: a growing phenomenon

As stated earlier, partnerships play an increasingly large role in today's business landscape. We can distinguish three major reasons for this growth:

1. The acceleration of change enabled by ever-improving technologies, forcing companies to look for new collaboration opportunities that in some cases affect the core of their business. Nowadays startups are collaborating with well-established companies, because the combination of technologies, applications or services increases the value of a product or service offering. More often we see innovation ecosystems in which relationships are formed between actors or entities (e.g., startups, service providers, clients, universities, policy makers and even competitors) whose functional goal is to enable technology development and innovation. These initiatives allow for the sharing of capabilities, risks and costs which encourages companies to move out of their comfort zones and explore new possibilities.

2. The need for change in business models due to the shrinking lifespans of companies. According to an Innosight study of the S&P 500 Index, the average lifespan of a firm was 61 years in 1958, but narrowed to 25 years in 1980 and to 18 years nowadays. At that rate, 75% of the S&P 500 will be replaced by 2027! If you think of how quickly Google, Facebook & the new Apple have grown to become global leaders this comes into perspective. And we all know that companies like Uber, Airbnb, Netflix and AliExpress are changing the game. According to Harvard Business Review, the process of developing these new business models consists of three basic steps: identify an important unanswered demand; create a blueprint for a model that can profitably fulfil this demand; and carefully implement and develop the model. In all three steps, partnerships can increase the speed of the process which is required by the new shorter lifespan.

PARTNERSHIPS

3. The scope and maturity of outsourcing. Outsourcing (back-office) activities has been common practice in business for many years. Businesses are now looking for new ways to increase the value of their outsourcing relationships. This is bringing companies closer to each other, and rather than the client directing the supplier, businesses are looking to collaborate and enrich or create new business models that enable growth and foster a sustainable future. This new way of collaborating entails a different mix of risks and benefits and requires different strategic considerations. In the end, the overarching goal is increasingly becoming to build a relationship based on a partnership that delivers sustained value to both parties.

The Partnership Model

Our model identifies the different types of potential relationships. Before elaborating on the model, we should be clear about the definition of a partnership. Hendrick and Ellram (1993) use the following definition:

> 'A partnership is the building and proactive maintenance of a relationship with a limited number of buyers/suppliers from a performance-oriented business perspective. This relationship is based on mutual trust and on the intention of buyer and supplier to work together for an extended period of time based upon a fair sharing of both risks and rewards. This makes it possible to work jointly on continuous optimisation of processes and products throughout the entire chain of production'.

This definition is true but like many others it still does not give defined boundaries to really frame the term 'partnership', allowing it to be interpreted in multiple ways. Consequently, it can mean different things to different people, which is what the term partnership does in real life. Often clients refer to partnerships when what they really want is to collaborate, set up a co-operation, define an ecosystem, participate in a network or even form another type of relationship. Therefore we believe that it is not possible to capture the true essence and basic elements in a single and simple definition.

Looking at the current state of affairs we can find some good examples of relationships where organisations work successfully together to achieve mutual benefits and success. When looking at these successful cases it becomes clear that there is not a single type of true partnership. There are various types of relationships that organisations can adopt that eventually could lead to a partnership. The partnership model describes these relationships and their characteristics. Understanding the differences between the various types of relationships can help companies to fashion effective partnerships and invest in building the required level of trust. The figure on the next page presents the KPMG Partnership Model and illustrates various types of relationships with their unique characteristics.

PAPER

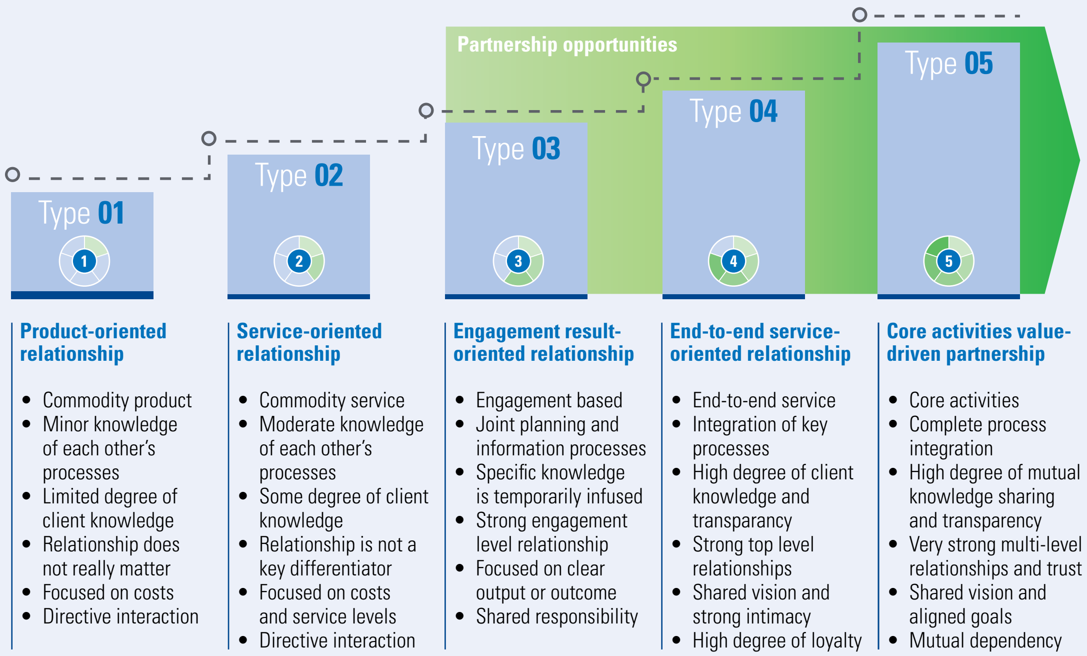


FIGURE: KPMG'S PARTNERSHIP MODEL

Product-oriented relationship

The product-oriented relationship is often used for commodity products that do not require alignment of processes between client and supplier. These relationships, in which there is some directive interaction and limited client knowledge, typically revolve around costs.

Service-oriented relationship

The service-oriented relationship is an evolution of the product-oriented relationship and used for business relationships around commodity services. This type of relationship is characterised by moderate knowledge of each other's processes, some degree of client knowledge and limited customisation of the services in scope. Client satisfaction is based on costs and service levels and there is some directive interaction between client and supplier.

Engagement result-oriented relationship

The engagement result-oriented relationship has a temporary character as it is based on an engagement and not a long-term relationship. Joint planning and information processes between the partners are in place, effectuating some degree of alignment. There is a strong engagement-level relationship in which there is shared responsibility and a clear focus on output or outcome.

End-to-end service-oriented relationship

The end-to-end service-oriented relationship is used for end-to-end services that require the integration of key processes. This demands a high degree of client-specific knowledge and transparency. Strong relationships between the top management of both firms must effectuate a shared vision, strong intimacy, and a high degree of loyalty. This type of relationship has the highest potential to be developed into a core activities value-driven partnership.

Core activities value-driven partnership

A core activities value-driven partnership requires complete process integration and enables companies to create the most synergies.
The partnership is characterised by a high degree of mutual knowledge-sharing and transparency. This is only possible when the partners trust each other and strong relationships between the organisations exist at all levels. The relationship is based on a long-term shared vision and goals, there is mutual dependency between the partners and willingness to invest in the relationship.

Using the Partnership Model as a framework

Does a partnership always help you to achieve your goals? Of course not. One should consider whether a partnership is a possible answer to the question on the agenda. This depends on several variables, including the goals and characteristics of your organisation. Organisations need to focus their efforts and create a balanced landscape of partners and suppliers.
The effort that is required to cooperate with a partner is very different from the effort that is required to manage a supplier. However, both efforts are required of organisations and need to coexist in a balanced and well thought through environment.

Setting up successful partnerships requires several basic elements. As we explained earlier, the essence of partnerships is to share not only resources and expertise but also a vision and goals. Although this might sound like 'common sense', that does not mean it is easy to achieve. The players involved should have a common interest in doing things differently to achieve the shared goal. All too often the shared goal is not met in practice resulting in disappointment on all sides.

We have identified eight elements that all successful partnerships share:

1 Developing partnerships **begins with yourself and your own organisation**. Does your organisation have what it takes to set up and maintain a partnership?
2 There needs to be **a clear and shared vision and ambition** that defines the value and purpose of the partnership. This vision needs to be translated into mutual goals, practical processes and collaborative behaviour such as planning and monitoring. The partners have to make sure that this 'strategic fit' continues to be aligned with changing circumstances and demands.
3 **Leadership** of all the entities involved must be committed to the partnership. This commitment must cascade down through the entire organisational structure until each individual contributes to the objectives of the partnership.
4 To ensure that progress is maintained, the people directly involved in the partnership must have the **mandate to effectively make decisions** and foster collaboration.
5 All partners need to have the right **culture and mindset** in order to overcome barriers and contribute to the shared goal.

6 In this culture, there must be a strong level of **mutual trust** between the partners. Personal relationships and transparency play a vital role in building trust, especially in the early stages of the partnership. But trust is not only about personal relationships, it is also about an exchange and appreciation of competences and character and above all practical collaborative behaviour. Trust is a matter of behaviour, not just attitude or intent.

7 As well as being an exchange of trust, partnership is also an **exchange of value** (products, functionalities, added value, money, etc.). The combination of trust and value exchange is the foundation of making a partnership sustainable.

8 Last but not least, every business partnership needs a **contractual model**. It is a challenge to keep this kind of contract simple and functional. Instead of trying to cover every possible incident that might occur, the model should provide guidelines on how to work together towards a shared goal. |

TO CONCLUDE

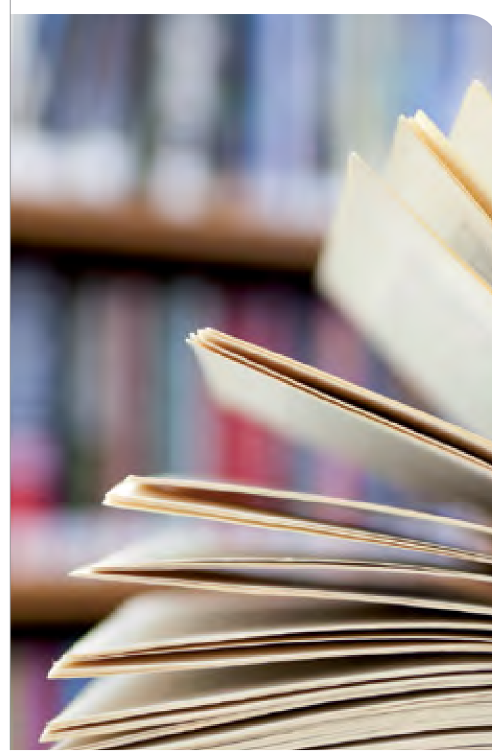
Companies need to approach partnerships strategically, and seek to align people (including the company culture), processes and technology with the partnership goals. Adopting a new approach to establishing partnerships based on trust and a shared outlook, as a key component of their strategy, will enable companies to reap all the benefits of our globalised, technology-driven era.

Traditional selection procedures, such as competitive tendering (bidding), are unlikely to help you to find the partnership you are seeking. We encourage companies to find candidates through an open search in which there is room for discussion, trust, open communication and sufficient attention to the ‘soft’ aspects of business. Instead of using a ‘Request for Proposal’, it is better to initiate a ‘Request for Dialogue’. But first, you have to conduct a thorough readiness assessment to convince yourself that your organisation has all the required basic elements for developing and executing a partnership. In short: you don’t select a partnership, you build one.

BEST PRACTICES IN PARTNERING

Companies that have successful partnerships tend to invest in due diligence to verify whether potential partners are trustworthy, and have high standards of trust. A partnership is an emergent process that requires time to develop. The optimal contracting procedure depends on the company’s experience with partnerships, the type of industry, the purpose of the partnership and the history between the potential partners. The following best practices are, however, being applied by many leading companies and can be applied to most contracting procedures:

- Open communication and conversation on a business blueprint level;
- Focus on WHAT instead of HOW (regarding the operation);
- Partnership decisions based on a strong relationship of trust (interpersonal relationships);
- Focus on a long-term and healthy relationship (investment in the partnership);
- Continuous improvement/feedback loops/flexibility;
- Gain/loss sharing (dynamic contract);
- Every employee involved should know the core purpose of the contract.



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BLOG

EDO ROOS LINDGREEN

Partnering with startups

Starting a company is easier than ever before. In the old days, you needed significant seed capital and a lot of patience to start a company. You had to set up a legal entity, buy a computer and software, rent office space and hire a bookkeeper and secretary. Nowadays, the threshold is much lower. For several hundred euros you can buy a laptop at a local retailer and install some free software from a public source. It is no wonder the number of startups is exploding: young entrepreneurs, fresh out of university, with wild ideas and the ambition of becoming the next Jeff Bezos.

Unfortunately, only a small number of these adventurers is really successful. That success is often attributed to specific qualities such as commercial insight, intelligence and perseverance. We often forget that luck also plays a major role in this success. Many successful entrepreneurs openly admit that their success largely is due to chance. That is hardly a surprise. Nobody, not even the smartest entrepreneur, is able to always predict the future. How is it that some startups grow into global companies with a market value of billions of dollars? That is more a question of statistics than of clairvoyance. There are hundreds of thousands of startups, so there is a pretty big chance of some of them becoming a success story like the ones we all know.

If you participate early on in a startup, you can make a huge financial gain. This explains the entrance of venture capitalists into the startup scene; investors that have specialised in identifying, incubating and growing promising startups.

In recent years it has been not only venture capitalists, but also corporations, who have been eagerly looking for startups. Many of them found out through trial and error that they do not possess ultimate wisdom and are not able to predict the future. Their investments yielded too little, for which they were not entirely to blame; they simply did not have a crystal ball at their disposal. In startups they see an alternative breeding ground for innovation. By entering into partnerships with startups at exactly the right moment, they can strengthen and accelerate their innovation and make it more effective. On the other hand, cooperation with corporations offers great advantages to the startup: new clients, a professional organisation and access to an international network with the potential for a lot of new business. This has led to the creation of many new relationships between startups and corporations with the potential to grow into 'official' partnerships and occasionally even to a happy marriage.

This all sounds easier than it is.

It starts with the first contact: the matchmaking phase. Recent research by KPMG shows that most startups have no idea how to get in touch with a corporation and especially not to whom they should reach out within corporations. Even if they do take the initiative and try to make contact, they inevitably get in touch with the wrong person and are sent from pillar to post for so long that they finally give up. On the other hand, most corporates have no idea which startups could potentially be of interest to them. It is nearly impossible to focus on the right startups within those hundreds of thousands. Matchmaking between startups and corporates is a profession in its own right.

Then comes step two: the initial courtship. The same study shows that again this is a point in establishing a partnership where things often go wrong. Startups and corporations do not speak the same language and have a different rhythm. The startup is excited and just wants to go, preferably yesterday, with half-decent proofs-of-concept, without any understanding of board meetings, risk analysis procedures and procurement contracts. The corporation, on the other hand, wants assurance, needs time and has to convince all kinds of stakeholders with business cases, slide decks and perfect prototypes. It's a bit like releasing a twenty-year old party animal in a retirement home.

Finally, on to step three: the partnership. The startup and the corporate both need to find a way of working that does justice to both of their organisations, and where they both benefit from the partnership. In the lightest form of partnership the startup and corporate develop a joint proposition, brought to the market under their joint flags. A partnership taken to the next level is a joint venture, in which this proposition is further formalised. The ultimate form of partnership is a stake or takeover, where the corporation acquires a stake in the startup or completely takes it over.

To establish more successful partnerships between startups and corporations, KPMG hosted a workshop to mark the tenth anniversary of 'YES! Delft', the startup incubator of Delft University (TU Delft). Fifteen captains of industry and fifteen startups drafted the 'Manifesto of Delft'. The manifesto contains five principles for corporates to establish better cooperation with startups.

1. Name a startup champion with a clear mandate

The idea behind this is that large companies appoint a key figure within the organisation. He/she works, within a clear paradigm, on a useful cooperation with startups.

2. Embrace and capitalise on the differences between startups and large companies

A solid corporation and a fresh startup are miles apart on many different aspects. Instead of denying them, the starting point is to identify these differences and exploit them where possible.

3. Look at a startup as something more than an acquisition target

A startup's goal is not always to be acquired for a nice sum of money. As a large firm, you can play a far more valuable role, for instance, that of a launching customer or a gateway to the industry.

4. Think big, start small: customised conditions

Share great ambitions with each other, but take small steps to achieve them. With a clear demarcated pitch and conditions that fit within the reality of both parties (i.e. without some of the conditions that go a bit too far) you will make progress together.

5. Commit yourself to a perfect match

A startup that is better in many other ways usually also talks good business: an organisation in which the goals and added value have been made clear right from the start is more attractive.

Corporates who follow the principles of the 'Manifesto of Delft' increase their chances of a successful partnership with startups, and thereby increase the effectiveness of the innovation process and thus its chances of survival. At least, that's the idea.

Collaboration between startups and corporates will not happen by itself because the differences between them are too great, but a successful partnership can indeed make a difference.

MAARTEN VISSER AND MIKEL BOUTE

CASESTUDY

Shell partners with third party to innovate in logistics

Shell Chemicals Europe (Shell) launched a worldwide program to increase the division's business, while at the same time reducing safety risks to the lowest possible level. As part of the program, an innovative logistics concept was implemented. This new concept maximised operational efficiency and loading safety by decoupling the loading activities from the distribution. It was not only beneficial for Shell, but also resulted in a significant reduction in the waiting time for the hauliers while simultaneously reducing the traffic pressure on public roads around the facility. The implementation was a complex process that required close collaboration between the partners and departments within Shell and the third-party logistics service provider (LSP). This case study illustrates how Shell was able to achieve the goals set through an innovative logistics concept in combination with an outsourcing partnership. It was developed in close cooperation with the LSP which was also responsible for putting the concept into practice.

Challenges and solution

During a broad and intensive strategic review of the logistics department, the benefits of introducing a third party to operate on-site loading and logistics were identified. The challenges faced by Shell were twofold:

1. Safety – On-site truck and container rejections

Thousands of different truck drivers entered the facility yearly due to the International Commercial Terms (Incoterms) structure and setup of the on-site loading process. The different operating standards of these drivers led to a number of on-site rejections and safety risks. Increasingly strict safety regulations issued by Shell with the aim of reducing the number of safety incidents was likely to further increase the number of rejections over time.

