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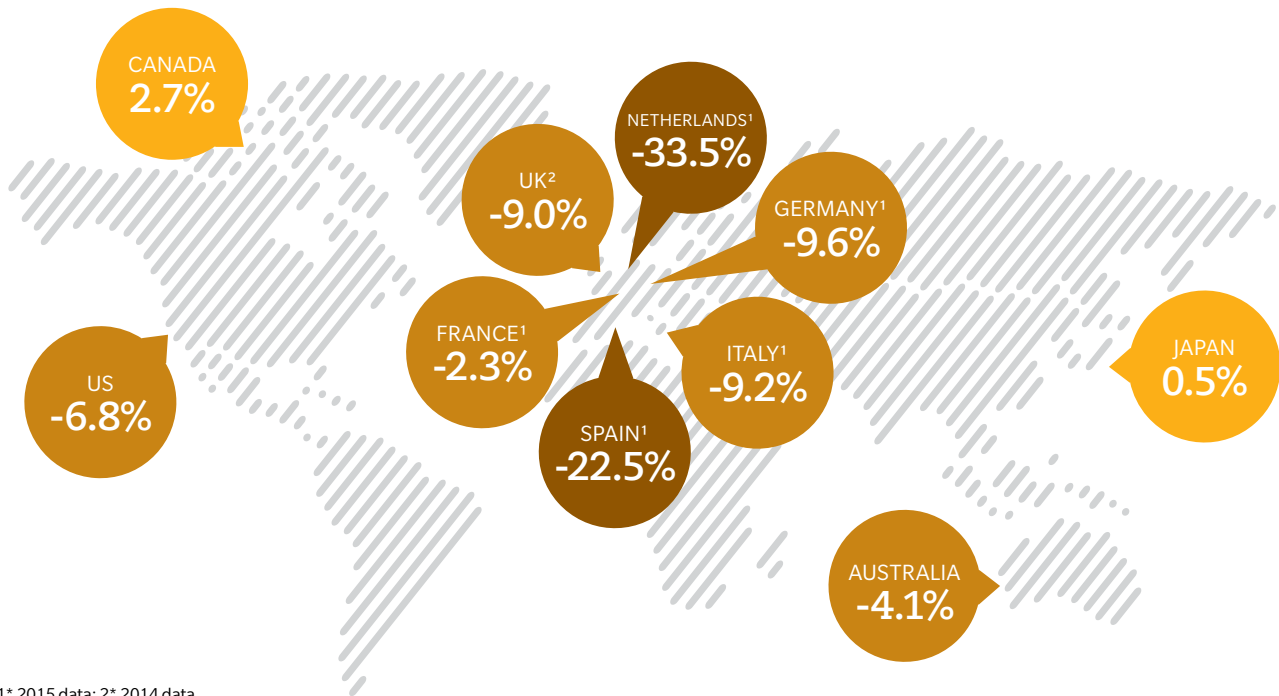
## CAPITALIZE ON NEW COST PERFORMANCE LEVERS



Digital transformations driven by technological breakthroughs are opening up new performance perspectives for company business lines and external suppliers. To make the most of these disruptions, purchasing faces three main challenges:

- Help business lines integrate new opportunities into their operations and take full advantage of the resulting performance improvements.
- Challenge historical suppliers on their digital maturity and on their ability to deliver performance levels unattainable through traditional operating models.
- Integrate digital pure players into the company's supplier ecosystem.

## EXHIBIT 1: THE NUMBER OF BANK BRANCHES IS DECLINING IN DEVELOPED COUNTRIES (2011–2016)



1\* 2015 data; 2\* 2014 data

Source: SNL, U.S. Census Bureau, ECB, Tradingeconomics, UBS

### What steps can procurement take in supporting the digitization of businesses to maximize cost performance?

Procurement directors face a difficult equation: In high-performing organizations, many of the more obvious – and easy – savings opportunities have already been tackled. Yet the challenge to find greater performance levers and increase overall savings is never-ending. For most advanced companies, having mastered demand management levers, there is seemingly little improvement that can be made in the short term.

