



INNOVATIVE STARTUPS ARE SHAPING THE FUTURE OF PROCUREMENT

HOW MANUFACTURING INDUSTRIES
CAN PROFIT FROM STARTUPS

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Startups are changing every aspect of the manufacturing landscape – and procurement is no exception. To exploit the potential of these lean companies, incumbents should build long-term partnerships with these young and emerging companies and learn to work with them in a flexible and pragmatic way.

In less than five years, startups have become powerful catalysts for innovation and digitization. Almost every sector has been affected by a wave of disruption driven by these innovators, and many incumbent companies have carried out initiatives involving them. Little scrutiny, however, has been given to startups that are addressing the needs of specific business processes, such as procurement.

While incumbents have every reason to fear disruptors that threaten their industry, they ought to welcome the increase in the number of procurement startups as an opportunity for value creation. The primary responsibilities of procurement leaders within incumbent companies are to identify the most promising solutions to key operational challenges and improve the procurement function. In this way, they add value to the company beyond traditional cost savings, while reinforcing their role as business partners.

PROCUREMENT STARTUPS: A RECENT BOOM IN FUNDING

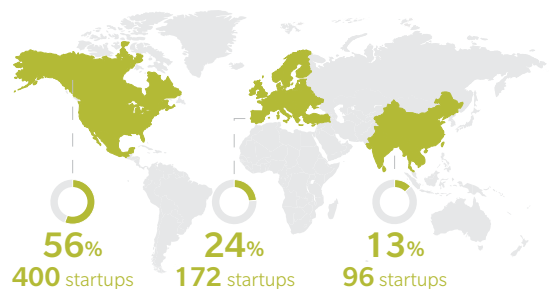
Most of the disruptors (amounting to 356 startups, or US\$1.9 billion of funding) offer procurement solutions, ranging from firms dealing with the complete source-to-pay process, to those focusing only on specific steps of the procurement value chain, such as supplier scouting, tender management, or payment. (See Exhibit 1.)

Exhibit 1: Procurement startups landscape by cluster and region

FUNDING AND NUMBER OF STARTUPS
2001 TO 2017

Clusters	Total funding	Number
Procurement solutions	\$1,868 MM	356
B2B marketplace	\$692 MM	173
Digital procurement	\$359 MM	61
Service providers	\$44 MM	125
Σ	\$2,963 MM	715

NUMBER OF STARTUPS FOUNDED BY REGION
2001 TO 2017



Source: Crunchbase, Capital IQ, Quid, Oliver Wyman analysis

Consolidation within this cluster of procurement startups is already underway via incumbents such as SAP Ariba and Ivalua or through younger companies such as Coupa or Tradeshift. Meanwhile, innovators formed in the past few years have intensified competition by improving the user experience and enhancing the collaboration capabilities of their offerings. Other newly founded ventures have opted to focus on very specific customer groups, such as small and medium-size enterprises (SMEs) or particular industries.

Several of these new companies seek to solve procurement issues common among large industrial manufacturers. Some provide an integrated platform for strategic sourcing, facilitating RFX through intuitive and seamless experience. Innovative newcomers such as Haizol or Syncfab, in the B2B market place segment, provide on-demand manufacturing of industrial parts, while others in the advanced analytics cluster, such as Elementum or Celonis, provide manufacturers with real-time view and analysis of their supply chain processes.

ADVANCED PROCUREMENT ANALYTICS: THE NEW FRONTIER

The most recent companies offer innovative solutions involving machine learning, big data or blockchain technologies. A dozen new firms, located in Europe, the US, and Asia, are building artificial intelligence (AI) platforms that can automate the cleansing and classification of structured and unstructured procurement data from multiple sources and many formats. They provide clients with a comprehensive and consolidated view of their total procurement expenditure, together with its evolution in real time.

Apart from drastically reducing the time and burden involved in building the databases, these AI platforms offer procurement teams a clear view of both expenditure per category and supplier performance, with the level of granularity adapted to the needs of the particular procurement function. By applying advanced analytics and visualization techniques to such comprehensive data sets, they allow procurement leaders to identify cost-saving opportunities through predictive models or to detect anomalies and risks in their supplier base.

When looking for innovative solutions, procurement leaders should not limit their search to new ventures with a primary focus on procurement. We have identified many outfits offering advanced analytics solutions with a scope broader than just procurement. In some cases, their founders did not have any procurement focus at all when they launched their business. As their companies developed, they discovered that their machine learning-based solutions would have a tremendous impact on the procurement function.

BUILDING WINNING PARTNERSHIPS

Given the multitude of new firms and the variety of solutions and technologies offered, procurement leaders can tap into a pool of opportunities for innovation and performance improvement. But to exploit the full potential of collaboration, chief procurement officers (CPOs) must ensure that they are building a successful long-term partnership. Identifying and selecting the startups to work with – based on their innovation potential and whether their solutions are both significant and robust – is just the first and probably the easiest part of the journey.

Successful collaboration depends on being able to work closely with selected companies in a flexible and pragmatic way. Startups and incumbents must cooperate together, focusing on one step after another: co-creation; fast prototyping or customization of the solution; test and learn with users to validate and adjust the end product and rapid scaling.

Leading procurement organizations have already acquired significant experience in implementing successful proof-of-concept initiatives, and have transformed these experiments into full-scale solutions. Some rely on dedicated units or procurement innovation labs, while others set specific objectives to ensure that they regularly test new ideas and solutions and incorporate innovations into business as usual.

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It is important that CPOs also understand how startups differ from the more established companies they have grown accustomed to working with, and adapt processes to avoid administrative and structural barriers that diminish the potential for value creation. Given that the new companies are relatively small and have few resources, there are certain key success factors for those corporates wanting to engineer a successful collaboration: lean processes, a rapid decision-making procedure, direct access to decision makers, and sufficient corporate support to allow the scaling up of the solution.

In the course of our study, one CPO of a worldwide technology company summarized the change that needs to take place. “Buyers must understand that they cannot work in the same way as they have in the past,” he told us. “Leading corporations now focus their attention on digital leadership and prototyping as a way of instilling a startup culture within their organization. Procurement leaders must therefore constantly try out new ideas over a very short space of time, then accept any failures, and learn from them.”

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