2. Innovation – Decrease operational costs and increase flexibility

The operational costs of the traditional way of managing the loading process and logistics have been optimised over the past years. Further operational cost reductions would require a different setup of the loading and logistics activities from which both Shell and the hauliers could profit. The traditional setup of the on-site logistics caused long waiting times for the hauliers and sub-optimal use of loading gantries.

Based on these challenges, a logistics concept that was new to the operation of Shell was developed in close cooperation between Shell and the LSP with the aim of reducing the safety risks and on-site rejections while increasing the flexibility and efficiency of the operations. As logistics is a core business of Shell, the company decided to form a partnership with a third-party LSP. The LSP pre-loaded all the products and transported them to an off-site location. At this location, the loaded material was handed over to the hauliers for transport to the customers. With this concept Shell would only have a dedicated pool of highly-trained drivers and loaders on its premises using pre-checked equipment. At the same time the LSP would have full control of the loading gantry occupation and would be able to work out the optimal loading schedule.

Gaining approval

The development of a sound business case and refining the vision of the desired situation with internal stakeholders was the next step. The concept parameters and success factors were defined in detail. This also provided an opportunity to test the feasibility of the concept and assess the willingness of third-party LSPs to collaborate on this project. Site visits with the stakeholders to other chemical companies helped to gain a further understanding of the implications of outsourcing logistics and loading operations. Once the business case, solution and implementation plans were worked out in sufficient detail, approval was obtained from Shell's management. Subsequently, KPMG was asked to manage the implementation of the concept into practice. In this new concept, Shell outsourced all its on-site loading and transportation activities to the third-party LSP.

Partner selection process

Shell used a tendering process (request for quotation - RFQ) to select a LSP to implement and execute the new loading and logistics concept. The RFQ was kept short and simple and used to lay out the requirements, relevant components and considerations concerning the selection of a partner. Through this process Shell asked for detailed feedback from potential service providers on the proposed concept, and a proposal for implementation and operation. Based on the replies and the perceived partnership capabilities, Shell selected a preferred party to jointly work out the concept to the level at which it could be implemented.

Selection criteria for partner

The business case was useful in the formulation of criteria for the LSP selection process and the articulation of critical paths in the implementation roadmaps. These criteria and the critical paths were not strictly financial since safety performance, loading gantry occupation efficiency and traffic pressure were also integral to the business case. Along with the business case criteria, there were also criteria defined on subjects such as performance, track record (reliability), culture, innovation power and continuous improvement. After the service provider was selected, all the assumptions in the theoretical business case were verified and validated by subject matter experts within the business, the hauliers and the selected service provider. The validated business case provided key inputs for the agreement drafted during the service provider contracting phase.

Stakeholder management, governance & team formation

At an early stage, the critical stakeholders of the logistics, operational and commercial departments of Shell were involved in developing and challenging the new concept. In this process it was essential to get business approval and align all the stakeholders through effective stakeholder management. Both within the client's organisation, as well as with the LSP, KPMG acted as mediator between the key stakeholders, developing the understanding of the concept and translating the challenges into opportunities. A shared vision and mindset focused on collaboration was required between the organisations in order to make the partnership a success. Both Shell and the LSP demonstrated openness in their individual ambitions and goals, which provided a solid foundation on which to build this partnership.

In addition to a project team, various work streams with sufficient mandate - and subject matter expertise - were put in place to translate the specific implications of the concept into practical solutions. Especially when integrating the third-party teams into the project, the key challenge was to establish a continuous focus on communication, governance and stakeholder

management. The integration of the various work streams into one dedicated project team (consisting of both Shell and third-party employees) during the implementation phase proved to be the critical success factor for getting these prerequisites in place.

Implementation roadmap

Together with the selected partner, a detailed implementation plan was developed. This implementation plan described elements such as targeted synergies, responsibilities, scope and boundaries. In addition topics like the alignment of IT systems, confidentiality/IP risks and education were also captured. One of Shell's requirements was that the employees of the LSP work in full accordance with Shell's rules and regulations.

Several parties invested in the implementation of the new concept, illustrating the long-term commitment of all the organisations involved. Shell invested in the IT landscape, on-site infrastructure and lane rates and carried the majority of the project costs. The LSP covered all the costs related to the site (rent), personnel, IT, equipment, education and other project costs. Also the site's owner was prepared to further develop the site to facilitate the new concept. With Shell as launching customer of the concept on this location, the land owner and LSP had an additional benefit: by applying the new concept in the industry they had the opportunity to extend their business.

Critical success factors

Looking back, we can distinguish a number of critical success factors that contributed to the successful partnership and implementation of the new concept:

1. A shared vision, commitment and positive attitude from senior management to facilitate the drive for innovation and to deliver on their promises;
2. Openness to share details to provide clear insight on where waste occurs (waiting times, safety incidents, loading gantry efficiency loss, etc.);
3. Willingness to adapt the concept to suit the needs of both the client and the LSP to avoid sub-optimisation;
4. Close collaboration between the client, the LSP and the various departments involved (logistics, site management, customer centres, sales and supply) and balancing all their interests;
5. Selection of an LSP with a proven track record and understanding of the business. The LSP was engaged early in the process of defining hypotheses for the business case.

Risk management

Several risks were identified that posed a threat to both the partnership and the implementation of the new concept:

1. A partnership requires a new way of thinking, where the focus should be on creating shared value and not solely on reducing costs;
2. Shell had to give up control of a part of their operations; this required trust in the new third-party LSP. Clear agreements and a shared vision contributed to establishing mutual trust;
3. Knowledge and information-sharing constituted a risk for the partnership. The partnership required adjustments to align processes, connect the IT systems and gain access to each other's data (transparency);
4. Shell had to transfer decades of experience gained from performing their own logistics operations to the new partner, which required an effective knowledge transfer process;
5. Reports had to provide all the required information and facilitate symmetry in order for the partnership between the client and service provider to be managed successfully.

During the project, mitigation actions were defined and closely monitored by the project team. Monthly review board meetings with senior managers from both Shell and the LSP ensured the appropriate level of involvement to speed up decision-making.

Role of KPMG

KPMG played a strategic role in providing a structured analysis of the project from design to implementation and in capturing the benefits. In the initial phase, we challenged Shell to think in terms of supply chain collaboration and helped them in identifying opportunities to increase the profitability and reduce safety risks. These opportunities were facilitated by a new approach in which collaboration and innovative concepts played a vital role. During each subsequent phase and throughout the project we provided a strong partnership focus and validated the assumptions. KPMG facilitated the service provider selection and assisted in the contracting phase. During the final phase, KPMG provided the project management role to facilitate a successful implementation of the new concept and strengthen the relationship between the new partners.

This journey started back in 2013 with a high-level opportunity identification. In 2014 all on-site analysis was completed to get a view on information such as volumes, new concepts, industry standards, time reduction (wait time) and safety hazards. In January 2015 all service provider criteria were defined and a few months later, in March 2015, the service provider of choice was selected. In July 2015 the first trucks were handled according to the successfully-implemented concept and both Shell and the service provider were able to reap benefits and learnings from their young partnership.

INTERVIEW

“Each strategic partner has its own unique capabilities. Remember that to guarantee long-term success.”

Jan den Boer

Head of Sourcing & Vendor Management at ABN AMRO

Strategic partners play a vital role in achieving strategic goals in the medium to long term. The technology landscape evolves continuously, as do the needs of the business. One of the key challenges in this changing environment is to make sure that external partners stick to the roles that seamlessly suit their capabilities.

So says Jan den Boer, head of Sourcing & Vendor Management at ABN AMRO: “Positioning partners in their area of core strength. And making sure that they stay there. That’s the name of the game in IT sourcing.”

‘Schuimpjesproef’. It’s a Dutch word that has no satisfactory translation in English. The word describes a simple test: face a child with the dilemma of having one piece of candy now or two pieces in half an hour. Most children will opt to satisfy their cravings immediately. This demonstrates precisely what is far from being the best choice when it comes to business partnerships. Den Boer: “Instant satisfaction feels good, and instant satisfaction may look attractive from a commercial point of view, but it may not be the best option for a rewarding long-term relationship between partners.”

In his role at ABN AMRO, Den Boer has ample experience in this domain. The stakes are high. The banking landscape is transforming at a rapid pace; (re)gaining customers’ trust is key – and difficult; new digital technology continues to shake up existing products and services; and fintech startups offer a range of potential breakthroughs in many areas that are sometimes hard to match for incumbents. This cocktail of developments is shaking up the banking industry and as a consequence, the business needs to evolve over time. This also brings with it many new opportunities for partners. “From a commercial perspective, it may be very tempting for a partner to jump on the bandwagon of these new opportunities, thereby maximising contract volumes. But in the long run, this will probably not work out well for all the parties involved. The fact that you can deliver, doesn’t necessarily mean that you should. Therefore, one of our roles is to protect suppliers from overenthusiastic behaviour. It’s very simple: if you start delivering services that don’t match your core capabilities, it will inevitably lead to dissatisfying service, which is not good for ABN AMRO, or for the reputation of the partner.”

ABN AMRO has witnessed a silent revolution in recent years where it comes to its sourcing strategy. The bank had a reputation for having very stable relationships with suppliers. In fact, the less positive side of this reputation was that requests for proposals were not always taken seriously in the market. Potential bidders doubted whether they had a fair chance of winning the competition against incumbent suppliers. This has changed in the last few years as a consequence of a new sourcing strategy that has been endorsed by the board. Signing a deal in the telecommunications domain with a new partner further increased the belief that ABN AMRO is working according to its sourcing strategy. And then of course, there is the large contract with IBM. It is a 10-year, multibillion-dollar services agreement to manage the IT infrastructure that supports the bank’s operations globally. Important elements of the agreement are the implementation of a private cloud and further standardisation and simplification of the existing IT landscape.

Confronted with the KPMG Partnership model, Den Boer proves to be fully aware of the difference between suppliers and partners. ABN AMRO has a handful of end-to-end service-oriented relationships that would classify as strategic partnerships according to the KPMG model. "At ABN AMRO we have around 800 suppliers. Most of these are managed by our procurement department. Around 30 are handled by my department – sourcing and vendor management. The difference between a supplier and a partner? Typically, partners are based on long-term relationships and they offer unique services that cannot simply be transferred to another company. This may sound like a crisp and clear definition. In practice however, the boundaries between partners and suppliers are dynamic as the relationship can change. Other defining factors are the strategic importance of the partner, the two-sided interdependent relations and sometimes also the personal relationships." Pondering about what makes a partner a real partner, Den Boer elaborates on a personal experience. "When ABN AMRO was split among a consortium of three banks back in 2008, this had radical consequences, not only for the organisation of the bank, but also for its partners. Many of them were faced with drastic reductions in contract value. I remember that one of our Indian IT partners immediately managed to leave all the disappointed emotions behind. They proved to be able to shift their focus on how to build future success with us. I guess that's what real partners do: be there in both good times and bad."

In his role, Den Boer has initiated a consolidation in the number of partners and he expects further consolidation in the future. At the same time, he sees a shift towards more partnership activities in the business itself, as new technology from outside partners plays an increasing role in the banking landscape. Surely this must present a dilemma: on the one hand the business should have a little carte blanche in experimenting with

partners while on the other hand the professionals in Den Boer's team should apply their expertise to getting the best out of partnerships. "It would be a mistake to force the business into strict procedures, as this would demotivate both the business and the potential partners. This would be a shame as a whole ecosystem of organisations is needed to succeed in banking nowadays. With my professionals in a facilitating role, we can add value as long as we don't smother them."

The ideal model is a model in which Den Boer's department has the role of trusted advisor to both sides of the partnership. "It's a matter of anticipating problems and new developments at an early stage and addressing these issues in a joint effort. We have to thoroughly understand what's happening in the business. For this reason, our people participate in the management teams of the business. And we must also be self-critical sometimes. That means being realistic when it comes to new demands from the business: we have to make it clear that new demands cost money."

Den Boer also points to a relatively new element in contracts with partners: the polluter pays clause. "In the past, we've seen cases where bad coding by a partner leads to extra work for ABN AMRO or one of our other partners. We think it is important that the organisation that is responsible for the bad coding is also responsible for the extra cost involved. That's the rationale behind the introduction of the polluter pays clause. Of course, this may put some pressure on the partnership. But I'm convinced that partners can handle that pressure if the relationship is good. This underpins the need to have good personal contact and to look each other in the eyes when making agreements on this."

In this respect, Den Boer points to the role of a mediator in the partnership process. This is especially helpful when setting up a partnership: "A mediator can promote understanding of the concept and process, and translate challenges into opportunities. In particular those companies that are less experienced in setting up and executing partnerships can benefit from a mediator with a proven track record. But if the partnership is in place and you suddenly need a mediator due to a serious dispute, you are in trouble."

To conclude, what's on Den Boer's list for the coming years? He expects more value-driven partnerships. "In these partnerships, both partners combine their core competences to develop new and better products, services and processes for the consumer. Also, new technological developments will pave the way for young, innovative suppliers that can meet the high standards required by the bank." And he also expects a further development in contracts: "We already managed to simplify contracts quite a bit. We cut contracts with our main partners running to thousands of pages roughly in half. Now I would like to introduce output-based contracts with our IT partners. This will lead to a better understanding by the business, as they often only have vague notions of the current lingo of bits and bytes in the contracts."

REFLECTION

ADJIEDJ BAKAS

PARTNERSHIPS

Never underestimate the importance of personal relationships

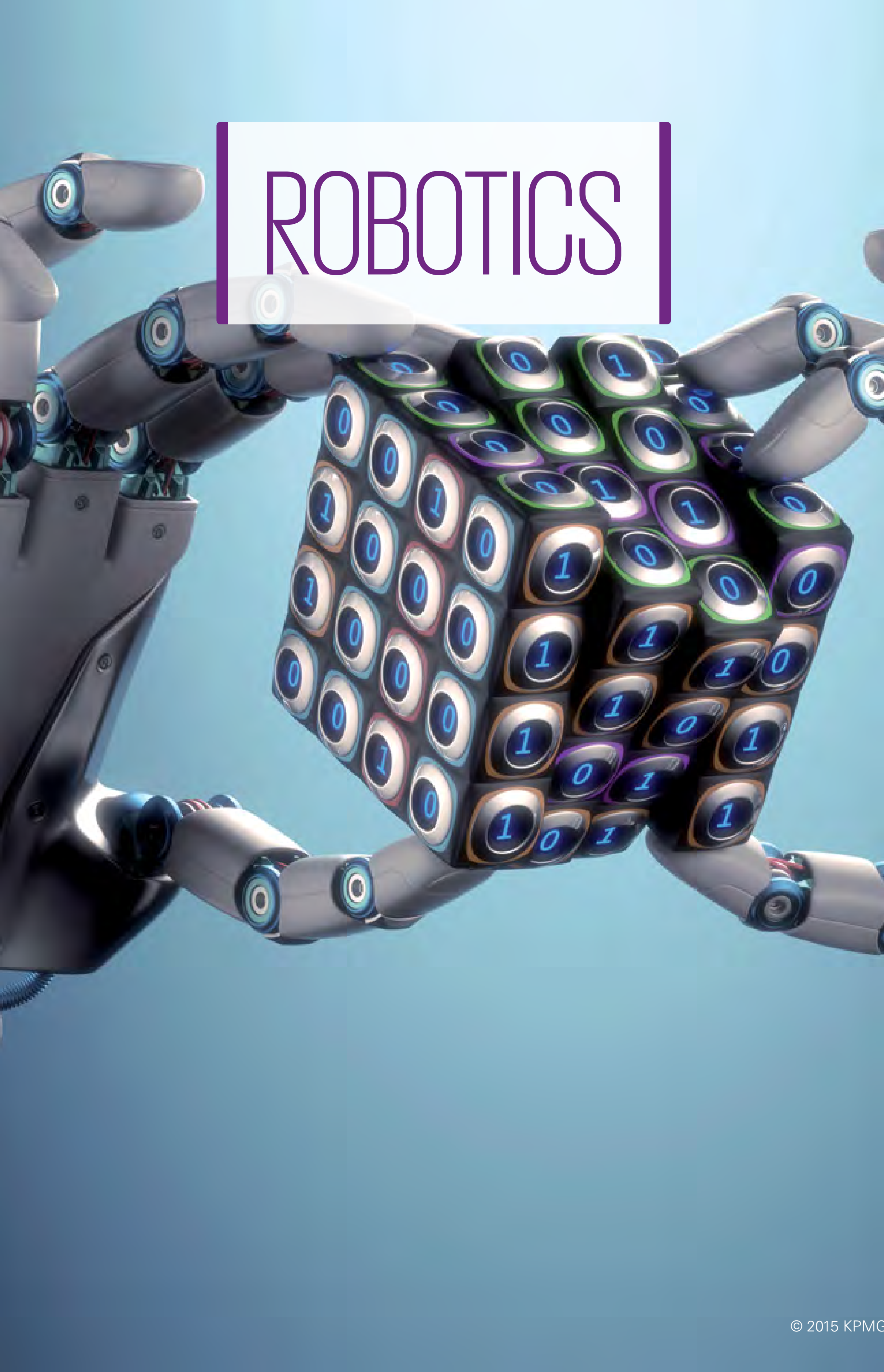
The failure of the Fyra high-speed rail service in the Netherlands should not be a surprise to anyone with a bit of knowledge of the railway business in general and the Italian business landscape in particular. Anyone with this knowledge could have told you that AnsaldoBreda simply did not have the capabilities or the experience to build this train so it didn't fail due to an unsuccessful partnership or a lack of cultural fit, it failed because one of the partners didn't have the required abilities. So how is it possible that NS partnered up with AnsaldoBreda? Because of the European laws that regulate tender processes in the public sector. These laws turn the process into a highly methodical approach, with insufficient room for personal judgments and personal relationships. And the Dutch have a reputation for complying strictly with these laws, more so than other European countries.