In an era of digital transformation, many more opportunities for savings exist. Indeed, we could provide an almost endless list, if needed. Briefly, here are some examples that we find particularly compelling.

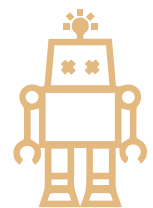
### Digital client relationship

E-commerce, online banking, digital marketing, connected objects, robotics, artificial intelligence, 3D printing, and drones: The digital world and its host of innovative technologies offer businesses unprecedented opportunities to rethink their practices and operate with completely new cost structures that are more attractive than previous models.

Retail distributors and banks, for instance, are reducing their branch footprints in favor of e-commerce and online banking. Walmart, the American retail giant, closed 269 stores in 2016, including 154 in the United States; HSBC closed 321 branches in 2015 and 2016, 27 percent of its network.

Conversely, e-commerce pure players are getting into physical distribution. A striking

▲  
**ADVANCED  
ROBOTICS  
IN HOSPITALITY**  
THE HENN-NA  
HOTEL.  
JAPAN 2016

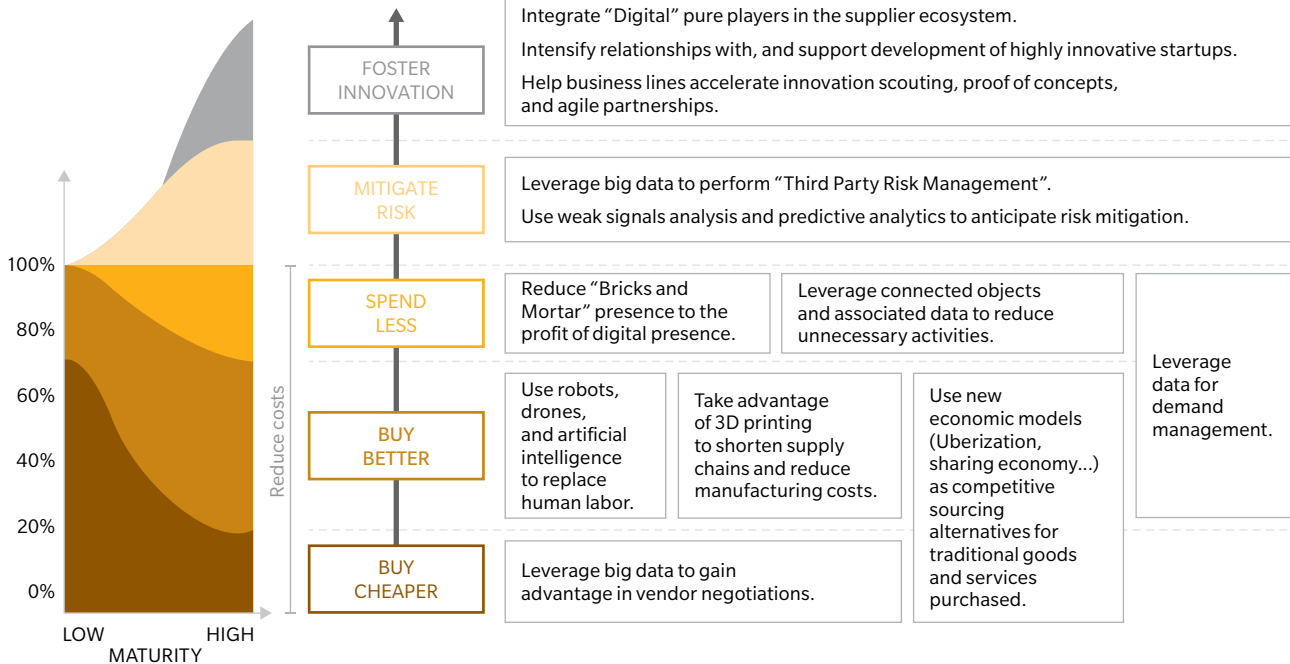


**90%**  
of all tasks  
and activities  
robotized

## EXHIBIT 2: NEXT FRONTIER OF PROCUREMENT PERFORMANCE THANKS TO DIGITAL

CROSSING THE NEXT FRONTIER OF PERFORMANCE...

