

Seeking procurement excellence and cost reduction in retail banking

Procurement in retail banking has the potential to optimize costs across the organization as well as address complex problems emerging from a changing banking landscape. With the rise of digital banking, FinTechs, and other disruptors in the financial services space, banks need to leverage their functions to provide the best services with reduced costs, and maintain brand image. With ambitious thinking and a robust approach to supplier and spend management, banks can enhance the maturity of procurement functions to help weather a financial environment in flux.



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Procurement challenges for Saudi banks

Banks in Saudi Arabia can potentially face an array of challenges to their procurement function that may be hindering their ability to cut costs and increase their reach in the market.

- The first major challenge is the **framing of the procurement function as an administrative one, instead of a strategic one**, with no mandate and with limited alignment with other functions. With the administrative label, procurement policies emerge with few or no consequences for non-adherence.
- The second challenge stems from a **lack of planning due to the detachment of procurement planning from business plans and budgets**. This leads to a reactive function with a high volume of low value transactions and a limited coverage of framework agreements.
- The third challenge is a **lack of data, which spans spend analysis, market analysis, and supplier management**. Spend analysis is often ad-hoc with



no clear objectives, which makes the interpretation of data and results challenging, thus limiting reporting and realization of costs savings. Another area that suffers is market analysis, which is lacking along with little or no price benchmarking activities. From a lack of data analysis stems a large and fragmented supplier base with limited supplier performance monitoring and contract management. Thus, Enterprise Resource Planning (ERP) data is compromised and cannot be used to improve business process outcomes.

Developing a strategic procurement function

In order to leverage procurement's cost-saving potential, banks in the Kingdom need to ensure that the function develops from an executor of operational processes to a strategic value partner by increasing its maturity level. This requires banks to tackle the challenges plaguing procurement and to do so they must pursue three key avenues:

Run a maturity assessment to identify the gaps in the procurement function. This includes an understanding of how mature the organization is when it comes to people, skills, size, processes, and strategy. It is important to evaluate whether the function is hiring the people with the best skills for the job, as well as whether they meet local content requirements. Specialized skills in the procurement function are becoming increasingly important with the digital transformation of banking. Acquiring the right skills and services can save the bank in the face of staunch competition, whereas failure to do so adds to the risks faced by the bank and the potential tarnishing of their brand. The procurement function must also have proper policies and procedures in place with established KPIs, planning tools, and ERP data to progress to a strategic value partner in the bank.

Ensure spend transparency to identify potential cost savings and to implement effective strategic sourcing activities. Banks must assess the purchasing entities, what is being bought by category and volume, and suppliers. Leveraging spend transparency data enables banks to identify short and long-term savings potential and procurement inefficiencies. This data can also shed light on the availability of and reliance on local suppliers.

Manage supplier relationships end to end. The Supplier Relationship Management (SRM) lifecycle includes:

- Analyzing and segmenting the current supplier portfolio to derive differentiated supplier relationships.
- Identifying potential suppliers through performance and qualification tools.
- Monitoring supplier performance consistently.
- Improving supplier performance or capabilities to value.
- Transitioning or terminating business relationships with suppliers.
- Monitoring and mitigating supply chain risks.

It is good practice for banks to keep a variety of risks in mind, such as having a single supplier for critical needs, which spells trouble for the bank if that supplier were to fail. One strategy to reduce supply chain risks, which were faced by banks during the Covid-19 pandemic, would be to contract more with local suppliers to mitigate the possibility of delays across borders. This will also contribute to a wider strategy to maximize local content across different activities of the procurement function.



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