Research has revealed that the majority of failures in mergers and acquisitions are caused by a lack of cultural fit. The same applies to partnerships. This is important, as partnerships – both vertical and horizontal – play an increasing role in today's business landscape. Look at how IBM is successfully rolling out the artificial intelligence of the Watson supercomputer in many business sectors: Watson started out as a partnership between IBM and a US hospital, and was aimed at improving healthcare diagnoses. Many large corporations are now seeking to partner with innovative startups, seeing this as their lifeline to a healthy future. In fact this is often their best option, in times when a company's average lifetime has fallen dramatically. Luckily, many corporates realise that they don't have the right elements to innovate by themselves. The question is: can they bridge the cultural gap with these promising companies? Doing business is less rational than many people think.

Partnerships like this largely depend on the cooperation of the professionals from both sides. This includes having fun together. Bringing the teams together for an evening out may do more for the working relationship than two full days of workshops aimed at integrating working methods.

This is also true when it comes to relationships in IT services. However, there is an additional hurdle in the IT world: many IT professionals are used to working behind their machines and less used to real-world interaction in business. If they succeed in becoming more open to working with other industries, they will also discover that the actual process of partnering up will become much easier.

REFLECTION



CLIFF JUSTICE AND BERNARD SALT

PAPER

Employees: an endangered species?

The rise of robotics, artificial intelligence and the changing labor landscape

Are you ready for a world in which three out of 10 corporate jobs are done by a robot? Where digital talent is so scarce that you may need to compete with Amazon and Google? Are you prepared for a shift in the world's capital, with much of the wealth going to a few technology platforms? This is not a hypothesis on the distant horizon. It's already starting to happen. An exploration of changing tides, the rise of robotics and how to respond.

The cognitive revolution

Since the 1960's Artificial Intelligence has been subject to swinging cycles of hype and disappointment. There is even a term for the periods of pessimism for AI research: the "AI Winter." But now, with massive investments in AI from companies like Google, Dropbox and Facebook, along with the launch of high profile businesses like IBM Watson and IPSoft's Amelia, the AI Winter is over. A new class of smart robots may replace more than 100 million knowledge workers – a significant amount of the world's jobs – by 2025 .

Robotics mature

The new shift is driven by an advanced kind of "virtual robot" – software that can execute tasks that would previously require both a human and a computer. The nascent but growing class of software that automates the clerical tasks in a business is called Robotic Process Automation (RPA). RPA tools do not infiltrate the IT system, but rather sit at the presentation layer, following instructions to perform standardized and repeatable actions, such as administrative activities like accounts payable, transaction processing or order entry.

While RPA has already had a major impact we are poised to see a truly transformative shift as it integrates with a new class of cognitive technologies. Cognitive technologies are a collection of machine intelligence technologies designed to interact, reason and learn in a way that is similar to humans.

One example is IPSoft's "cognitive agent," Amelia, an avatar who can understand a question posed in natural language, discern the intent, and answer the question using first-order logic, a suite of algorithms and large knowledge base. She has been used successfully in call centers, oilfield services and IT settings. Other examples are Wipro's Holmes, TCS's Ignio and the well known IBM's Watson.

Replacing humans?

While automation is nothing new, the sweeping scope of technologies targeting high skilled knowledge work is something we have never seen before. The cognitive revolution raises serious questions to the economics of offshoring and outsourcing. In fact, the entire value proposition of offshore outsourcing begins to crumble. Labor costs in many of the top "low-cost" outsourcing locations have actually been accelerating year over year, while RPA technology gets better, faster and cheaper.

RPA will allow some companies to free employees from low-level work so they can focus on innovation and higher-value activities. Others may need to reinvent the workforce, finding new ways to deploy talent in order to remain relevant in the marketplace. As was the case in the industrial revolution, there will be concerns that machines and robots will take jobs and further expand income inequality. But what if we don't have people to fill the jobs anyway?

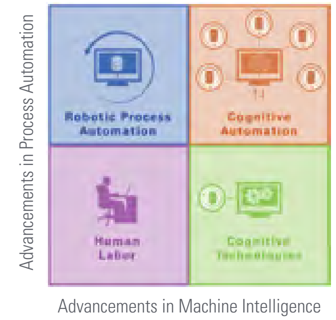
Demographics and robotics: Reshaping the workforce

The change in the employment landscape is due in part to changing demographics. Indeed, at the same time that machines are getting more sophisticated, the global pool of talent is getting shallower and more expensive.

According to KPMG's demographic studies, the working-age population in the United States spiked in the 1960s and 1970s, following the Baby Boom, and then again in the mid-1990s through the mid-2000s, following the Echo Boom. However, the labor pool has been declining dramatically since 2010 due to lower birth rates that began in the 1980s. This decline is expected to continue for the next 10 years but may be helped in the 2020s by the rising birth rate of the Latino population.

Canada is in a similar position, as are Germany, Italy, France and the United Kingdom. The Baby Boom of the 1950s has given way to a baby bust in 2010 and beyond.

Meanwhile, in Japan, the working-age population has contracted since 1994 and will continue to do so until 2050 and beyond. In China, likewise, the labor pool will begin contracting later this decade and will continue through 2050, due largely to the country's one-child policy initiated in the 1970s.



As a result, businesses in these countries will simply not have the luxury of picking and choosing their labor, which is another factor that is contributing to the increased use of robotics.

A dearth of digital skills

In the US, manufacturing peaked in 1979 with some 20 million jobs, but the offshoring of these manufacturing jobs over the next 30 years ultimately reduced the demand for professionals with science, technology, engineering and mathematics (STEM) skills. In fact, between 1986 and 2009, the number of STEM graduates in the US dropped from 97,000 to 84,000, as education in recent decades has gradually shifted to humanities. So, ironically, the pool of digital talent has shrunk at precisely the time when it is needed most.

As a result of this shrinking supply, many companies are reengineering their business models, looking for opportunities to leverage digital labor instead of human labor. For example, some large call centers are steering inquiries to social media and chat — and then using RPA to automate those interactions. Outsourcing providers are also feeling the shortage, as many have begun shifting their focus to RPA services versus traditional, labor-centric business process outsourcing.

How will you respond to the shrinking supply of digital talent? As you embrace automation, you will need to look closely at your talent strategies. For example, if you're using a cognitive platform to run your call center, who will manage that platform? How will you source the best engineers, mathematicians and data scientists to manage your robotics, when giants such as Google and Amazon are paying top dollar for the limited supply?

A changing employment landscape

Another question is what will happen to the vast numbers of workers who heretofore have been soaked up by manufacturing assembly lines or call centers? Some speculate that if those jobs are automated, the workers will become unemployable. Others postulate that the very makeup of society will change when knowledge workers contribute to technology and productivity while others are not engaged in that process. The scenario also invites questions about the distribution of wealth, especially when some parts of the population are not contributing to it.

Despite some foretellers' projections, RPA will not cause global unemployment, with mankind becoming idle while machines do the work. Rather, by automating low-level activities, RPA will ultimately free employees to focus on higher-value work or discover innovative ways to provide value.

6 considerations on the road to RPA

As you consider the future, ask yourself these 6 key questions:

1. Where can you pilot the use of RPA?
Opportunities exist across industries and functional areas. To get started, work with process owners to identify activities that include a large number of manual, rules-based or swivel-chair tasks, and then invest in a proof of concept for a targeted area. In addition to evaluating the technology, the proof of concept should consider factors such as costs (including licenses, infrastructure and maintenance), anticipated return on investment and payback period.

Some companies are exploring these kinds of basic projects as part of a self-funded automation strategy. Using the savings from those small projects, they can fund larger, longer-term enterprise projects.

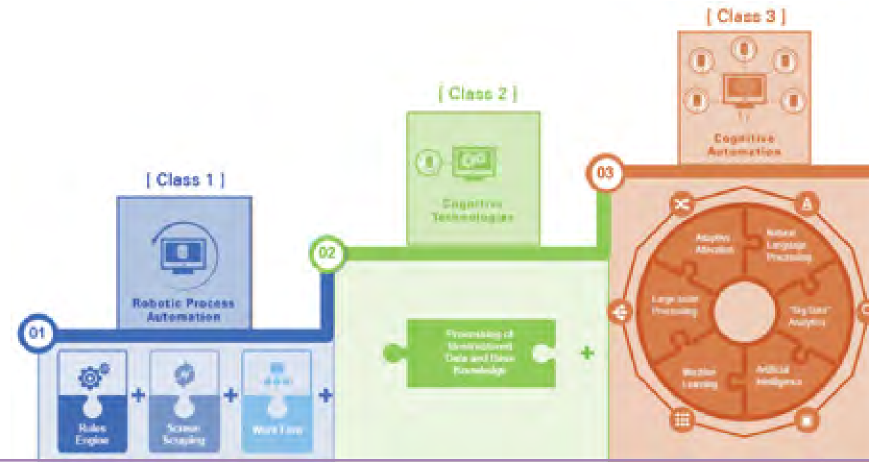
2. Do you understand how to develop and manage digital processes?
A people-based process is linear, as activities move from one employee to another. In a digital process, on the other hand, activities are disaggregated, as technology pulls information from numerous inputs, kicks exceptions up to experts who can clear them, and then puts everything back together to create a solution. The Uber platform, for example, integrates GPS, statistical analysis and demand management into one automated product – with very little personnel.

This process model is very different from the traditional linear execution and requires some new thinking. Competitive advantage in the next few years will come from how well you can harness data and technology to run your business – not about running the same old business processes with cheaper labor in offshore markets.

3. What is your capital investment strategy for business processes?
Thanks to advances in RPA and as-a-service delivery, you can potentially shed much of your back office and rent it from service providers. Either way, your investment strategy now requires a shift in thinking: Instead of trying to manage the transaction, as you would in a traditional business process or outsourcing agreement, focus on mastering the outcome.

4. How will you manage fallout from displaced labor?
The automation of human jobs may cause some unrest, so prepare to have honest, open discussions with your organization. Resistance may come not only from the workers in automatable roles but also from directors who may fear erosion in their span of control, as they potentially go from managing employees to managing bots.

ROBOTICS



To mitigate the risk, proactively work with your human resources department to develop a plan for employees who may lose some or all of their jobs to robots.

5. How will you get the digital talent you need?
Amid the shrinking supply of digital talent, consider how you will compete for the expertise you need to manage automation.
Different skillsets are required. For example, if you're building and maintaining robots for transaction processing and repetitive tasks, then you need people with strong analytical skills who understand how to translate business rules into logic statements. On the other hand, if you're pursuing robots for cognitive technology, then you need people with deep subject matter expertise to provide the robot's initial knowledge base, validate that knowledge base over time and respond to cases when the robot does not know the answer.
You may already have people with these skillsets, so work with functional leaders across your organization to identify them. Also consider your strategies for training, retaining and incentivizing your top performers.

6. How will you manage risk?
In addition to managing impacts from widespread job loss, you will face a nexus of risks related to cloud, social, mobile and analytic technology. To ensure that you're not just scaling your problems through automation, consider appointing a digital risk officer. This person should collaborate with IT and functional executives to identify and mitigate risks associated with innovation, which can help you gain an early advantage. |

PAPER

i Gartner, October 2014, Gartner Symposium/ITxpo

DIGITAL LANDOWNERS AND THE CHANGING CONCENTRATION OF WEALTH

Five years ago, if someone told you that Amazon would become one of the largest providers of cloud infrastructure, you might laugh. But today it's happening. Amazon has amassed so much cloud capacity for as-a-service infrastructure delivery that it's dwarfing many legacy providers.

Cloud platforms — whether they're from Amazon, Google, Salesforce, ServiceNow or Workday — are becoming more and more advanced through automation. They're also changing the distribution of capital in the 21st century.

Operating like "digital landowners," these kinds of companies are attracting application developers and other innovators to contribute to their vast platforms. Then the landowners package up the contributions and offer them as a service, while taking the greatest share of the proceeds.

This model, fueled by technology, could be the way of the future. Already, companies from Alibaba to LinkedIn to Uber are developing their platforms, which serve as global ecosystems where applications can be developed and delivered to clients as a service. These companies have billions of dollars in market cap and very few employees.

That bodes well for the landowners and innovators, who will form the new technocracy. But what about the rest of society?

Time will tell.

TO CONCLUDE

The rise of RPA is clearly not just about new technology; it is a significant shift toward digital labor, that presents tremendous challenges related to recruitment, skills training, the redeployment of workers and the redesign of business models. RPA does not put employees on the endangered list? But the world of work is starting to look different.

i Gartner, October 2014, Gartner Symposium/ITxpo

UDAY BALASUBRAMANIAN

Robotic Process Automation: a viable option for the future?

Robotic Process Automation (RPA) offers the potential of automating (administrative) tasks that otherwise would require human handling. There is much speculation at the moment about the potential of RPA. An analogy with food gathering and preparation may be helpful to gain more insight into this.

Early humans spent considerable time and effort gathering and preparing food. While initial advances in farming and the invention of basic implements saved effort by moving food sources closer to homes and making cultivation less arduous, advances in kitchen equipment reduced food preparation time. With the introduction of money the notion of cost evolved, with humans beginning to evaluate the effort and time saved in light of the cost of new kitchen technology.

Households employed unskilled labour as support staff in kitchens to save themselves effort and time. With the arrival of the industrial revolution, these workers moved to the factories for better pay and the need again arose to reduce the time and effort required to prepare food. The progress continues to this day, with the invention of the automated, programmed devices we use every day (microwaves, ovens, refrigerators) resulting in saved time and effort.

Now let's jump to today's business world where the same developments can be seen. Many repetitive non-core activities like reporting, accounting and IT services have been outsourced. RPA has the potential to execute these processes with the ultimate goal of achieving the critical perfect balance between effort, time and cost, allowing organisations to focus their time and effort on core activities.

For example, in the area of invoice processing, RPA could be used to generate, match, reconcile and reject invoices. On encountering errors the RPA could request human intervention. The lessons learned from this intervention could in turn be used to 'train' the software to take decisions based on specific criteria. An RPA system could access a queue system to process invoices and even add comments/suggestions for specific unprocessed invoices. RPA could also be used to identify, handle and automate exceptions, once the number of exceptions reaches the critical mass that justifies RPA intervention rather than human manual effort and time. This would enable business users to adopt a do-it-yourself (DIY) approach and may reduce the need for the shared service or outsourced centres on which businesses have become reliant for invoice generation and processing. In layman's terms, imagine a cookbook that you can program into a microwave to cook your customised gourmet dish.

Who will invest?

The big question however is who will invest in RPA? Outsourcing providers are unlikely to invest as a consequence of their inherent FTE cost-focused model where further cost reduction is invariably achieved either by hiring or moving staff in a low-cost country. Additionally, outsourcing providers are either (1) low-skilled call centres that execute repeatable tasks and that cannot invest in RPA given their low margins or (2) technically-focussed in areas such as big data and cloud computing that is more appealing to them in terms of their core strengths and potential revenue streams.

RPA could possibly appeal to large companies that focus on achieving high growth through mergers or acquisitions. An RPA system would allow for easy adoption and integration of systems and potentially reduce high one-off transition costs. RPA-enabled system transformation could provide for easier migration of data, transformation of data into business fields and integration of reports into a uniform layout. This part of migration projects usually requires high IT spending and intervention and is a key deterrent for companies that would like to implement a cost-effective and efficient migration.

Innovative technology start-ups might also be interested in investing in RPA because it gives them the opportunity to challenge the existing outsourcing model for specific business processes by offering an asset/volume-based revenue model through an RPA system.

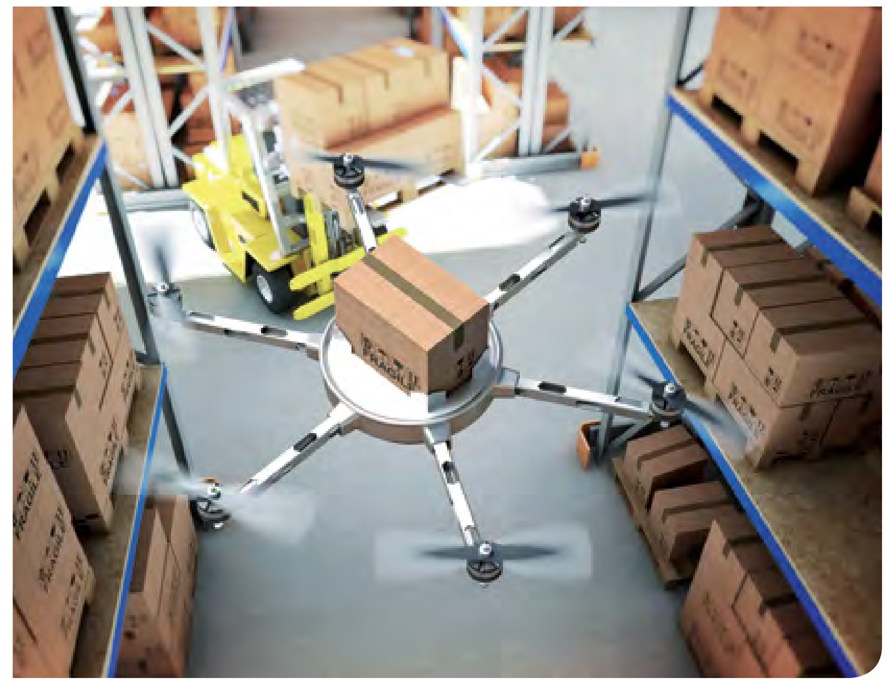
Lastly the huge potential impact of RPA for the financial services and banking sectors is easily identified since so many activities within those sectors are strictly rule-based and demand a high degree of accuracy, auditability and speed, which fits well within the ambit of RPA.

What should companies do?

The first step would be to assess the existing capabilities within the organisation, in order to identify or hire subject matter experts who have a thorough understanding of the processes which exist within the business and are able to translate their understanding into a business process handbook depicting the processes in small, repeatable tasks.

The second step would be to identify processes that require considerable effort or human interaction but are considered to be of low value by the company and that would be the suitable focus of an RPA pilot. Examples are regulatory risk, quarterly and annual reports.

Subsequently, companies could either work with an established technology partner and develop small automated processes or develop an RPA system that could be an asset and that could therefore potentially be sold on or leased to other enterprises at a future date.



ROBOTICS

BLOG

CONCLUSION

Applying the potential of RPA to outsourced work would put pressure on the current revenue stream of outsourcing providers. It is worth identifying key business areas that consume time and effort as these will lead, and gain from, the changeover to RPA systems. The success will in large part be determined by the firm's ability to develop the business process 'cookbook' as a basis for RPA, a cookbook that delivers the perfectly cooked dish.