...REQUIRES MAKING THE MOST OF ALL DIGITAL TRENDS



Source: Oliver Wyman analysis

example is Amazon's Amazon Go concept store, opened in Seattle in 2016, which foregoes cash registers and cashiers. Amazon Go is supported by an impressive combination of technologies that leverage mobility, the digital and social consumer ecosystem, connected objects, captors, radio-frequency identification (RFID), and big data with machine-learning algorithms.

### Robots, drones, and artificial intelligence

Robots are replacing human labor, performing tasks once considered beyond their capabilities, including customer-facing functions. These trends are particularly prevalent in industry (collaborative robots) and logistics (AGV – "auto-guided vehicles", such as autonomous handling equipment), as well as shipping (self-driving trucks).

The use of robots is also moving forward in the service sector. For example, the Pepper robot developed jointly with startup Aldebaran, performs hospitality functions in European stations. Pepper can detect the presence of travelers in a station, welcome them, assist them in finding information about their journey, gather data concerning their satisfaction, and more. In the hotel sector, a striking example of robotics utilization is Japan's Henn-na Hotel, where 90 percent of personnel functions have been robotized.

Drones are revolutionizing the surveillance of infrastructures that are difficult or hazardous to access. An example of this is in the telecommunications and electrical industries where teams currently must be on site simply to make observations and, if they are necessary, transport resources by helicopter (a very costly proposition).



## PREVENTATIVE MAINTENANCE AND INTERNET OF THINGS EXAMPLES OF INDUCED BENEFITS

### \$71 million saved

on road network maintenance costs in Cambridge, Canada, after a predictive maintenance policy was established to inspect roads only when necessary.

### \$1 million saved

by a construction equipment manufacturer in just two weeks using preventative maintenance to identify problems and take preventative measures before problems occurred (reducing downtime and repair costs).

### 36% fewer

service calls by customers of a water utility, following the establishment of a preventative maintenance policy and automated water meter reading.

## Connected objects

The Internet of Things (IoT) offers numerous opportunities yet to be unexplored. For example, the growing capabilities of mechanical equipment to self-detect defects and send out relevant notifications allows maintenance resources to be mobilized on an as-needed basis. These resources can then be reallocated to higher-yield initiatives. Notably, BP, the oil and gas giant, has engaged with such technologies.

A great many applications have also been developed to save energy in commercial buildings (most notably by AT&T), as well as in industrial processes and infrastructures.

## 3D printing

In the fields of maintenance, engineering, and construction, 3D printing radically reduces the cost of prototyping (Ford), spare parts (Daimler, Airbus, and GE), and even raw materials (in many construction companies). Traditional logistical models may well be disrupted by the ability to manufacture products on demand and closer to usage sites, thereby reducing storage needs.

These examples are but a few of the seemingly infinite number of new opportunities to reduce costs and improve performance.

**For procurement directors, the game is on: Performance improvement can be supported through a variety of novel means, and these must be harnessed.**

Much of this is still at an experimental stage. And, certainly, challenges remain and questions need to be answered as we move forward into the era of digital transformation. For example, internal stakeholders in business lines may be unwilling to take on new risks that affect existing business. Buyers, unfamiliar with current innovations, may not be incentivized to scout out advances and build partnerships with innovative startups; they may fail to challenge historical suppliers as to their digital capabilities.

Procurement may also find adoption of new emerging technologies difficult, especially where their cost-effectiveness and overall positive influence has not been well established. Finally, new suppliers and providers may have scant track records and thus pose significant risks in partnerships.

