What IS a "Procurement Transformation"?

Iron Mountain
Linda Behan
Chief Procurement Officer

The Hackett Group
Geoff Peters
Principal, Strategy & Business Transformation
Procurement Transformation – Overused and Poorly Defined

Linda Behan – CPO, Iron Mountain
Geoff Peters – Principal, Strategy & Business Transformation

October 2018
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- Introductions
- Iron Mountain
- The Hackett Group
- Transformation – What is It?
- Transformation – How do you Measure it?
- Sample Transformations
Leading Today’s Discussion

Linda Behan
SVP and CPO
Iron Mountain

Geoff Peters
Principal
The Hackett Group
Iron Mountain - Overview

Global Footprint

Revenue: $3.9B\(^{(3)}\)
Adj. Gross Profit: $2.2B\(^{(3)}\)

Our Capabilities

53 COUNTRIES

6 CONTINENTS

225,000+ customers
95% Fortune 1000 companies
87MM SF of real estate
1,400+ Facilities

Note: Statistics as of 9/30/17 unless otherwise stated

(1) Other revenues include Fulfillment Services, Information Governance and Digital Solutions, Technology, Escrow Services, Data Center, Consulting, Entertainment Services, Fine Art Storage, Consumer Storage and other ancillary services.

(2) Based on annualized Q3 2017.
Hackett Leverages its Database of Benchmark Data to Help Measure Transformational Performance

Hackett Procurement Value Grid™

**EFFECTIVENESS**
- Economic return
- Role of procurement
- Process quality
- Supplier leverage & performance
- Information & analysis
- Business Integration

**Examples:**
- Total spend cost reduction and avoidance as a % of spend
- % of suppliers comprising top 80% of spend
- % of transactions requiring post-issuance (i.e., rework) activity
- % of total spend under procurement management influence
- Internal customer satisfaction rating

**EFFICIENCY**
- Process costs
- Staffing levels
- Productivity
- Cycle times
- Technology leverage
- Cost per transaction

**Examples:**
- Cost as a % of spend
  - By Geography, Business Unit
- FTEs per $1B of spend
- # of POs processed per FTE
- PO processing cycle time
- Staff time allocation by process
- Ratio of labor to technology cost
Introduction

The most overused word in the current procurement lexicon is

“Transformation”
At Recent Summits, We Have Heard About all Sorts of Transformations

- P2P *Transformation* by Inviting Everyone to Play
- Supplier Governance *Transformation*
- *The Key to a Successful Business Transformation*
- *Transforming the Talent Supply Chain*
- *Run and Transform Application Services*
- Implementing *Transformational* P2P Systems
- Funding your *Transformation*
- Procurement Contract *Transformation*
- The Procurement *Transformation* Journey
- *Transformational* Procurement Outsourcing
- *Transformational* Leadership
- Sourcing *Transformations* that Drive Business and Strategic Objectives
There Have Been A Number Of Formal Definitions Suggested

"An holistic approach to improving all aspects of a procurement operation for improved results and long term sustainability".

- The Denali Group

Procurement transformation refers to a specific type of organizational change management which focuses on strategies to enable major and long-term improvements to procurement and supply management processes, activities and relationships

- Day and Atkinson, 2004

For me procurement transformation has to be about a step change in the process of procurement across the whole organisation. Any programme that purely focuses on transforming the procurement team and its activities will never achieve the objectives most organizations would have for such a change programme.

- Alison Smith 2012
SourceOne Suggests That Transformation Is Defined By Where a Company Is In Its Lifecycle

**FORTUNE 500 COMPANIES**
Cost reduction remains a priority, but digitalization, stakeholder collaboration, and talent management continually grow more important. It’s the perfect time to assess your current state and develop a vision of where you want to be.

**FORTUNE 500 TO 1000 COMPANIES**
You represent the “sweet spot” for transforming. In all likelihood, you’ve been growing for some time. You need to keep up the pace to bring more value to your stakeholders.

**PUBLIC ENTITIES**
Procurement means something different to you. You’ve got to ensure your stakeholders, communities, and rate payers that you’re doing all you can to spend wisely and manage costs. Yes, it’s possible to transform within the boundaries set by state and regional codes.

**COMPANIES AT RISK**
Nothing drives a transformation better than a sense of urgency. This is true whether you’re in abject peril or simply lagging the competition. Take time to assess your operations and develop a concise plan of action.

**MID-SIZE ENTERPRISES**
With a stable, clearly defined process, you can start to assess your operations and implement accordingly. Now’s the time to invest in the people and technology your organization needs to grow.