CASESTUDY

JOAKIM ABELEEN

Robots in finance: Volvo leads the way

Robotic process automation is more just than a buzzword. The car manufacturer Volvo shows that applying robotics in financial processes is less about saving labour costs, and much more about increasing quality and enabling insights through data & analytics. This case study underlines the importance of communications and good change management.

Volvo embraces a holistic view on automation, looking at business processes end-to-end, and optimising the use of automation – not just within or instead of the existing supporting technology, but on top of and in collaboration with it. As a car manufacturer, Volvo is already very familiar with mechanical robots, which operate all along its assembly lines. But now, the company has transported the same philosophy from the production floor to the Finance & Accounting department. IT has done so as part of its 'One Finance' initiative, the target of which is to drive efficiency and effectiveness in finance processes through several focused initiatives. The efforts being are spearheaded by the BPS service provider Cognizant, which executes a large portion of Volvo's accounting processes out of its delivery centre in Chennai. Jointly, Cognizant and Volvo are now pursuing a wider robotic process automation transformation across multiple processes, in order to create scalability, facilitate 24/7 operations, eliminate manual errors and enable humans to focus on more decision-oriented activities. The first part of the initiative involves the accounts payable process, within which the robot has already started working.

Volvo operates SAP and found that processing supplier invoices through the system required a number of manual interventions, in terms of reading, validating, registering and posting invoices. As part of the efficiency drive, it was decided to try out automation in one of the accounts payable (AP) teams which processes around 2,000 supplier invoices every day. By implementing Cognizant's automation solution, which included the robotics software technology UIPath, Volvo managed to almost completely eliminate human intervention from the AP process. UIPath is a front-end automation software, which mimics human actions. It operates on top of the existing

As is process flow

Log in to the SAP system and corresponding server based on the invoices to be processed	Pick the tasks from the SAP inbox system and read the image-based invoice. Perform basic validation	Register the invoice in SAP. Enter the required fields on the invoice processing screen	Apply the validations and business rules for each of the processes	For Swedish invoice processing, refer to the MF systems in the Volvo Citrix environment	Post/park/block the invoice based on the GR status

Manual · Handled by client

To be process flow

RPA logs into the SAP system and corresponding server based on the invoices to be processed	RPA picks the tasks from the SAP system and reads the image-based invoice. Performs basic validation	RPA registers the invoice in SAP. Enters the required fields on the invoice processing screen	RPA applies the validations and business rules for each of the processes	For Swedish invoice processing, refer to the MF systems in the Volvo Citrix environmentt	RPA decides to post/park/block the invoice based on the GR status

Image to digital · RPA capable · Handled by client

applications in a non-invasive way, which means there is no impact on the core applications used. The robot logs into the necessary systems, reads the invoice image, registers the invoice in SAP, performs all the necessary validation, including cross-checking against other systems, and ultimately decides whether to post, park or block the invoice. Having the same robot following the entire process flow and communicating with all the systems involved brings much higher automation benefits than the traditional mix of humans and partial automation.

The new process is now up and running, and Volvo has already gained significant benefits. The time saved that was previously spent on manual work is in the range of 65%-75%. At the same time there is a positive impact on quality, in terms of reduced errors. A third very important benefit is the structured access to data about the process, which enables people to focus on analysing and improving, instead of being dragged into the execution of day-to-day transactional activities. This means that robotics has not only directly improved the process, but also laid the foundation for further improvements thanks to process insights and performance transparency. Based on these initial successes, Volvo decided to continue its efforts in the arena of robotics by looking into a range of other accounting activities, such as accounts payable - unprocessable, reconciliations, sundry invoicing processes, logistics KPIs and payment proposals. At the same time, the company is also looking into opportunities within more high-end activities, such as management reporting.

A key learning for Volvo from the first implementation is the importance of communication and change management. People may perceive robotics negatively, since it is to some extent taking over activities which they were previously performing. It has been critical for Volvo to engage both the leadership team and the employees throughout the course of the journey. The transformation was a key topic at the latest global CFO conference, to ensure it had full attention across the Finance function. It has also been clearly communicated that the robots are not stealing jobs, but instead enabling people to focus on more value-adding activities, for which they previously did not have time. Employees have also been heavily involved in the testing of the robotics solution to ensure that the output of the robots is fulfilling their needs.

It should also be remembered that there have always been attempts to automate within Volvo as in every organisation, since people's natural inclination is to try to work smarter. However, previous attempts by individuals, teams and departments within Volvo have led to many locally-developed macros, with limited central control over what is happening, and no real reflection on the end-to-end process. This time, the automation is fully controlled, and sub-optimisation is avoided – something which is not only appreciated by the people working in the process itself, but also by the global IT department that can for the first time govern the automation landscape in a structured way.

The Volvo case shows that robotic process automation signals a real change in how automation is approached. It also demonstrates that it is less about saving labour costs, and much more about increasing quality and enabling insights through data and analytics. The recurring debate about either sending processes offshore to gain from labour arbitrage, or automating on-shore to gain from process efficiencies, is irrelevant in this case. Volvo's accounting processes have been delivered in an offshore location for several years, so the economies of geography had already been achieved. In fact, the consolidation of activities was an enabler for the robotic implementation, which would have been much more difficult if processes were not already harmonised at the outset.

The future development of robotics within Volvo will be followed with great interest. Volvo has already proven that robots can be involved in car manufacturing, but now it is demonstrating that robots can generate both efficiency gains and value creation in back-office activities as well. And most importantly, it is becoming clear that robots are not here to take our jobs, but to help us with repetitive tasks and make our jobs more interesting. The question is no longer whether or not robots are here to stay. The question is what else robots can do for us.

INTERVIEW

How demography and robotics are reshaping work in the 21st century

Bernard Salt

One of Australia's leading social commentators by business leaders, the media and the broader community.

Not only developed, but also developing nations will require a supply of manufactured goods into the future. Many countries will however experience a reduced labour pool in the near future. This provides a major stimulus for the development of robotics. As well as this, the upcoming 'generation Y' or the 'millennial generation' (born during the period 1980-1998) is the most educated, widely-travelled, connected generation in history… they will embrace change and the reconfiguration of traditional business models.

Bernard Salt is widely regarded as one of Australia's leading social commentators by business leaders, the media and the broader community. He is a high-profile Melbourne-based partner with the global advisory firm KPMG where he founded the specialist advisory business, KPMG Demographics. Bernard writes two weekly columns for The Australian newspaper that deal with social, generational and broader demographic matters. He is an adjunct professor at Curtin University Business School and he holds a Master of Arts degree from Monash University.

Bernard, quite a few disruptive demographic developments are expected in the coming decades. Can you tell us a little about the relationship between demographics and the outsourcing market?

What we do is look at long-term demographics and their impact on businesses. These demographics provide us with a basis for understanding the future and the numbers help us to explain the story of how these developments will unfold. The story and interpretation of the numbers are what is interesting to us.

What we see today if we take a look at the bigger picture is that, in spite of overall population growth, a lot of countries in the developed world will be confronted with a baby bust: an anticipated slowdown in the growth of the labour market in the coming decades. This changes the economics of accessing the labour pool in those geographies. Although specifics may change from country to country, you could argue that in the coming decades the depth and choice in the labour pool from a business perspective will be lower in the future than it is now. This means we must embrace robotic process automation (RPA) in order to meet the anticipated rising demand for food, energy, resources, commodities and manufactured goods in the coming century.

What is the biggest driver of RPA? Are the demographics forcing organisations to adopt higher degrees of automation or are autonomous technological developments the main driver for RPA?

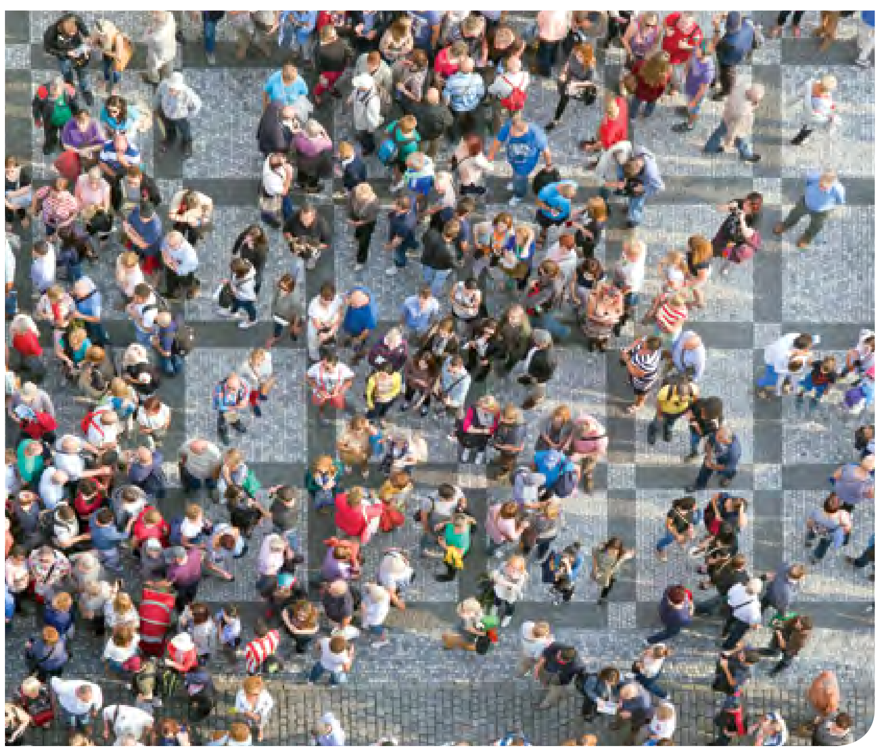
We should view the current status of RPA as the start of the wave. RPA is happening regardless of demographic developments. We will start to see it happening everywhere around the globe, simply because it leads to efficiency gains. However, we anticipate that the demand for RPA will be accentuated, accelerated and heightened in countries where a fundamental change is expected in the labour market in the coming decades. The smaller pool of talent from which companies can pick and choose in the US due to a slowdown in the rate of population growth over the next 10 years is a major stimulus for RPA. Because the rate of growth is slowing down, companies will have less depth and choice in the labour market and the balance of power will shift more and more towards labour. This will make the cost of labour increase and also will drive an increased reliance on robotics going forward.

There are other factors in western countries that accentuate the move to embrace RPA. The next generation, generation Y is the most educated, widely-travelled and connected generation in history. They are less inclined to embrace monotonous, repetitive, production-type work and therefore less inclined to engage in the sort of processes you would see performed in RPA. Also, they will embrace change and the reconfiguration of traditional business models, more so than any previous generations.

The changing demographics result in a shallower and more expensive pool of global talent. Is the RPA trend a solution to the shifting workforce problem or does it actually create a different problem, given the fact that some of the workforce becomes redundant?

This is indeed a major issue for western developed nations. The demographic shift will accentuate the adoption of RPA. RPA will displace low-skilled and unskilled workers from the economic process. Individuals who are excluded from participation in the economic process will develop a sense of disconnection which could lead to disaffection and even dysfunction. If that is the case you end up with a society of haves and have-nots. The technocrat class that manages the RPA process will be the haves while those without the skills that are in demand will be the have-nots.

You could argue that during the years 1950 to 2020 the great democratisation of work occurred, with the mechanisation of the production process leading to a situation where unskilled and low-skilled labour could share in the prosperity flowing from the economic process. From 2020 to 2060 there will be another phase, were the unskilled and low skilled workers in the developed world might be displaced by RPA. This could cause a build-up of tension between the haves and the have-nots that could have political implications. The positive perspective on this is that the displaced low-skilled and unskilled workers potentially will not consider themselves to be disconnected and disaffected but will instead find fulfilment through other activities such as creativity and wellness.



ROBOTICS

RPA delivers security, efficiency and cost-effective, uninterrupted supply. It is essentially a better version of a production line, without any human contribution. The real question is how do we organise ourselves in a society where not everyone has equal access to the means of attaining prosperity. That is the broader political question that has to be discussed in this context. It is about the distribution of wealth from the income producers to the population that does not produce. Essentially it is not about what is possible from a technological point of view with RPA, but the more powerful question is what society will look like in the five to 15 years after RPA has been fully embraced. Is it fair and balanced, and is it what we want it to be?

What will be the effect of RPA on the migration of people and location of services?

The global economy is working to develop global centres of excellence which are intellectual incubators for the world's talent and centres of innovation, research and design and new business creation. For example the hubs for finance are in London and New York. Manufacturing is centred in Japan. Within technology the complete dominance of Silicon Valley cannot be ignored; the same logic applies to medical research in Switzerland. You might see 'colonies' of these centres developing elsewhere in Asia or Europe. If you are a bright young technology person growing up in Australia, you will eventually be drawn towards Silicon Valley or, for finance, towards London. Centres of excellence attract the best talent around the globe, and this is set to continue. The bigger question is what people will do if they are no longer tied to a geographical location, for example to Detroit or Pittsburgh in the north-eastern part of the US if they cease to be tied to working on an assembly line or doing other repetitive work. Will they stay where they are or will they migrate? In the US any such migration will happen within the same country, but in Europe it becomes more complex.

In one of your presentations, you mentioned an anticipated reconnection of production with consumers in the market. Can you elaborate on that and what is the potential impact of that paradigm shift?

If you take the high-altitude view, from 1990 to 2015 in the US and Europe the response to high labour costs by global business was to move offshore and set up a factory or a service centre in a low-cost country and to ship the product back to, or deliver the service in, the domestic market. This has worked well for a quarter of a century, but it cannot continue to work as well for another quarter of a century. From 2020 onwards, you will see that you can get a better, more consistent and cheaper product produced or service delivered with world class RPA from a domestic plant or service centre in Europe or the US. Being able to do this means that the uncertainties of supply, sovereign risk, cultural differences and the costs of transport are avoided and instead you have greater connectivity of design between the head office and production through increased proximity. There is even the possibility that instead of having one large plant, you can leverage 3D printing and have more, smaller, plants closer to the local markets allowing you to calibrate design according to local demand.

INTERVIEW

Based on this knowledge, what is the immediate impact that organisations can anticipate today?

Transferring production or service centres back to domestic markets will require large upfront investments in world-class RPA. The C-suite today really needs to take a look at the bigger picture over the longer term, and not just up to 2016 to 2018 or 2020. I understand that they are measured on these one, three and five year-periods, but you need to see the broader direction in which this is moving, and perhaps that means you need to bite the bullet and take the hard decisions now, spend the money on RPA and leverage it over the following 10 to 15 years. This may be a hard decision to take for a board or a CEO that has a three to seven-year tenure, but it is one that will benefit the company in 10 to 20 years.

On the other hand then, what will be the consequences if countries or organisations ignore the demographic facts and the changing employment landscape?

If you don't read the shift we are describing correctly, you will probably continue with old world technology and production and service processes and eventually be increasingly marginalised, limited, restricted in efficiency because of escalating labour costs, escalating churn rates, and lack of connectivity between the design process and what the market actually wants, whereas other companies, who are your competitors and who are bolder and more visionary, are more prepared to invest in this space now to deliver a more efficient model. This may indeed be a painful process that will play out over 10 to 15 years, but there is a tipping point. You could ignore this for a few years. If you are a CEO in a seven-year stewardship you might be able to get through your term of office and still just about deliver to expectations, but you are making it difficult for the next person and certainly for the next person beyond that. All of a sudden in the middle of the 2020s you will discover that your business model just does not work. You could call it the Kodak effect where a CEO, through no fault of his/her own, is carrying the burden of poor strategic thinking and boldness in investment decisions that should have been taken 10 to 15 years previously.

What would you do if you were a CEO today?

I would look at the feasibility. This is a fascinating idea and a great theory, very intellectually engaging, but now show me how this works in numbers. What are the costs? How would we conceptualise our production and service processes? What is the implementation plan and how much money do we need?

The first step is selling the vision and the idea and then showing that it works in practice. You need to start scoping the transition. Introduce the idea, outline the vision and then scope the concept and the transition. A CEO today would look at what is international best practice. How far away is this future? How far off are we from where we need to be? To whom do we need to speak? Is this even possible or this just a consultant's dream?

There are already some examples of corporations bringing processes back to the US from abroad. That is a big decision to sell to the board. You need strong numbers and a very strong articulate case to sell that idea. But the prize is a fundamental shift in the economics of the business and you could also say it future-proofs the business against the coming disruption. You need to proactively prevent 'Kodakification' where businesses fail to respond to the pressures of today until they have passed the point of no return.

What is your view of the challenges that are facing service providers in the outsourcing market? They have FTE-driven cost models with huge centres in low-cost countries servicing mainly European and US corporations.

I tend to regard this as more or less the same problem, especially when you see artificial intelligence in service processes marginalising labour. Why does a corporation maintain a facility abroad, with all the accompanying risks as discussed earlier, when for a certain amount invested it can avoid those risks? For me this is simply a better way of operating. You mitigate the risks and bring the processes back under one umbrella. This seems a logical point of view to me. In terms of the service provider, I would also look at how to implement artificial intelligence. In the existing centres the systems are in place, the administration is in place, the relationship is in place, which constitutes an advantage for them. There is no need to disassemble or relocate everything back to the domestic markets, those providers should instead reinvent themselves. Call centre managers can become artificial intelligence implementation managers, however, this may again lead to vast pools of unemployed people. This brings us back to the fundamental question: what kind of society does this leave us with and what will be the challenges for society at that stage?

REFLECTION

ADJIEDJ BAKAS

Bank-bashing will evolve into IT-bashing

Being a frequent traveller, I am at Schiphol Airport fairly often. One of the things I've noticed is that the luggage-handling process is faster and more reliable than previously. The reason? The use of robots. The advantages for me as a traveller are obvious, as are the advantages for Schiphol. Robots never suffer from flu, don't have hangovers on Monday morning and don't want to join a union.