**How can procurement position itself as a key partner to business in fostering and accelerating digital transformation, and in capturing cost benefits?**

To effectively support business lines in transforming for the digital age, procurement must be active on a number of fronts:

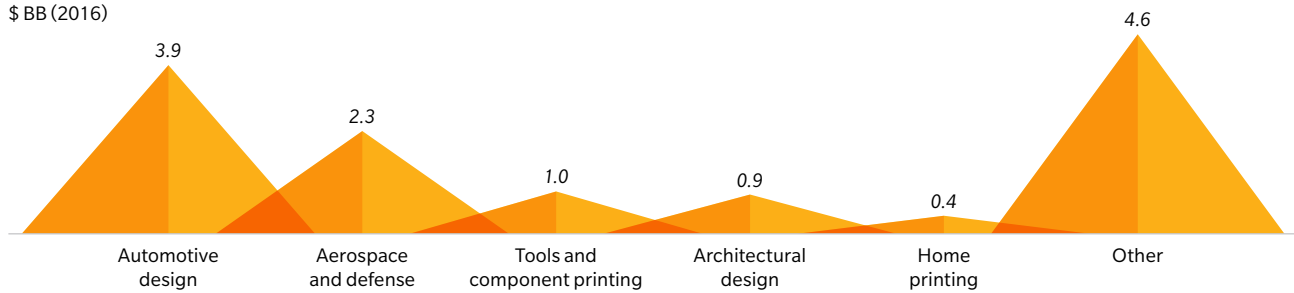
**A LEADING FRENCH BANK CREATED A START-UP ACCELERATOR TO SUPPORT**



**300** start-ups in seven different villages

## EXHIBIT 3: 3D PRINTING MARKET

\$ BB (2016)



Source: IDC's 3D Printing Spending Guide (2017)

### CASE STUDY

#### A FULLY DIGITAL TEMP AGENCY: SHAKING THINGS UP IN A SLEEPY INDUSTRY

The young French startup QAPA, founded in 2011, has just raised a fresh funds of €11 M to accelerate the development of its fully digital temp agency.

**The temp market in France has traditionally been dominated by three major players**, which have captured about 60 percent of a market estimated at €25 billion. In this configuration, industry leaders are unlikely to initiate an innovative approach, disruptive to their market and enabling clients to optimize costs. Professional buyers know this: Margins are low and profitability is tied to volume, which strengthens the position of historical leaders relative to newcomers.

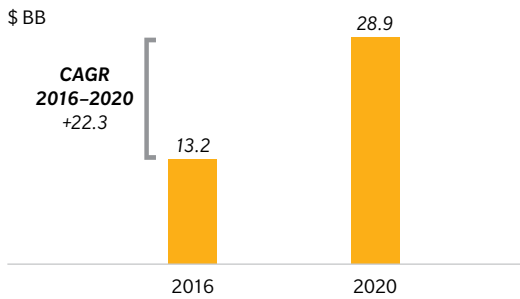
**The arrival of QAPA in the industry** with the promise of a “commission half that of traditional temp agencies<sup>1</sup>” could reshuffle the deck and pave the way for fresh competition, tipping the competitive balance in favor of big clients.

**This typical example shows that procurement must be able** to identify newcomers (offering robustness, technical and economic relevance, and sustainability) who are likely to create new performance opportunities, support them in their development (co-development, proof of concept, participation in financing), and challenge historical players to shift their economic models. They must do this in order to capture some of the benefits of digitization from these suppliers, who will continue to represent a significant share of spending for the foreseeable future.<sup>1</sup>