**SMALL BUSINESSES**
Transformation may be an overreach. You’ve still got an opportunity to conduct research and begin implementing best practices

... so it means different things to different people
Procurement Transformation is the PLUS Across all Elements That Makes it More Than Just Incremental Improvement

Source: The Hackett Group

...Let’s Talk About What This Means
Transforming Service Design: What Will Change and How Will it Happen?

- Sourcing teams will continue to move toward true global category management with wider deployment and implementation of category lead approaches.

- The market will expand and enhance offerings in automated/next generation category and sourcing tools.

- Data must be real time, rich, mobile, connected in the cloud, and available to all stakeholders across the enterprise.

- More activities will be automated, technology will enhance roles data, with a “digital category assistant” to predict activities, suggest opportunities, and recommend strategy.

- Category managers will utilize “Category Cockpit” views:
  - Global teams will drive category strategies and cross-functional interactions.
  - Provides visibility and feedback of local implementations. Who is executing, how is it proceeding, project stage and results.
  - Addresses challenges: Visibility, clarifies mixed accountabilities, confirms value delivery.
Transforming Analytics and Information Management: Get Started by Understanding Where to Focus Investment

1. Understand where to focus the Big Data investments
2. Top management approval for investment in Big Data
3. Get business units to share information across the organization
4. Build high level of trust between data scientists & functional managers
5. Find optimal way to organize Big Data activities
6. Determine what data to use for different business decisions
7. Put analysis in a presentable form for making decisions
8. Determine what to do with the insights created from Big Data

Able to handle volume, velocity, variety
Find & hire data scientists for value creation

Top three Big Data use case that have the greatest potential in procurement:

- Collect and analyze new forms of category market intelligence: 42%
- Conduct spend analysis leveraging unstructured sources (e.g., maverick and tail spend buying): 39%
- Track real-time supplier risk and performance metrics: 34%
### Transforming Technology To Impact the Full Sourcing Process

- **Today spend analytics can** in a highly automated way identify opportunities for defined parameters
- **Future sourcing effort will** be aligned on a risk and value basis, to provide best commercial value
- **Higher value: Smart tools** enhance insight and decision making
- **Lower value: smart tools** execute, with teams handling exceptions and approving decisions

<table>
<thead>
<tr>
<th>Profile Category</th>
<th>Develop Sourcing Strategy</th>
<th>Go-to-Market</th>
<th>Evaluate And Negotiate</th>
<th>Award And Transition</th>
<th>Manage Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure and mobilize sourcing team</td>
<td>Set sourcing objectives</td>
<td>Supplier assessment preparation</td>
<td>RFP Supplier Evaluation</td>
<td>Award Business</td>
<td>Manage Supplier Performance</td>
</tr>
<tr>
<td>Profile Demand</td>
<td>Develop sourcing strategy</td>
<td>Research/RFI to add bidding process</td>
<td>Finalize sourcing plan</td>
<td>Plan Supply Transition</td>
<td></td>
</tr>
<tr>
<td>Profile Supply Market</td>
<td>Finalize targets &amp; success criteria</td>
<td>Negotiation plan &amp; execution</td>
<td>Develop Scorecards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop cost model</td>
<td>Obtain stakeholder approval</td>
<td>Select suppliers</td>
<td>Execute Transition</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Establish SRM Governance</td>
</tr>
</tbody>
</table>

- **Digital Enhancement**
  - Project team includes cognitive team member for support
  - Cognitive tools run, enhance, and enrich data based on previous learnings, then analyze, and recommend opportunities.
  - Based on parameters, cognitive tool picks from standard set of digital sourcing approaches and toolsets.
  - Cognitive agent recommends strategy based on Q&A with team member.
  - Cognitive tools apply standard approaches
  - Automated supplier e-discovery and e-sourcing tools.
  - Low value or 3 bid & buy fully automated.
  - Team effort only where commercial advantage
  - Selection based on big data benchmarking or historical analysis.

Source: The Hackett Group

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Transforming Technology: New and Emerging Digital Technologies are Positioned for Growth

Percent of Procurement orgs planning to implement in 2-3 years

- Cloud/SaaS: 80%
- Adv. Analytics: 76%
- Mobile: 68%
- Collaboration: 65%
- RPA: 51%
- Int of Things: 37%
- Cognitive/Al: 33%

Source: Key Issues Study, The Hackett Group, 2018
Transforming Organization and Governance: Procurement’s Operating Model from Today to the Future

- Leadership and strategy focus
- Physically collocated with key executive stakeholders but mobile

- More scope, fewer people, new digital worker colleagues (RPA/AI)
- Touchless digital processing

Sourcing / Category Mgmt | Business Partners | Competency And Programs | Buyers / Operations
--- | --- | --- | ---
Value Category Mgmt | Supplier Lifecycle Mgmt | Innovation Scouts | Operations (Exception Mgmt)
### Other Outsourcing Research and Observations

- On balance, procurement organizations are taking some reporting, analytics and strategic sourcing work back in house, motivated by either recognition of the strategic nature of these processes or dissatisfaction with supplier performance.
- Tactical sourcing, with 31% of organizations looking to increase outsourcing is the only process that will see more procurement organizations increase outsourcing levels than decreasing it.
- While technology tool support and PO processing will see net decline, the percentage of procurement organization increasing outsourcing levels of catalog and item master maintenance, supplier master maintenance and contract master maintenance will exceed those planning to decrease for all three processes.
- However, for all procurement processes, most organizations plan to keep outsourcing levels unchanged.