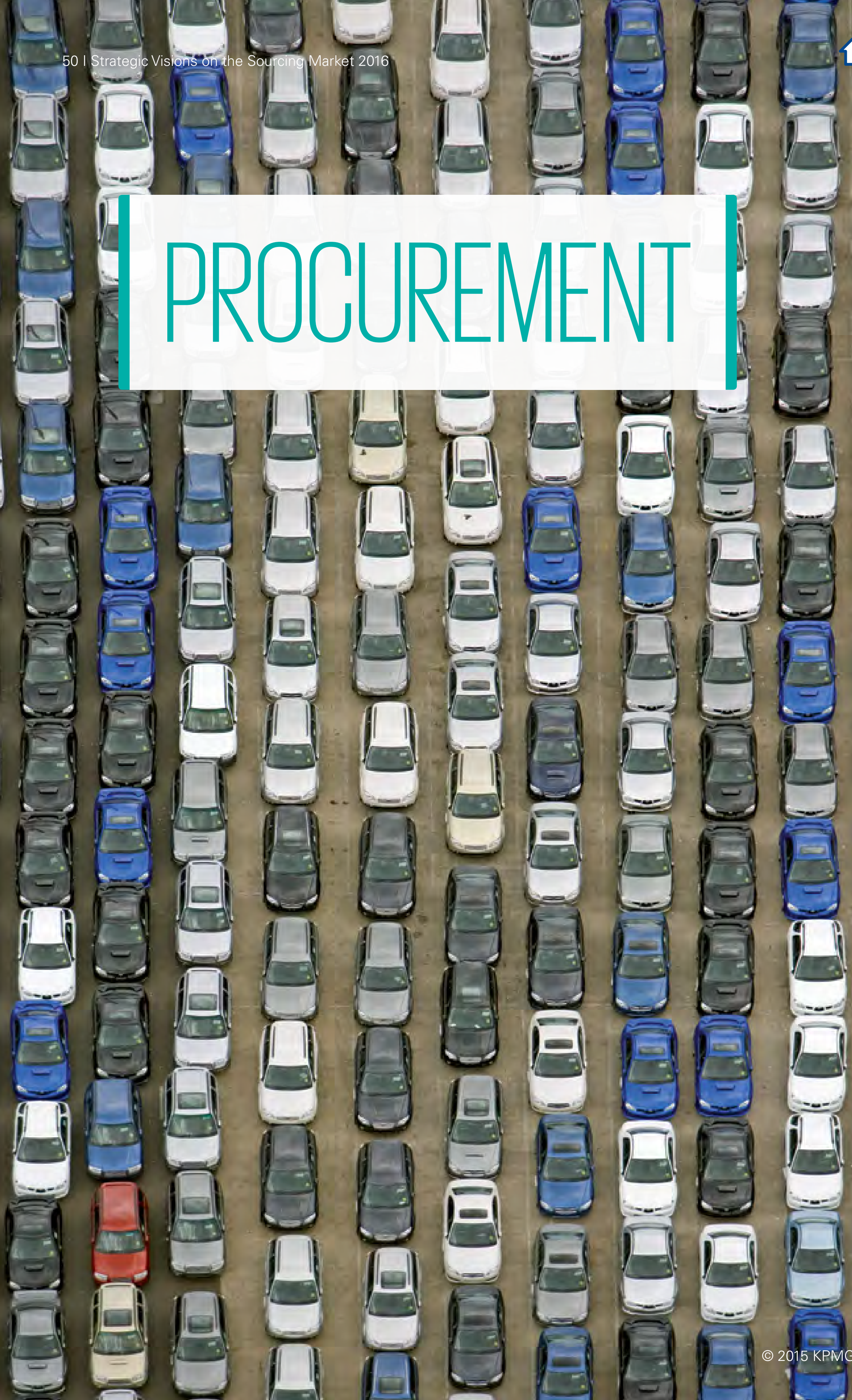
This is just one of the many examples of the growing influence of robotics in our society and I am convinced that this influence will continue to grow. An important driver is the rise of social robotics, where robots take over social tasks from humans. Another is the world of artificial intelligence, a domain that is now on the verge of becoming mainstream.

More important than the technology in and of itself is the consequence for society. History teaches us that new waves of modern technology lead to shorter working hours. I believe that this will again be the case with the rise of robotics and artificial intelligence. Our average working-week may reduce to three days.

This surely doesn't mean that we'll all allow ourselves to become bored. Many of us will dedicate our greater free time to tasks aimed at improving society, often at the local-community level. The need for this is growing rapidly: we need people to help disabled neighbours, we need people to tend neighbourhood gardens, we need people to visit lonely individuals, and so on.

However, certain people appear likely to have trouble adapting to this new reality. Many low-skilled men may believe themselves unsuited for such caretaking roles. They may become frustrated and angry about the influence of robots. In the past, we have focused our anger on banks, but robotisation could change the focal point of our anger. Bank-bashing could evolve into bashing the IT companies fuelling the robotisation.

Another consequence is that we will reshore manufacturing and services from low-cost labour regions – mostly in Asia – back to the West. This has already started and we should bear this in mind when looking at the recent economic slowdown in China. I am convinced that this process has only just begun and we should prepare for a major transformation. A transformation that also offers opportunities. Corporations should look beyond their current fields of responsibility and think about new concepts for creating new jobs, in the area of helping lonely people or in other social areas. Why not?



PROCUREMENT

JOHN TROS

PAPER

Changing the value of procurement

Big changes are starting to happen in procurement

Over recent decades private companies and public organisations have become more and more dependent on suppliers for their daily operations and long-term strategies. For many private companies, 80% of their total costs relate to invoices from suppliers. Even in hospitals and other big public organisations, 50% or more of the total costs are influenced by supplier invoices. The impact of this huge increase in the impact of suppliers on every organisational process leads to a new paradigm for the procurement function.

The main priorities of the traditional procurement function in most organisations are still:

- Assuring the supply of contracted goods and services;
- Optimising the buying power to negotiate good deals with low prices;
- Reducing the number of suppliers;
- Keeping specifications under control: more industry-standard, less custom-made;
- Optimising payment terms from a buyer's perspective;
- Optimising internal compliance (buying procedures and contract compliancy);
- Realising savings by simplifying specifications, negotiating prices per unit, downsizing volumes and cutting out all waste.

End of the current procurement era

The leaders of organisations are starting to expect more and new kinds of added value from the procurement function. This is driven by the vision of organisations as members of a complex network of business partners. Some call it their 'business ecosystem'. The development of strategies, the overall resourcing of organisations and the actual competition will take part in the context of and between these business ecosystems. Within the motor industry, Ford is not just competing with Volvo. The competition is between the demand/supply chains of both organisations. Even small second-tier suppliers, suppliers that deliver services and products to the direct supplier of a company, can be crucial in that game.

A traditional procurement function, with traditional performance priorities, does not meet the new demands of competing on ecosystem level.

The new roles of procurement

Organisations will always need strategies and processes to source the right products and services. Many of the activities of the traditional procurement function will continue as previously. The procurement function will just have to modernise and use new technologies. Some procurement activities will be outsourced to third parties or centralised in in-company shared services operations. But new, additional roles also have to be put in place. Firstly, someone in the organisation has to operate, manage and monitor the entire network of vendors and suppliers. Many of these vendors and suppliers will become business partners, sharing entrepreneurial responsibilities, risks and rewards, exchanging knowledge and business opportunities. It is already well known for that many companies there are few changes in their network of top-30 vendors and suppliers over a period of 15 years or even more. Their key suppliers are already in reality more business partners than is currently acknowledged.

Secondly, a new role of 'supply marketing' is evolving. This means that procurement is searching for the (future) suppliers of products or technologies that do not yet exist or that have not even be identified as a need by the buyer yet. It is like marketing towards the supplying community to encourage it to develop the supply of the future, and challenging the supplying ecosystem to come up with innovations. Last but not least, supply marketing means that you want to become the customer of choice for suppliers so they do not go to your competitor first in case of supply innovations or best practices.

Business alignment

The new, more entrepreneurial role of procurement means that management also needs to adopt a different approach in light of the value that procurement can deliver to the organisation. The most important starting point is the assurance that procurement strategies and priorities are fully aligned with the strategies and priorities of the organisation in the context of its business ecosystem. This 'business alignment' thinking may seem easy to implement but in the real world we know that many procurement organisations are poorly aligned with the business' agenda and strategy.

External KPI misalignment

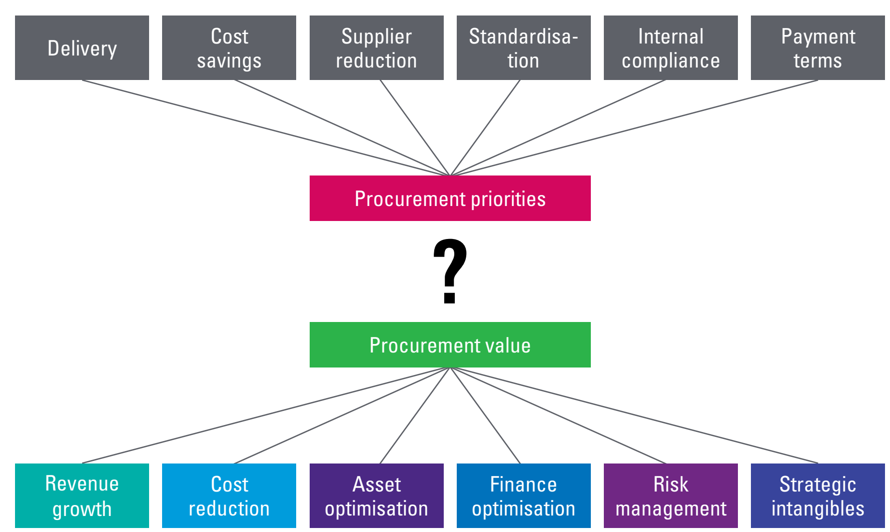
Recent research, supported by KPMG in co-operation with the Institute for Sales and Account Management (ISAM Erasmus University), shows that the procurement KPIs do not always fit with the complexity of the products or services delivered by the supplier network. In some cases the KPIs used by procurement are counterproductive, which means that procurement is negatively affecting the value delivered by the supplier network.

Full alignment also means that procurement has to monitor and optimise the KPI alignment between the suppliers and the buying organisation. Even then, many sales professionals complain about the procurement strategy and process not being aligned with important business priorities and KPIs.

The procurement performance gap

If we compare the current, traditional performance priorities of most procurement functions as outlined previously with the potential value drivers of a company that can be influenced or even steered by suppliers, it becomes clear that there is a strategic performance gap. Many procurement functions do not yet have a clear picture of the procurement value they can or should focus on. The traditional procurement focus is on delivery excellence, cost savings, reduction of the number of suppliers, standardisation, internal compliance, and payment terms. Although all these aspects are important for companies, they do not cover the full 'value delivery potential' of the supplying community. The six categories of potential value creation by suppliers for their customers' demand chain are:

1 Contributing to revenue growth (income or budget improvement);
2 Contributing to the reduction and control of total life cycle costs;
3 Optimisation of the asset life cycle;
4 Optimisation of the financial arrangements;
5 Managing, mitigating risk;
6 Optimising strategic intangibles.



Graphic: There is a gap in traditional procurement priorities compared with the six categories of potential value created by the supplying community for the demand chain. As suppliers often complain; "We can deliver greater value to our business customer than what the procurement unit is demanding from us."

A generic procurement value framework

The challenge for every organisation, both public and private, is to design its own procurement value framework. This involves doing a deep dive into the six key value categories and building a company-specific framework of strategically and tactically important value areas. A generic framework that helps companies to create their own customised model is presented below. With this customised model, the organisation has a clear picture of what it should demand of the supplying community. It bridges the gap caused by the traditional procurement priorities.

Procurement is not a free ride

Every organisation spends money to have a functioning procurement department. KPMG has created a generic model to measure the total cost of procurement, both within and outside the procurement unit, both operational costs and capital expenditure.

A total cost of procurement analysis is also worth doing to gain a better understanding of the (lack of) efficiency in the procurement processes and systems. In procurement, as in every other business process, money is not always spent correctly within the function and processes can always be designed or operated in a smarter way.

PROCUREMENT

$$\text{Return on procurement} = \frac{\text{Procurement value}}{\text{Total cost of procurement}}$$

Return on procurement

Up to recently most organisations treated the procurement function as a cost centre only. Every year the head of procurement has to provide a justification for not reducing staff numbers or other expenses. Our new suggested approach treats the procurement function as a value-adding business operation in which the total cost of procurement only becomes problematic if the total value added is disappointing. When companies have a customised procurement value framework in place they can measure the value delivered and added by the supplier community. This total value can be evaluated against the total cost of procurement. In that way the head of procurement can justify (de)investment proposals to the board.

The RoP outcome is meaningful for internal discussions about the role and performance of the procurement function and the investments needed. But the RoP framework and its way of thinking are also meaningful in the process of internal alignment of the procurement function with the company's (or business unit's) goals and strategy. Last but not least, this framework can be the new language of doing business with the extended supply chain and between functional leaders such as marketing, sales, production, logistics, IT, finance, procurement, HR, tax and legal.

The frameworks presented in this paper can support the process of external alignment with suppliers and business customers. They also serve as a tool not only for analysis but also for challenging business partners to focus on the right priorities in the value chain.

Design rules for a business value-focused procurement function

If a company wants to deliver and source the right kind of value, it has to design a procurement function that is capable of facilitating this. A business-aligned and value-driven focus will lead to a set of design rules and criteria for the procurement function.

1. The procurement function has to serve the business as a part of the business, so the alignment of the procurement function with the strategy and goals of the organisation is of the greatest importance. The business leaders collectively have the deciding vote on the procurement value framework and the procurement strategy. The procurement executives make it happen in collaboration with the other business leaders. In this scenario there may no longer be any need for a CPO because the business leaders own the procurement process.

2. Because the procurement function must be a value creating process in itself, it needs to be managed as a strategic investment and not just as a cost centre. The procurement value calculated must be compared with the total cost of all the procurement activities. The insights provided by the return on procurement are the foundation of the long-term strategic ambitions and organisational scenarios.

3. Procurement value is a result of value-driven collaboration internally and externally between the company and its supplier network, using all kind of analysis, sourcing and collaboration techniques. IT systems can be very helpful in this regard. The company has to embrace the culture of business collaboration inside and outside the company, with its suppliers and with its customers. For some organisations this is a major change in philosophy.

4. Events in recent decades have shown that strong leadership is important but shared leadership is the way to the future. The role of the professional, anywhere in an organisation, has become more important. Companies in the network economy still need strong leadership at the top, including for the procurement function, but the real delivery of value is done by the professionals, who also want to be involved in the strategic dialogue.

5. Although there is no single organisational design format for every procurement function, we know that up to now centralised or coordinated procurement functions have delivered good results. The new elements of the network economy will probably impact the future organisational design. Just think of the impact of internet technology and database mining. We have to anticipate for hybrid organisational designs for the procurement function. In some cases the procurement markets are very centralised, for others they are decentralised. The country or regional customer demands, supply constraints or legal issues can have a huge impact on organisational design. IT systems that support global collaboration between professionals could lead to a virtual centralisation

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of the procurement function without any reallocation of people. In the future there will be combinations of centralised and decentralised procurement operations, which will need to be flexible in order to adapt to new external or internal circumstances.

6. It becomes clear that the CPO of the future must be a value-driven network manager, serving the business and continuously upgrading the procurement function to the highest RoP level. The design decisions of the procurement function and its value profile are topics on the agenda of management at the highest level.

CONCLUSIONS

- **The supplying community has a huge, sometimes determining, impact on business success, even in public organisations. Many organisations have more suppliers than they have employees. Supplier-related costs are the biggest component of the total cost of operations.**
- **Procurement has to evolve into a real integrated business function, focused on value creation with the supplying community.**
- **There is a gap between traditional procurement priorities and the value creation potential of suppliers.**
- **More organisations see themselves as part of a business ecosystem. This 'system-thinking' will force procurement to evolve towards taking a total supply chain approach.**
- **Every organisation should develop its own procurement value framework to get the best value from the supplying community.**
- **Every organisation should understand the facts and dynamics of the total cost of procurement. Only then can procurement be treated as an investment centre instead of just a cost centre.**
- **If you want a real, valuable procurement function, rethink the policies, the design and the operating model.**

RUUD LAVRIJSSEN

BLOG

When sales must bypass procurement

Procurement can deliver significant value to a company. However, this can only be the case when the procurement function has matured into a professional function that has a say in strategy formulation and when the needs of end users are aligned not only with the company's strategy but also with the supplier selection process. If not, procurement may even be bypassed by the business. The supplying party should be taken seriously in what it believes is crucial for the success of the business.

Recently a study by KPMG, and the Institute for Sales and Account Management (ISAM) at Erasmus University revealed an interesting fact. Sellers of products and services are not measured on the performance indicators on which they would like to be measured. Should they have a say in this? Doesn't the buyer always dictate the relationship?

The answer is yes, and yes. In many cases, buyers dominate the relationship. A closer involvement of the business – or preferably the end-customer – can be meaningful to create more value. If a company sets goals and does not communicate these to the procurement department, no one should be surprised that the supplying parties will focus solely on meeting the procurement KPIs. In many cases, this will not lead to the optimum support for the company's strategy.

The research shows that for strategic products (with high business impact, high supply risks, and both parties dependent on each other) the buyer focuses on the lowest overall price, as his personal performance rating is presumably based on annual savings. The supplying party, who is an expert in his domain and has an overview of the risks to which both parties are exposed, encourages the buyer to shift the focus of the discussions and the supplier selection on to risk management. Of course this makes sense: if things go wrong, both parties will suffer and no alternative supplies will be available for the buyer in the short term. Therefore I would honestly question why an organisation would ask a supplier to help it out (meaning that the organisation has apparently figured out that it needs the supplier) and then stop listening to it, forcing it into corners where it is uncomfortable and doesn't bring any value.

This supplier-buyer gap is also a pressing topic in the domain of social responsibility, particularly in the public sphere. Local governments invest heavily to make their communities more sustainable places. Renewable energy supplies, safe city environments and the innovative use of waste materials are just a few examples of this investment. Some suppliers of products are more than willing to offer innovative 'green' solutions. Their solutions may however be incompatible with the success indicators of a buyer that has no 'green' KPI on his/her dashboard. In this case, the chances are that the most cost-effective bid will win – even though it may not be the best solution for the buyer. This is caused by the fact that public institutions have not properly translated their strategies and desires into procurement performance indicators (with the appropriate criteria and weighting). If the 'middle men' and 'supply network gateways' have different yardsticks by which they measure success, no one should be surprised when the supply chain fails to deliver on the company's strategy.