<sup>1</sup> Source: QAPA

- IDENTIFY AND COMMUNICATE A FULL RANGE OF NEW OPPORTUNITIES TO BUSINESS LINES by engaging in constant technological and market intelligence and closely collaborating with prescribers.
- QUANTIFY AND QUALIFY OPPORTUNITIES in terms of performance objectives, complexity of execution, risks, and supplier targeting.
- PROVIDE AGILE SUPPORT TO BUSINESS LINES BY ENABLING MULTIPLICATION OF PROOF OF CONCEPTS, and communicate successes to institutionalize the integration of new opportunities into technical purchasing strategies.
- CONFORM TO BUSINESS LINE PROJECTS: Many discussions are initiated directly by business lines with innovative digital suppliers, and procurement must avoid adding complexity to nascent processes. The objective should be to adopt the simplest, most flexible, and most agile processes conducive to innovation integration. Traditional processes should not be imposed on existing relationships. Procurement should also take the lead on some emblematic projects.
- IDENTIFY INNOVATIVE NEWCOMERS: Purchasing must monitor and, in some cases, even support the development of new firms to capture valuable innovations. The task is particularly complex, given the multitude of pure digital players and their rapid trajectories (toward success as well

#### EXHIBIT 4: RISING 3D PRINTING SPEND BY 2020



Source: IDC's 3D Printing Spending Guide (2017)

as failure). This complexity is only amplified for companies operating on a global scale. Some purchasing departments have established a "100 startups" watch list; others have set up arms for in-house capital funding and knowledge-sharing tools.

- **STREAMLINE PROCESSES FOR RELATIONS WITH PURE PLAYERS:** Here again, the objective is to establish simple, flexible, iterative processes specific to discovery environments. Companies must identify and target the objectives typical of this new kind of relationship, such as development funding, intellectual property, and payment terms. Simultaneously, they must avoid cumbersome RFI/RFP processes or risk driving innovative newcomers toward more agile competitors. All relationships with startups and any valuable idea they might develop should be aggregated and shared across the company to ensure the broadest access to innovation and foster intellectual cross-fertilization.
- **STIMULATE HISTORICAL SUPPLIERS:** Encourage suppliers to develop their digital capabilities and enhance their competitiveness. This is will be particularly challenging, as historical players rarely initiate digital transformations unless forced to do so by industry newcomers.

#### CASE STUDY

##### NEW DIGITAL PLAYERS CHALLENGES FOR BUYERS

Many services delivered by pure digital players depend on "As-a-Service" offerings with cloud-based infrastructure. This is particularly true for IT services and solutions, and will not fail to create new challenges for buyers:

**New price models:** Usage-based pricing is becoming commonplace, with a wide variety of corresponding metrics (such as by user, by transaction, by usage time, by data volume). The notion of total cost of ownership (TCO) is changing profoundly and may be much more complex to evaluate because it is directly dependent on usage demand, something that is often difficult to predict. Moreover, the risks of "shadow procurement" are rising as prescribers can buy new on-demand services outside of all control.

**Data property and protection:** Company data is stored and managed by third parties outside the organization. In this context, the question of data ownership becomes central. In many supplier business models, this factor is part of the equation, because it creates value. Buyers must thus be careful to ensure that data remains their property at all times. If a form of ownership is conceded to service suppliers, buyers must make sure that this is specifically taken into account in the economic equation, and that the supplier operates according to the best security and ethical standards with regard to the sensitivity of the entrusted data.

**Supplier dependency:** The use of cloud-based services makes migration processes more complex, because infrastructures are leveraged by the supplier and not by the client. This situation demands tighter integration with third parties, and in the process, reinforces supplier dependency, which was already great in some domains (such as IT). For buyers, bargaining power and dynamics are becoming more complex, levers and arguments are changing, and exposure to price hikes is greater than in situations where all solutions are supported by company-owned and-operated infrastructures.

##### KEY TAKEAWAYS

- Digital trends are enabling major transformations in operating cost structures.
- There are tremendous opportunities for mature procurement organizations to cross the next frontier of performance generation and value creation.
- This requires engaging closely with internal stakeholders in business lines, quickly with innovative new vendors, and strongly with historical suppliers.