### Outsourcing level and increases over the next 2–3 years

<table>
<thead>
<tr>
<th>Procurement Process</th>
<th>Current Outsourcing Level</th>
<th>Increase in Outsourcing Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply market intelligence</td>
<td>31%</td>
<td>8%</td>
</tr>
<tr>
<td>Sourcing technology support</td>
<td>26%</td>
<td>5%</td>
</tr>
<tr>
<td>Tactical Sourcing for indirect materials and services</td>
<td>21%</td>
<td>5%</td>
</tr>
<tr>
<td>Requisition and PO processing activities</td>
<td>19%</td>
<td>6%</td>
</tr>
<tr>
<td>Supplier support / help desk</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>Analytics</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Internal customer / requisitioner support / help desk</td>
<td>18%</td>
<td>2%</td>
</tr>
<tr>
<td>Supply master data maintenance</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Supplier performance measurement</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>Category management and strategic sourcing of direct spend</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

- **Currently supported by a BPO partner (some or all activity)**
- **Not currently outsourced, but plan to outsource all or part within 2-3 years**

Source: BPO Study, 2018 Key Issues Study, The Hackett Group
Transforming Human Capital: Thriving in the Digitally Enabled Workforce Will Require These Six Skills

Data Analysis and Modeling
- Process data and extract relevant information
- Knowledge of analytical tools and methodologies
- Translates analyses into actionable plans

Business Acumen
- Understand key business drivers
- Knowledge of factors, priorities and business demands
- Identify problems and prioritize alternatives

Strategic Mindset
- Develop strategic frameworks and visions
- Anticipates market changes
- Address challenges and outline future direction

Relationship Management
- Advanced interpersonal skills
- Positively influence decisions
- Open and approachable

Savings and Financial Analysis
- Translate savings and value improvements to P&L impact
- Develop tools to track, measure and forecast savings
- Analyze supplier financial statements for detailed insights

Supply Risk Management Expertise
- Assess and prioritize business and category-specific risks
- Measure, prioritize, and address risk
- Develop risk mitigation plans for high-priority drivers

For more read: Six Critical Skills for Procurement to Succeed in a Digital World
To Transform Procurement, We have to

A. Define it – what is in Procurement?

B. Scope it – how big is it, what do we spend?

C. Understand it – what is our current performance level?

D. Establish success – what constitutes a “transformation”
True Procurement Transformation Uses Big, Hairy Words

- Global
- Connected
- Consistent
- Efficient
- Seamless
- Frictionless
- Comprehensive
- Effective
- Transparent
- Timely
- Easy
- Fast
- Friendly
- Partner
- Proactive
Example Procurement Transformation Descriptors – Big Picture

**Before**

- Local/Business Focused
- Multiple Processes
- Duplicative Keying
- Multiple Systems
- Unleveraged Buys
- Many Eyes

**After**

- Global Strategies
- Common Core Processes
- Integrated Systems
- Common Platform
- Rationalized and Leveraged Suppliers
- One Vision
Procurement Transformation Requires a Thoughtful Approach About What, How, and Who – It’s Not Magic!