It is time for procurement to have a say in strategy formulation and to align the needs of end users, not only with the company strategy, but also with the supplier selection process. If the procurement department fails to mature into a professional function, it risks being bypassed: buyers will talk directly to the business strategy guys. They are open to discussing great innovations, critical risks and meaningful quality improvements as these are in line with their own objectives.

It may not come as a surprise that the research indicates that the gap is less dramatic for commodity products. There again price is the determining factor…but in this case, suppliers accept it and have shaped their service delivery models to suit it. And the buyers? They are used to the continuous focus on cost for these goods. One can imagine that when suppliers' and buyers' KPIs are aligned in this area, buyers are comfortable moving around in this cosy and easy space where it is all about straightforward negotiations. Buyers' internal performance measurement encourages the avoidance of difficult areas where risk, quality, compliance, innovation, externalities or shared value creation are key success factors which take precedence over price.

All of this is a pity in a world full of high-skilled procurement professionals who want to have a big and meaningful impact. It would surely help if organisations were to use a procurement dashboard, with a differentiated set of KPIs and a balance between cost focus and efficiency on one hand and the stimulation of innovation and long-term value creation on the other. The alignment of value drivers comes with a better understanding between buyers and sellers. From the viewpoint of procurement, the stakes are high: the last thing we want is suppliers bypassing us….it would not only kill our other KPIs such as 'controlled spend' but also our influence and recognition as a business partner. Don't let the sales guy be tempted!

ARD MULDER

CASESTUDY

Companies preparing for next-generation procurement

INTRODUCTION

In days past procurement functions were mainly measured by the savings they achieved. Nowadays, we expect procurement to bring more value than savings alone. This change in attitude is driven by the fact that organisations are increasingly becoming part of a complex network of business partners. All these business partners have an impact on different value areas of a company and its clients. Managing these so-called business ecosystems better than competitors are doing is becoming more and more important. The new business landscape is not only about competition between two individual companies. It is also about competition between the entire business ecosystems of each organisation, in which even small second-tier suppliers can play a crucial role. In this case study we explore how three organisations have embarked on the journey to improve the return on their supply base.

Context

The first organisation is an internationally-operating insurance company with a large operations centre in the Netherlands. It asked KPMG to analyse the kind of additional value the procurement organisation could bring to the business and to draft a target operating model (TOM) to make this happen.

The second organisation is a large global logistics company. It asked KPMG to explore whether it should apply business process outsourcing (BPO) to its procurement processes to bring down the cost of the procurement organisation and to increase the level of savings achieved.

The third company is a large international manufacturer that approached KPMG with the issue of organising its TOM to deliver more value to the business in a cost-effective way.

Approach

Our approach was based on three key ingredients:

1. An analysis of the overall maturity of the organisation in relation to the end-to-end procurement process. This included the full source-to-contract, procure-to-pay, contract & supplier risk management, supplier management as well as tax and supporting processes such as spend transparency.

2. An assessment of the current strategies and the benchmarks was completed in order to understand whether the procurement organisation is really aligned with the business (the users within the company) and the suppliers, and to identify the improvement opportunities in terms of the value that can be achieved for the business as a whole.

3. Design of a future procurement TOM in which activities, processes and systems are shared between BPO providers, the organisation, alliance partners, local and/or global centres of excellence where applicable. Assessing the future procurement organisation involved three key activities:

   - Assessment of which type of products or services (core, non-core or hybrid) are purchased per sub-category based on business impact and market complexity;
   - Determination of which categories could be considered for BPO based on buying power and competitor sensitivity per sub-category;
   - Determination of additional savings potential if sub-categories were to be managed by a BPO provider.

Findings

Although the nature and size of these organisations and the industries in which they operate are completely different, we have found that they face similar challenges.

The first finding is that procurement organisations can still improve on their spend transparency, demand planning and supply base transparency as well as their risk transparency. The current lack of transparency is hampering the organisation's efforts to really manage their supply base and react proactively to market developments. Some fundamental enablers such as spend transparency, operational processes (e.g. P2P) and the category management cycle need further improvement to create a 'leading' procurement department which is a prerequisite to operating more effectively and becoming a real business partner. This may imply that priorities need be shifted towards putting in place the fundamental enablers rather than focusing on more mature elements.

The second finding was that procurement was not perceived as a business partner and was not delivering the value anticipated by the business owner. This finding was mainly caused by a misalignment between the business owners, the procurement organisation and the suppliers. One example of this misalignment was in a selection process where procurement's predetermined KPIs were focused on achieving savings while the business was searching for a supplier that could help it to reduce the time to market. The disappointing upshot of the process was that the company went to market three weeks later than its competitor.

Thirdly we found that procurement, despite its focus on cost savings, still offers the potential for substantial savings of typically 5%-7% of addressable spend. Not all these savings are quick wins but they are achievable.

Fourthly we found that procurement organisations are still spending time on, and putting some of their best resources into, non-value adding activities and/or categories when these activities and/or categories could be better and more cheaply performed by a third party or in an offshore centre of excellence.

CONCLUSION

The combination of these findings point to one conclusion: most procurement organisations are not managing their supply base in an optimal way. Instead of managing the supply base, most procurement employees are running from deal to deal and negotiating the best cost savings as they go. This might have been a feasible business model in the past, but in light of recent technical and technological developments a broader perspective on procurement is needed to ensure that it brings value to the entire business ecosystem.

INTERVIEW

"Be good and tell it"

Marius Treffers

Procurement Manager at PostNL

Marius Treffers is Procurement Manager at PostNL, a mail, parcel and e-commerce company with a home market in The Netherlands and operations in a number of other European countries. He heads a procurement department that has gone through a strong professionalization in the past ten years.

You've been in charge of the procurement function for quite some time now at PostNL. In these years, procurement arguably has brought substantial value to the company. What is your biggest challenge at this moment?

"Making sure that the success of procurement will not lead to its own demise. In Dutch: *dat je niet aan je eigen succes ten onder gaat*. I will elaborate on our current status to explain that. Our team has realized very significant financial contributions in setting up and optimizing agreements with our suppliers. This has been done with two major principles in mind: one is optimizing the use of the spending power of the company, and two is optimizing the organizational structure for procurement. I am proud of what we have done, in terms of financial results and in terms of benchmarks. We are servicing a substantial spend with 11 people, which puts us in the top of these benchmark rankings.

However, I feel that there is an end station to these large savings. There is of course always room for improvement, but we have to manage expectations in this respect. In fact that is one of my key responsibilities now: finding an optimal balance between realizing further savings on the one hand and investing in more strategic added value on the other hand. Our quantitative KPI's are based on measuring our financial contribution, which is understandable given the fact that in the current phase, PostNL has key targets in the domain of optimizing profit and cash flow. It's part of my job to also remain focussed on qualitative goals, realising added value in terms of more strategic issues, such as innovations."

It sound like you're entering a new wave of further professionalization in procurement. What does this mean for the competencies in your team?

"Procurement is of course not only about optimizing contracts with suppliers. It's also about creating value, in seamless cooperation with both professionals from the business and our external partners. More and more, we should be able to act as partners in crime. There's no doubt that this has consequences for the competencies of this team. Recently, we organised a session to assess our competencies. We concluded that there are some gaps between the actual and desired competencies. I am quite sure we'll overcome this by training our highly skilled people. Don't forget that they are already operating on strategic levels with some of our larger partners: they are used to topic such as assessing total cost of ownership, setting up master vendor relations and dealing with in- and outsourcing projects."

How do you make sure that all of this is recognized in the business?

"I really think it's a question of showing off what you can do. One example is that we participated in a team which was able to introduce a better way to measure weight and size of packages in our logistics centers, which resulted in higher turnover. Examples like this contribute to the position of procurement in the organisation. It's simply a matter of be good an tell it. Procurement is taken seriously in this organization, no doubt about that. A sign is that we also have a strong position at the table in drafting future strategic plans.

To conclude: what would you change in procurement if you had a magic wand?

"I would make sure that procurement function in corporations and governments would be evaluated by the value they create. Not just by the cost efficiencies they realise." |

INTERVIEW

“Our suppliers are to be valued as sources of information”

Albie van Buel

Responsible for global sourcing & supplier quality at Vestas

Albie van Buel is responsible for global sourcing & supplier quality, at Vestas, the Danish market leader in wind turbines. His mission is to further professionalise procurement at Vestas, thereby creating tremendous business value for the company.

How important are suppliers for the success of Vestas?

“In companies such as Vestas, suppliers account for a significant portion of the total costs. This tells us that professional procurement is vital for the success of Vestas. Just like every other company, Vestas needs procurement that reaches beyond its traditional operational role. It is not just about negotiating the best contracts with suppliers. Procurement deserves a more strategic role in which it creates value for the business in three domains: cost, quality and innovation.”

Which major trends do you see in the market?

“There are several radical shifts happening in the business landscape. One of them is that business success is defined more and more by your ability to operate in networks. A good example of this can be seen in the car industry, where carmakers and their preferred suppliers work together in strong innovation clusters. This way of working with shared goals makes an important contribution to the success of the industry as a whole. This example shows how suppliers are a tremendous source of innovation and can thereby contribute to top line growth. I believe that promoting and organising this way of working should be the main focus of procurement. The challenge for businesses today is not so much succeeding in setting up a Request for Quotes (RFQ). It’s more about understanding how new models are displacing the old ones and about anticipating and leveraging on these models by building powerful partnerships.”

What are the main challenges that need to be overcome to professionalise procurement?

“Every company that has too much of a focus on its own capabilities is at risk because it may be too expensive, too slow and too conservative to be successful. Procurement has the capacity to stir this up and take the lead in building partnerships to change it. This is an important strategic role. At the same time, we should of course not neglect the operational aspects of procurement which can be partially outsourced and/or offshored.

Furthermore, I believe that procurement can and should be the eyes and ears of the company. At Vestas, we have more than 10,000 suppliers. This also means that we have many sources of information. I think one of the challenges is to look at it this way. The business landscape evolves continuously with new technologies and new business models. The speed of change is impressive and there is always the threat of someone arriving on the scene who can make you look like an amateur. An example is how Amazon transformed the business landscape. This is why I think procurement should adopt the role of information broker. This means that procurement professionals should in fact have the mindset of a business manager and translate insights from suppliers into actions.”

What is the optimal way to organise the procurement function?

“I believe that we should not use the word ‘function’ in this respect, as it implies that procurement is a silo within the organisation. The challenge is to integrate procurement into all the circles of the business. This requires talented people who not only have the specific expertise required, but who are also able to liaise with the business and with external partners. This also means that KPIs other than the traditional ones become necessary. In an ideal world, procurement would have its own P&L and focus on creating value for the company.”

REFLECTION

AADJIEDJ BAKAS

The battle isn't about cost, it's about value

Let's just face it. Procurement departments are often companies' most hated departments. Hated by the employees, who feel that procurement staff introduce a lot of unnecessary bureaucratic processes. And hated by suppliers, who get frustrated in negotiations with professionals with a sole objective: to drive down the cost of products and services. I have ample experience in this area, with overambitious procurement staff trying to negotiate my speaking-fee down. Their argument is that other speakers' fees are lower than mine. Of course, this isn't a very convincing argument!

The real issue for every supplier – from speakers to IT providers to catering companies – is the question of providing the best value for money. If purchasers focus solely on price, they will inevitably reduce the quality of what they receive. And because of this lower quality, costs will eventually increase, caused by the indirect effects of this reduced quality.

However, it wouldn't be fair to blame procurement for this focus on cost, as this is how they are managed. We all know the saying that 'if you feed peanuts, you'll get monkeys'. It would be a nice experiment to see what happens if we would start feeding them lovely chocolates: what if we would change the goals of procurement from lowering cost to maximizing value? They would have a real chance to transform themselves from most hated into most loved. I believe that this would have to start with a repositioning, whereas most procurement departments now reside under the CFO. It would make more sense to position them in parts of the organization that develop new propositions.

BART PLUYMAKERS

PAPER

Applying Lean to leverage IT outsourcing relationships

The great majority of manufacturing companies experience significant positive effects of outsourcing non-core activities and enhanced cooperation amongst their supply chain partners. The focus on core business has yielded tangible results in terms of improved quality, reduced costs, shorter delivery times and higher margins.

In contrast, many executives are disappointed with the effects of outsourcing IT. In theory, IT outsourcing has the potential to deliver improvements in many ways, however the common perception is that IT sourcing does not live up to expectations. Over half of KPMG's SSOA advisors still see IT as one of the top functional focus areas for improvement. A Lean approach could be helpful in leveraging IT sourcing and achieving a more positive outcome.

Continuous improvement is a common principle in IT outsourcing contracts, however it proves difficult to actually implement. In practice it often only translates into annual price decreases in an outsourcing contract, based on the forecast productivity gains. These type of productivity gains flow from the assumption that the provider becomes more familiar with the client's systems and processes over time, meaning that fewer resources are needed to deliver the same quality and quantity of services. However, these incremental productivity gains are often mistaken for actual improvements in service delivery. Moreover, this construct provides an incentive to the vendor to focus only on these productivity gains instead of on actual improvements. The difference between this reality and the manufacturing supply chain context – where continuous improvement is far more successful – is striking. Can Lean help us to change this?

Lean

The term 'Lean' was created during the late 1980s to describe Toyota's way of working. The term has been around for many years and is characterised by a myriad of differing definitions, partly because Lean is a continuously-developing philosophy and because its application can be different for each and every organization.

The initial definition (see table 1) by Womack and Jones consisted of five principles that guided people's actions:

1. Identify customers and specify value	**Identify customers and specify value** - The starting point is to recognise that only a small fraction of the total time and effort in any organisation actually adds value for the end customer. By clearly defining Value for a specific product or service from the end customer's perspective, all the non value adding activities - or waste, can be targeted for removal.
2. Identify and map the value stream	**Identify and map the value stream** - The Value Stream is the entire set of activities across all parts of the organisation involved in jointly delivering the product or service. This represents the end-to-end process that delivers the value to the customer. Once you understand what your customer wants the next step is to identify how you are delivering (or not) that to them.
3. Create flow by eliminating waste	**Create Flow by eliminating waste** - Typically when you first map the Value Stream you will find that only 5% of activities add value, this can rise to 45% in a service environment. Eliminating this waste ensures that your product or service "flows" to the customer without any interruption, detour or waiting.
4. Respond to customer pull	**Respond to customer pull** - This is about understanding the customer demand on your service and then creating your process to respond to this. Such that you produce only what the customer wants when the customer wants it.
5. Pursue perfection	**Pursue perfection** - Creating flow and pull starts with radically reorganising individual process steps, but the gains become truly significant as all the steps link together. As this happens more and more layers of waste become visible and the process continues towards the theoretical end point of perfection, where every asset and every action adds value for the end customer.

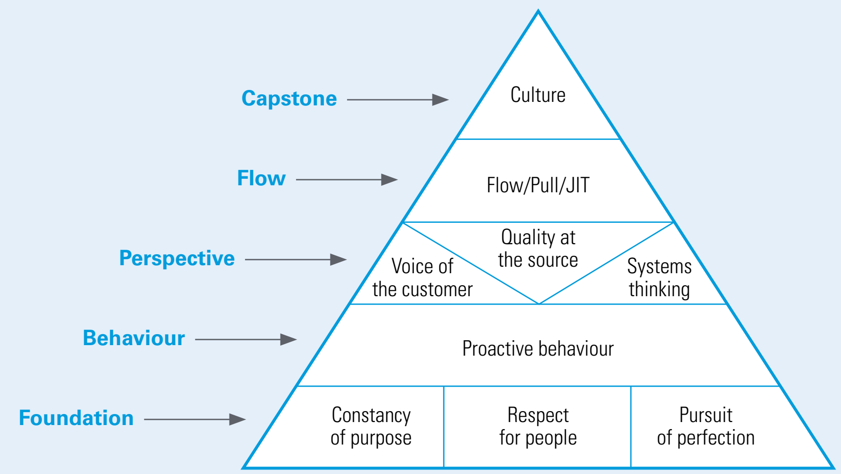
TABLE 1

Source: Cardiff University

This definition from their influential book Lean Thinking (1996) can considered to be rather technocratic and tool-driven.

Many organisations implementing Lean make the mistake of becoming preoccupied with specific tools. When properly applied, tools are performance enablers, but it is the principles embedded within the culture of an organisation that drive long-term behavioural change. Companies that fail to anchor their continuous improvement efforts with principles rather than tools may only experience short-term localised results (Bell & Orzen, 2010).

The application of Lean tools and principles in an IT environment differs greatly from their application in manufacturing supply chains. In the latter, employees can generally see the product moving through the value chain, including all its constraints. In an IT environment, the product is often digital and intangible. Additionally, IT service processes differ from manufacturing processes as they are often characterised by a greater involvement of customers in the production process and by difficulties in standardisation. Human behaviour and limited insight into the work in progress therefore make it more difficult to achieve a consistent level of quality. Despite these differences, Lean principles and tools can definitely be applied to improve IT outsourcing relationships.



Source: Bell & Orzen

The Lean Enterprise Principles Pyramid

The Lean Enterprise Principles Pyramid (Bell & Orzen, 2010) provides a comprehensive overview of components that are relevant with regard to the application of Lean in an IT outsourcing context. The following six components can offer a comprehensive starting point for the application of Lean principles in an IT outsourcing context.

1. The Foundation - Constancy of Purpose

Constancy of purpose focuses thinking and behaviour, aligning efforts and getting everyone to move in the same direction. It helps people to work towards a shared organisational goal instead of striving for individual and often conflicting goals.

In an outsourcing relationship it is crucial that both top management and operational management clearly and continuously emphasise the goals of the partnership, both on the buyer and the vendor sides. Whereas management often gives a lot of attention to this type of communication at the beginning of an outsourcing relationship, experience has shown that this fades over time. Additionally, a common pitfall is the failure to formulate new goals, let alone communicate them, once the short or medium-term goals that have been set for the partnership have been accomplished.

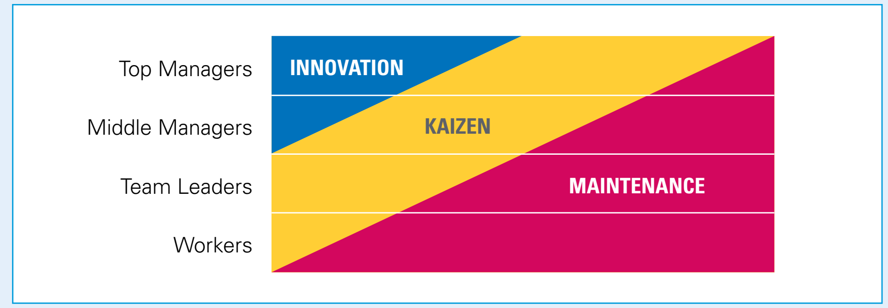
Next to differences in perception between buyer and vendor, differences can also occur between organisational layers. Hoshin planning (also referred to as strategy deployment) is a proven method for ensuring that the strategic goals of a company drive progress and actions at every level within that company. This eliminates the waste that comes from inconsistent direction and poor communication. Based on both 'management by objectives' and the 'Plan-Do-Check-Act' cycle, Hoshin planning is a powerful way to direct the organisation's energy towards key performance outcomes.

Within an IT outsourcing environment, this means that the IT sourcing strategy is explicitly aligned to the organisation's strategy. The governance principles have been clearly defined and there is evidence of regularly reviewed, shared objectives and joint planning. Strong strategic planning is undertaken at regular intervals. The IT outsourcing arrangement(s) in place should measurably contribute to achieving the organisation's sourcing objectives (e.g. flexibility, access to innovation, cost cutting, increasing service levels, etc.). The metrics being used to measure performance should accurately reflect the business and operational requirements and the levels of service that the business and operation needs, and should be reviewed regularly to ensure that they are continually evolving to meet those needs. The resulting process can keep strategic planning documents alive and ensure that differences between planned and actual results are addressed. Furthermore, it ensures that each individual has a clear insight into his/her own contribution to the strategic goals, including those of the outsourcing partnership.

2. The Foundation - Respect for People

Many IT outsourcing relationships are not in fact partnerships but typically have a working attitude characterised by 'us' versus 'them'. This is a fundamental point that needs to be addressed when it comes to applying Lean, as one of the key aspects of Lean is bottom-up and cross-functional problem solving in which both the buyer and vendor sides need to be involved. Professionals will only be eager to participate in continuous improvement if they are respected. This is especially the case when employees are not part of the same organisation even though they are collectively responsible for the same day-to-day activities. Management on both sides should signal such behaviour and proactively coach and mentor people to engage in collaborative problem solving and to create an environment in which people feel safe about sharing ideas and taking experimental risks. On a practical note, organisations should facilitate counterparts on both sides (at all levels) in getting to know each other by allowing space for face-to-face contact and joint (social) activities.

Kaizen means continuous improvement involving everyone - managers and workers alike. Not a single day should go by without some kind of improvement being made somewhere in the company. What have you improved today?



Innovation: Drastic improvements in current processes.

Kaizen: The process of ongoing, systematic, incremental improvements in the way things are done. it's the mass of small changes that over time add up to unbeatable performance.

Maintenance: Keeping the business running by maintaining technological, managerial, and operating standards.

3. The Foundation - Pursuit of Perfection

Pursuing perfection is one of the five fundamental Lean principles and is extremely relevant in an outsourcing context. One of the most important reasons to outsource activities is to make maximum use of the focused capabilities of the supplier and its ability to innovate. This is especially relevant in industries with rapidly changing market conditions and continuously shifting customer requirements.

In a Lean organisation, realizing improvements is an integral part of the daily work. As the Kaizen flag demonstrates, improvement is the responsibility of each and every individual in the organisation, regardless of their hierarchical level.

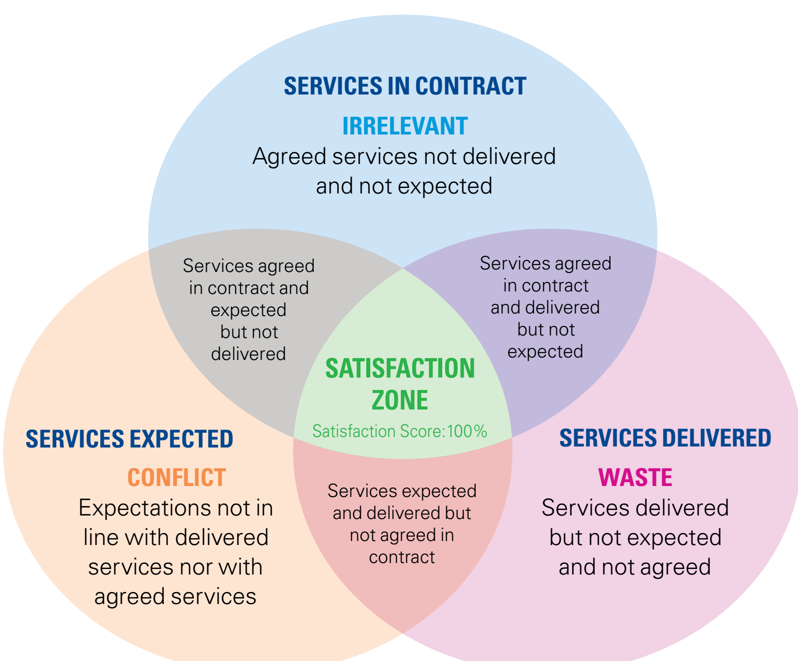
This implies that the responsibilities of employees on both the buyer and vendor sides include a clear improvement component, the employees involved are equipped with the skills and knowledge to engage in continuous improvement and they receive a sufficient mandate to make improvements. This also implies that the performance cycle - on both an individual and a contract level - contains measurable objectives in terms of improvements.

4. Behaviour – Pro Active Behaviour

Bell & Orzen (2011) describe proactive behaviour as taking the initiative, assuming personal responsibility for the quality of work and the work environment and seizing the opportunity to make a difference every day. Additionally they emphasise the common pitfall of placing 'firefighters' who continuously react to problems on a pedestal and rewarding them accordingly. At the same time, systematically proactive problem solvers, who often make a far greater contribution to the organisation, tend to be underappreciated. In an IT outsourcing relationship Lean can be used to shift the emphasis away from unplanned work (e.g. incidents) to proactive continuous improvement. This approach is effective as it is self-feeding: as more time is invested in process improvement, fewer incidents occur, which frees up additional time to work on more proactive improvements (Bell & Orzen, 2011). Proven Lean concepts such as daily stand up meetings can facilitate the desired behaviour. Additionally employees should be given a sufficient mandate to make decisions so that they can assume responsibility and accountability for their jobs. To conclude, classic ITIL functions such as continuous service improvement and problem management which often exist only on paper should be invested in to act as a catalyst for continuous service improvement.

5. Perspective - Voice of the Customer

The sole justification for a process to exist is that it provides value to a customer. Therefore it is imperative that an organisation knows its customers (internal and external) and genuinely understands their needs. The vast majority of organisations think they have a thorough understanding of (internal and external) customer requirements but in practice these perceptions are often dominated by assumptions rather than based on facts.



On the contract level, the existence of a client/supplier relationship is quite obvious, although it is often forgotten that customer requirements change over time as the buyer/vendor relationship evolves. When we move towards the operational level, teams on both the buyer and vendor sides tend to work in vertical silos without any knowledge of the other parties (suppliers and customers) involved in the same end-to-end process. The limited knowledge about customer and supplier requirements at this level introduces a great amount of waste, e.g. waiting times and rework, into daily activities.

Proven Lean techniques like voice of the customer analysis (e.g. customer arena's, Kano analysis) and value stream mapping can counteract these types of waste as they prevent a potential disparity between the services expected, the services delivered and the services contracted.

6. Perspective - Quality at the source

Poor input quality is an important factor causing issues in end-to-end processes within an IT outsourcing context. Whereas customers demand a service that is right first time, most processes are not designed accordingly. Quality at the source implies doing it right the first time, all the time whereby imperfect work is not passed on to the next process step or to the customer. In high volume areas such as the processing of incidents and changes, error-proofing (Poka Yoke) input mechanisms (e.g. client portals) can contribute to improving input quality. Additionally, users should be trained and/or guided in providing input and understanding the rationale behind it. Quality at the source also implies that employees are capable of detecting a problem, empowered to suspend the process and equipped with the right knowledge and skills to engage in collaborative problem solving. Additionally, the required 1st time right percentage should be included in SLAs and contracts in addition to conventional measures which are often time-based. In order to monitor performance against target the percentage 1st time right should be measured and included in management information and dashboards.

TO CONCLUDE

Many IT outsourcing environments have considerable room for improvement. The Lean philosophy can be helpful in achieving this improvement and the six components outlined above can form a basis on which to initiate change. The right foundation, behaviour and perspective ensure that the principles, tools and techniques that made Lean famous can deliver sustainable results in line with partnership objectives.

BLOG

EELKE ROMBOUT

The voice of the customer in IT outsourcing

Using Lean as an approach to increasing performance and customer value means that an organisation focuses on shortening the throughput time of the end-to-end value stream, and tries to eliminate steps that do not add customer value. What that value is exactly, is determined by the customer, and in any given process it is that value that determines the customers' willingness to pay for a service or product.

Usually, the customer is seen as any person or organisation that receives a product or service (output) from the work activities (process) and whose needs must be met for this process to be successful. In an IT outsourcing relationship this poses an interesting challenge and something of a paradox because since the advent of IT outsourcing we have all been working hard to keep the actual clients of the services away from the parties designing and delivering the services (but who we nevertheless assume are taking the 'voice of the customer' into account when doing so).

How did we get into this position? Within the arena of managing IT outsourcing, we created concepts such as 'the business', 'demand management', 'supply management' and 'IT delivery'. In these concepts, the actual customers of the products and services delivered in an IT outsourcing environment are what we call the business.

Although it is clear that you need some kind of translation of any given customer demand into something you can specify, measure and charge for as a service, it is also clear that by its nature, some of the elements of the original message containing the customer demand get lost in that translation. We all know the children's game where a secret message is whispered from person to person around a circle. What if we imagine the different parties in an IT service delivery chain as sitting in a small circle? What happens then to the customers' message in IT outsourcing?

Managing an IT outsourcing relationship is a complex task that requires specialists – there is no doubt about that. Add to that the fact that information technology is by its nature more complex than most of the other services considered for outsourcing, as well as typically being mission or business-critical in most organisations nowadays.

Traditionally, most of us think it is important to think in end-to-end process chains when considering an IT service delivery landscape. However, we certainly do not trust the users themselves to talk to an IT service provider directly about anything other than operational service delivery. I have personally seen a situation where an external service provider was not allowed to discuss potential innovations it came up with for the existing service delivery, with the actual customers, as they were kept at distance by the internal IT department and the sourcing management organisation. Emerging as-a-service delivery models where everyone can buy IT services and pay per use has given rise to the idea that we do not need the 'IT department' as we can directly go to Amazon, Salesforce, Microsoft, Google or wherever to buy IT.

It is pivotal to establish a clear relationship between metrics, performance indicators and service levels on one side, and what a user actually wants and is willing to pay for on the other side. If this is not done properly you end up with what we typically see in IT outsourcing relationships: a provider who happily reports that all the KPIs are green and customers that are not satisfied with the service delivery. The key is that managing an IT outsourcing relationship is also about managing perceptions and expectations about service delivery, and not only the tangible properties that can be measured for an actual product.

Let us apply some Lean thinking to IT outsourcing. Enter the 'Kano model' which serves as a guide for articulating the voice of the customer in terms of different types of user needs. It differentiates these into the following categories.

- Dissatisfiers or basic requirements. These are also known as ‘must haves’ and are expected features or characteristics of a product or service which are typically ‘unspoken’ because they seem too obvious to mention. If these needs are not fulfilled, the customer will be extremely dissatisfied. An example of these dissatisfiers in an IT outsourcing environment could be that your laptop boots up when you press the power button or that a transaction is saved into a database when you use the ‘Save’ command.

- Satisfiers or performance requirements. These are known as ‘nice to have’ and are standard characteristics that increase or decrease satisfaction by degrees (cost/price, ease of use, speed). These needs are typically ‘spoken’. Examples of these in IT outsourcing can be network speed (the faster the better), response time to an incident or storage price per unit (in both cases, the lower the better).

- Delighters or excitement requirements. Here it gets interesting. Delighters are unexpected features or characteristics that impress customers and earn ‘extra credit’. These needs are also typically ‘unspoken’. The question here is; what would these be in an IT outsourcing environment? First of all, they would definitely have to take the perceptions and expectations mentioned previously into account. Typically, you could consider delighters in IT outsourcing as related to innovations, which would therefore be the sort of innovations the customer did not know yet they wanted. Recently we have seen IT vendors introduce many such innovations that make workers more productive, reduced the complexity of using information systems or removed boundaries and seamlessly integrated working on multiple devices. And I am sure that there are many others.

Does connecting the voice of the customer directly with the delivering parties in IT outsourcing make traditional demand and supply management obsolete? Do as-a-service service delivery models finally enable us to truly deliver that, and only that, which the customer perceives as value and for which it is willing to pay? The answer to both questions is no (however one could argue that it would be an interesting experiment if you could completely eliminate ‘traditional’ IT outsourcing management - to a certain extent, this already happening in these emerging as-a-service models).

The real question is how to ensure that whatever adds the most value is incorporated into the service delivery. Ticking the boxes is not special anymore, and these days where anybody can choose a set of standard IT services from a cloud provider, delivering according to agreed standards does not add any value beyond that of a satisfier. What are the delighters for your users in your IT outsourcing model? It surely needs to be more than meeting service levels for availability or resolving helpdesk tickets on time, and it definitely needs to be aligned to customer perceptions and expectations. Since after a certain amount of time delighters will be ‘relegated’ to satisfiers as customers get used to receiving them, this is not a one-off effort. So there we have it. Identifying your organisation’s delighters and ensuring they are incorporated into your outsourced IT services is what will differentiate the great IT outsourcing arrangements from the rest of the crowd in these times where traditional sourcing models are rapidly evolving.

OLAF VAN ARKEL

CASESTUDY

Solving root causes

Joint Lean project helps Van Gansewinkel and Cegeka to drastically improve the management of workstation changes & invoicing-supporting processes

Correct invoicing of ICT services to user departments should of course be a no-brainer. In reality, it has been a quite frustrating process for Van Gansewinkel’s corporate ICT department and its IT outsourcing partner Cegeka. In a joint project, they did a deep dive into the root causes in order to fundamentally improve their processes. The result is a flawless invoicing process and enthusiasm about applying the same approach to achieve improvements in other domains.

‘Afval bestaat niet’. The best English translation for Van Gansewinkel’s pay-off would be “Waste no more”. It also clearly describes the company’s mission to transform today’s waste into tomorrow’s raw materials. The waste service provider, recycler and supplier of high-quality secondary raw materials achieves a yearly turnover of over 1 billion euros, is market leader in Benelux (its home market) and is also active in Germany, France, Portugal and Hungary.

Van Gansewinkel has a partnership with Cegeka for the management of its 2,400 computer workstations. The costs of these services are charged to the various departments through monthly billing. A recent review showed that these invoices were unreliable and incorrect and as a consequence professionals on both sides of the partnership had to invest a lot of time to correct the hundreds of inaccuracies in the billing process. In some cases, errors could not be fixed because of unreliable underlying registration processes. Previous efforts to improve the billing process had also not been satisfactory.

Against this backdrop, Van Gansewinkel asked KPMG to help determine the bottlenecks in the process of workstation changes and invoicing and to propose a powerful action plan to bring fundamental improvements. The ultimate goal was simple yet ambitious: error-free invoices resulting in significant time savings on both sides. In addition, Van Gansewinkel and Cegeka expressed the wish to apply the Lean philosophy and accompanying tools to further improve processes.

Step one in this assignment was a thorough analysis of the status quo and a joint definition of a correct invoice. It soon turned out that the complexity level was very high. One of the underlying causes was a high diversity in services and invoice lines (up to 150). Another aspect was that the input for the invoicing process took place on a number of different online platforms and involved quite a lot of manual intervention and local applications. Moreover, there were numerous opportunities for human error to occur, without any control mechanism. During joint workshops, we were able to drill down into the complexity of the operational and tactical processes and to really get a good view of them. We also mapped the corresponding risks of inaccuracies in these processes. Leading professionals on both sides of the partnership were very surprised to get such detailed insights into this complexity. In this phase of the project we used a process framework, which proved to be of great value.

As a second step, all the processes were mapped using the value stream mapping (VSM) method, a Lean method to analyse the current state and design an improved future state for the invoicing process from its beginning through to the end. Workshops with the experts who carry out the processes provided input to get deep insights into the actual procedures and also helped the people involved to get a better understanding of each other's responsibilities and roles. Subsequently, we defined and quantified all the risks that could potentially lead to errors in the invoice using the failure model effect analysis (FMEA).

To conclude, we determined countermeasures to mitigate the risks of errors. The action plan involved a number of improvement initiatives for the monthly invoicing processes. This was a good foundation on which to clean up the database, to solve 52 bottlenecks and to define 18 areas of improvement.

The tangible results of the project are very satisfactory to both sides:

- The project has provided a thorough analysis based on the actual process, in which all the relevant risks were identified and quantified;
- The project has provided an action plan with concrete improvement actions and countermeasures to avoid the risk of errors in the monthly billing and invoicing;
- The project has brought about a robust improvement in the cooperation between the partners;
- The project has ignited an enthusiasm for further improvements in other areas of ICT services.

In hindsight, a number of factors proved to be key.

One of them is that the project had a jumpstart because of the fact that the project team was already deeply involved in, and had a thorough understanding of, the processes involved. The joint approach to doing a fundamental analysis of the process quickly led to a better understanding of each other's roles and responsibilities.

Another factor was the thoroughness of the analysis. We chose to analyse each process with the help of specialists and colleagues who are involved in it on a day-to-day basis. Initially, there was an urge to analyse the 'outcome' i.e. the invoice as a whole, but we instead performed a detailed analysis of the 'inputs' i.e. the computer workstations. All the professionals involved agree that this was a decisive factor for the success of the process. The level of detail in the analysis enabled us to identify swift and concrete countermeasures that could be implemented in the course of just a few weeks.

A third important factor was that the focus was on root causes rather than symptoms. The problems that appeared to exist in the invoicing process were not in fact in the invoicing and settlement process itself. On the contrary, we were able to determine that the problems were within the operational supporting process, including in the domain of human errors, which formed the basis for the invoicing process.

Once we identified the above factors we were then able to address them in a collaborative fashion with a positive outcome for both of the partners in the outsourcing relationship.

INTERVIEW

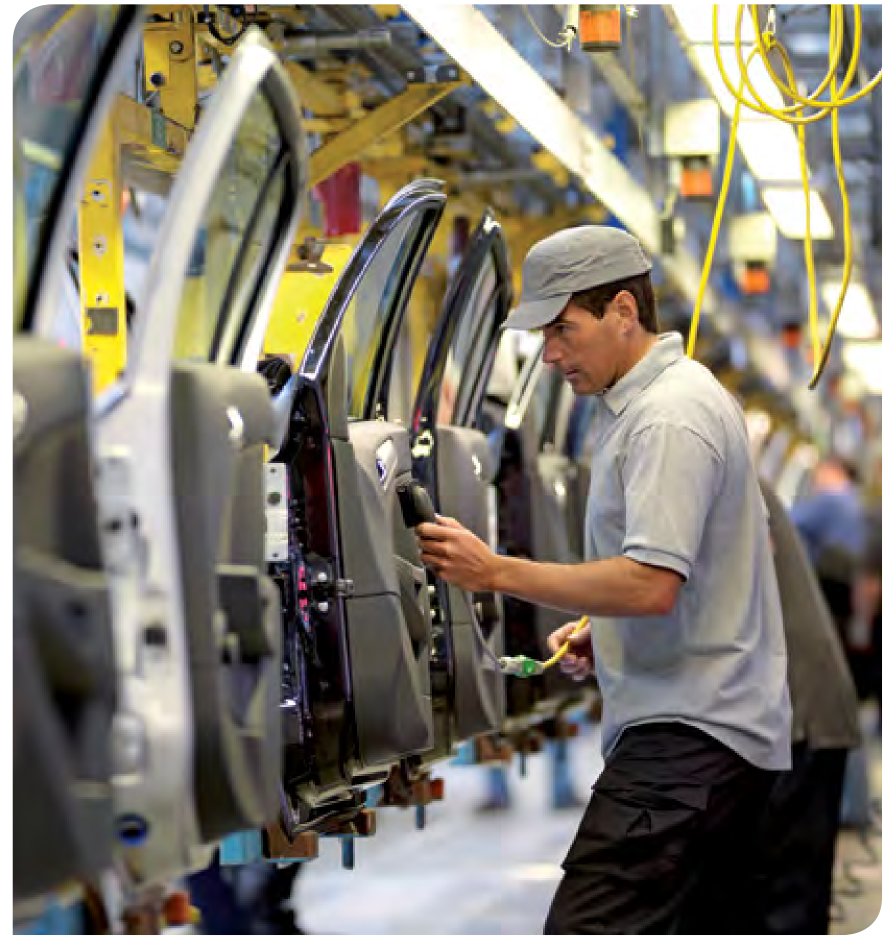
It takes two to do the Lean tango in IT outsourcing

Vincent Blijleven

Researcher at Nyenrode Business University

LEAN

Lean has been around in production companies for many years and brings significant improvements in performance and more focus on client value. Successful implementations of Lean in service companies are far less common. Vincent Blijleven, researcher at Nyenrode Business University, believes that this is about to change and that Lean deserves to be given a chance in the domain of IT outsourcing. In an interview, he shares his vision of the potential of Lean in IT outsourcing, the necessary preconditions and the pathway towards its widespread application.



INTERVIEW

Lean has a strong proven track record in many production companies and has its origins in the production facilities of Toyota. The systematic approach to the improvement of processes – with a dedicated focus on achieving client value and based on the combination of top-down commitment and bottom-up implementation – was a tremendous source of competitive advantage to the Japanese carmaker in the 1990s. Other companies in the domain of production and logistics followed suit in the ensuing decades.

Up until now, the services industry has lagged behind when it comes to the application of the Lean philosophy. From an onlooker's point of view, it appears that the domain of outsourced IT processes offers great potential for the application of Lean. Many outsourcing relationships fail to live up to expectations and a structured improvement initiative could be worthwhile. Blijleven: "Despite the rapid development of IT outsourcing over the last two decades, many IT outsourcing clients remain dissatisfied. This is indicated by low satisfaction rates, a high number of back-sourcing decisions and vendor switching. There is no doubt that Lean can add value to IT outsourcing, as it leads to a more holistic view of processes. It stimulates professionals to think about their role in the process and how processes can be improved. I can think of numerous examples to eliminate waste and to improve operations in the eight of wastes of Lean." (see boxed text)

A clear example of waste in an IT environment is software that contains too much functionality. Blijleven: "Consider the word processor on your laptop. The average user only uses about 5% of the functionality. This is also true in many more specific applications because software developers fail to focus on what the user really needs. Another relevant topic is that in general people tend to find it hard to call a halt to a project that clearly will never live up to expectations. They routinely carry on when they should be considering pushing the red button instead."

Another important source of waste is the domain of compliance activities. Blijleven: "Compliance has become a very dominant factor in nearly all business processes. However, in some cases, professionals tend to exaggerate the scope and depth of the laws, regulations and guidelines that are applicable. Too often, the perception of what must be done cloaks the factual situation. A more critical and inquisitive attitude may be very helpful here and companies may actually learn that they can cut back on compliance activities."

If all of this is true, why is Lean not a popular philosophy in the domain of IT outsourcing? One of the reasons may be that the 'discovery' of waste in processes is less obvious, given the intangible nature of processes. Blijleven: "In a car factory, one can quite easily see that some processes are illogical or inefficient, just by using common sense. One can see, smell, feel and perhaps even hear a unit of value moving through a value chain. In a services environment, the unit of value is often intangible (e.g. a piece of software), making it really difficult to just copy/paste Lean manufacturing tools and techniques onto services."

Another reason why Lean may not be widely used is the added complexity of a collaboration between two organisations: "A successful implementation is more difficult given the fact that it takes two to do the Lean tango in a supplier relationship between two partners. This is another important difference between the application of Lean in a service industry compared to production: the complexity of the environment."

Then there is one more reason that may stand in the way in addition to the previously-mentioned complexity and the intangible nature of the context: "There is a distance between many IT professionals and their customers. In the end, Lean is about applying the customer perspective and focusing on performing activities that enhance the customer experience. Again, that may be relatively easy in production facilities, where every employee can imagine how customers use their products. However, this is far less so in the IT development and maintenance sector. In fact, sometimes their worlds are separated by myriad organisational steps and our research shows that communication between these steps is sometimes absent. On the one hand, this makes it difficult to apply Lean. On the other hand, it clearly shows the urgency and importance of using Lean to improve this."

In short, achieving success with Lean in IT outsourcing is not easy. Notwithstanding that fact, Blijleven is convinced that organisations can and should overcome the aforementioned hurdles. "There is a lot of potential for improvement, especially when it comes to handover periods. We can see this happening in the testing processes of new applications. In many cases, these are carried out threefold: by the supplier, by the customer organisation and jointly. By integrating this testing work, we can save money and speed up IT development. This is not just theoretical: we found that this threefold test approach is still a reality in two-thirds of cases."

What is the recipe for successfully using Lean in IT outsourcing? It may not come as a surprise that Blijleven has no standard successful approach. He warns that we should not look at Lean as a silver bullet for better performance, as this would in itself be a recipe for disaster: "If you focus too much on one aspect of the problem in search of a 'silver bullet', you will fail, because the world we live in is dynamic. Every situation demands a specific tailor-made approach."

However, Blijleven does have a number of generic recommendations.

The first one is a trusted relationship. "Lean should not be seen as a solution for situations where mistrust and frustration reign. In fact, a positive and respectful attitude is essential in the Lean philosophy. A short anecdote to illustrate this: a new management trainee at Toyota was asked to experience working on the manufacturing line in order to fully comprehend the company's activities. In this role, he made a mistake with the tools when working on the doors of the cars. He was forced to push the red button and to stop the entire production line and was anxious about how his colleagues would respond to his failure. However, their response was very positive: instead of being angry or disappointed, they complimented the trainee for the fact that he found a fault in the process, one that could be fixed by a simple adjustment to the tools he used. I think that this attitude should apply in IT outsourcing: we need a culture where people don't blame each other for errors or mishaps and where power structures do not stand in the way of Lean philosophy. We need an environment where partners share goals and where people help each other to reach these goals, therefore in the case of frustrated or damaged relationships, we must first repair the relationship and then start to apply Lean. Starting off on the wrong foot will definitely not work."

Blijleven touches on an important problem since a degree of frustration seems to be quite common in many IT outsourcing projects. Would it not be better to opt for a greenfield relationship as a proper basis for Lean? In other words: is it not better to start with a clean sheet? "There is no generic answer to that question. The advantage of a greenfield is that the professionals do not have preconceived ideas about the partner. On the other hand, starting off with a new service provider involves a lot of work therefore this assessment needs to be done carefully and on a case-by-case basis."

A second generic recommendation is in the domain of stressing the joint goals. "It is essential to communicate on the goals and have a clear definition of what the customer considers to be 'value'. This may sound like a cliché, but in many cases people tend to forget this aspect. It is also important in this respect to think about creating win-win situations. Consider the example of an IT service provider that manages to implement a more efficient process as a consequence of using Lean. As a result, the provider can cut back on the number of employees involved. If the customer subsequently asks for a lower fee because of this, the provider will of course be disappointed and will have no incentive to look for more efficiency. Partners need to make arrangements so that the benefits of improved efficiency are shared."

Thirdly, Blijleven points out that both organisations must possess the knowledge and experience to use Lean. "If one organisation is familiar with Lean and the other organisation is not, their people will be speaking different languages. For instance, one organisation may regard admitting failure as an opportunity to improve; the other organisation will regard it as a weakness and a sign of bad service delivery.

To conclude, Blijleven stresses the fact that it's all about seamless cooperation and open communication: "Talk. Communicate. Interact. All too often people hide behind their screens, sending endless emails, even when the physical distance between them is only a one-minute walk. Cooperation and communication can in fact reduce waste by quite a bit." |

EIGHT TYPES OF WASTE ('MUDA' IN LEAN TERMINOLOGY)

The Lean philosophy contains eight types of waste. Here are some examples of waste in IT outsourcing.

1 Transportation
- The use of non-standard, non-integrated information between the provider and the customer

2 Inventory
- Unused/unnecessary software licences
- Work that is waiting for review, approval and forwarding
- High backlog in software development

3 Motion
- Endless communication via email, instead of one simple dialogue in a conference call or face-to-face meeting

4 Waiting
- Too much time between coding and testing
- Queues at helpdesks
- Overnight batch processing, causing delays in workflows

5 Overproduction
- Premature decisions on resources, resulting in reduced flexibility
- Long time lag between specification of software requirements and coding, leading to outdated specifications

6 Over-processing
- Helpdesk focusing on solutions for symptoms, not looking for root causes
- Not being able to stop a project that clearly does not add value

7 Defects
- Controls that add no value but are driven purely by compliance requirements
- Unused functionality in software
- Working standards and metrics that put too much focus on volume and speed, thereby compromising quality
- Kaizen teams (improvement teams) that do not contain IT expertise, leading to incorrect or inaccurate system specifications
- Inadequate testing procedures

8 Skills
- Unclear or infrequent communication on the joint goals of the outsourcing partnership
- Lack of investment in education and training

REFLECTION

ADJIEDJ BAKAS

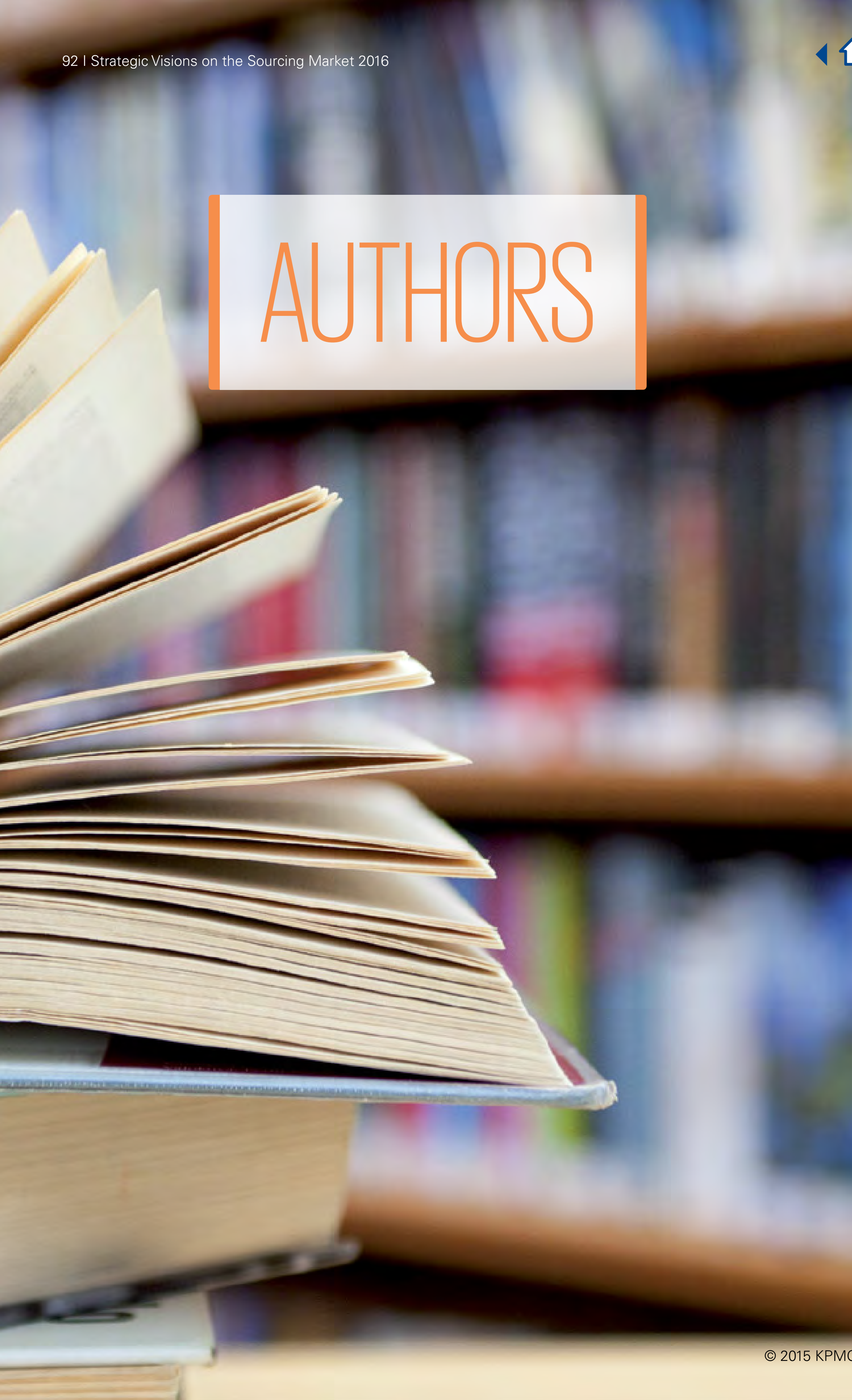
Don't micromanage; create space for creative solutions

We all have personal experiences of service employees failing to understand exactly what our problem is and unable to offer a solution that really suits our needs. Often, the reason for this is not a lack of empathy or willingness to help. The reason is that they are constrained by the protocols and systems that offer no space for a resolution to our specific questions or problems. They are told what to do, not why. It's one of the symptoms of a society where efficiency has been evangelised to such an extent. We seem to have forgotten the importance of taking customers' wishes into account and the fact that employees need a bit of room for creativity if they are going to be able to do this.

This may be about to change. A notable sign of the times is that Henry Mintzberg – one of the most influential authors on strategy, who has written many books on efficient organisations – now explicitly acknowledges the importance of creativity. In fact, strategy is nothing without creativity. We must find 'neue kombinationen' (new combinations) to succeed in the future and we will not find these by emphasising rigid efficiency and micromanagement. This is true for strategists and business developers at a higher level, but also for client service staff at a lower level.

Of course we need efficient procedures and systems, but these should leave room for individuals to provide solutions that really meet customers' needs. This is my advice when it comes to applying the Lean concept: don't focus overly on efficiency. Notwithstanding this proviso, Lean is also a promising concept, as it focuses on bottom-up improvement, with every employee responsible for identifying areas of improvement and focusing on customer value.

The challenge is to find the right balance and to keep an eye on the big picture, and it reminds me of the commander's intent concept, used by military organisations. This is a proven concept on the battlefield. The idea: if a more junior military operative has only been told how to conquer a village and the situation changes, he would have to go back to the commander for new orders. This would be slow and ineffective. Adding the commander's intent to the instructions changes this: elaborating on why a particular hill is important, and how it will support the overall strategy, enables the operative to use his own knowledge and creativity to contribute to the original intent. The whole idea behind applying the commander's intent to the business world is that, when assigning a task, one should not just give instructions on what should be done, but should also explain why it should be done. This makes sense in every organisation: the more an employee understands the purpose, the better he or she will be equipped to respond appropriately."



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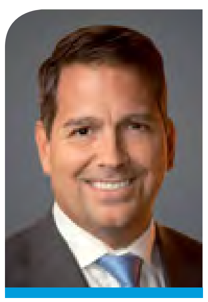

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Cliff Justice is a leading authority on cognitive innovation, robotic process automation, global service delivery model design and sourcing with over 20 years of experience in operations, outsourcing, offshoring and enterprise services transformation. Industry experience includes: Energy, Financial Services, Healthcare, Pharmaceuticals, Manufacturing, Human Resources, Transportation, Consumer Products, Agribusiness, and Technology.
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John is a partner within the Dutch KPMG Shared Services & Outsourcing practice and is responsible for the Procurement Practice and is part of the KPMG global procurement leadership. He holds a PhD in Procurement and lately focuses on how Procurement can bring more value out of the supply base to the value chain of the buying company. John has over 20 years of experience in procurement of which over 10 years of experience in consulting on Outsourcing, Procurement & Supply Chain optimizations.

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