<table>
<thead>
<tr>
<th>Achievable Vision</th>
<th>Right Team</th>
<th>Aligned Goals</th>
<th>Build Credibility</th>
<th>Operational Refinement</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Understand your company and its core business</td>
<td>✓ Determine key skillsets required for success</td>
<td>✓ Understand the business priorities and measures of success</td>
<td>✓ Communicate with clarity, passion and transparency</td>
<td>✓ Recognize that you are on a continuous journey</td>
</tr>
<tr>
<td>✓ Interview key executives to learn what they currently get and what they actually want from Procurement and Real Estate</td>
<td>✓ Assess current team members against skillsets</td>
<td>✓ Align your team around enabling business performance</td>
<td>✓ Attack the pain points where you can make a difference quickly.</td>
<td>✓ Annually evaluate vision, strategic priorities and key goals</td>
</tr>
<tr>
<td>✓ Interview current CRE and Procurement team members</td>
<td>✓ Establish training and change management programs to close skillset gaps</td>
<td>✓ Establish operating practices that support business decision making objectives</td>
<td>✓ Consensus based success measures</td>
<td>✓ Recognize and reward the right behaviors</td>
</tr>
<tr>
<td>✓ Seek industry guidance</td>
<td>✓ Don’t be afraid to remove team members that are not a fit</td>
<td>✓ Prioritize projects and activities and align resources to drive greatest business value</td>
<td>✓ Accurate data to measure and monitor all success measures</td>
<td>✓ Evaluate your contracts regularly with Service Providers to assure alignment</td>
</tr>
<tr>
<td>✓ Develop and socialize Vision</td>
<td>✓ Hire the right people</td>
<td>✓ Collecting and synthesizing data and information to build appropriate business cases</td>
<td>✓ Deliver on your commitments</td>
<td>✓ Leverage partnerships with Procurement and Service Provider</td>
</tr>
<tr>
<td>✓ Finalize Vison and communication plan</td>
<td></td>
<td>✓ The Transformation Will Only Drive Value if it is Aligned to the Organization’s Strategic Goals</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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The Rubber Meets the Road - What Did Transformational Performance Mean at Iron Mountain?

Where to transform?

- Analyze
  - Strategic Sourcing
  - Category Planning
  - Business and Functional Expertise
  - Reporting & Analytics
  - Market/Supplier Intelligence
- Strategize
  - Strategic Sourcing
  - Category Planning
  - Risk/Compliance
  - Legal Services
  - RFX/Auctioning
- Source
  - Market/Supplier Intelligence
  - Risk/Compliance
  - Legal Services
  - RFX/Auctioning
  - Contract Administration
- Execute
  - Manage
  - Procurement Operations
  - Accounts Payable
  - Technology and Program Management
  - Supplier Performance Management
  - Communications
At Iron Mountain – We Made a Conscious Decision to Invest in Our Strategic Capabilities

Purchasing Cost as a Percentage of Spend

<table>
<thead>
<tr>
<th></th>
<th>Non-WC</th>
<th>World Class</th>
<th>Non-WC *</th>
<th>World Class *</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sourcing Execution</td>
<td>0.14%</td>
<td>0.11%</td>
<td>$1,370,000</td>
<td>$1,100,000</td>
<td>-20%</td>
</tr>
<tr>
<td>Sourcing &amp; Supply Base Strategy</td>
<td>0.04%</td>
<td>0.05%</td>
<td>$950,000</td>
<td>$1,290,000</td>
<td>36%</td>
</tr>
<tr>
<td>Product Dev and Design Support</td>
<td>0.01%</td>
<td>0.02%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier Mgmt &amp; Dev</td>
<td>0.05%</td>
<td>0.06%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Req to P.O. Processing</td>
<td>0.08%</td>
<td>0.05%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier Scheduling</td>
<td>0.02%</td>
<td>0.02%</td>
<td>$1,770,000</td>
<td>$1,010,000</td>
<td>-43%</td>
</tr>
<tr>
<td>Supplier Data Mgmt</td>
<td>0.03%</td>
<td>0.02%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipt Processing</td>
<td>0.04%</td>
<td>0.02%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance Mgmt</td>
<td>0.03%</td>
<td>0.03%</td>
<td>$920,000</td>
<td>$840,000</td>
<td>-9%</td>
</tr>
<tr>
<td>Functional Strat &amp; Perf Mgmt</td>
<td>0.06%</td>
<td>0.06%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Mgmt</td>
<td>0.06%</td>
<td>0.04%</td>
<td>$560,000</td>
<td>$440,000</td>
<td>-21%</td>
</tr>
</tbody>
</table>

* per $1 billion in indirect spend

Where to transform…. World Class companies invest to drive transformation

Source: The Hackett Group
And Our Results Reflected Significant Performance Improvement on Key Metrics, at a Reduced Cost

- 25% reduction in overall Procurement budget
- 80% increase in direct and indirect resources
- 3x increase in information and enabling technology
- 144% of goal 7.2 X ROI

The results can more than double the areas under sourcing management in two years with reductions in overall budget

Cumulative Savings Goal

- $6 M 60 $1 M
- $4 M 40 $750 K
- $2 M 20 $500 K
- $0 M 0 $250

- Procurement Operating Budget
- Procurement Investment in direct & indirect headcount
- Procurement Investment in Information & Enabling Technology

US - 2011/12 Projects
US - 2013 Projects
IME 2012/13
IME New 2014
US - 2014 Projects
3-Yr US Target

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What Does Transformational – Procurement Performance Look Like??

Increased effectiveness levels delivered to your business at lower cost

<table>
<thead>
<tr>
<th>Finance</th>
<th>Procurement</th>
<th>Human Resource</th>
<th>Information Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>More customers view</td>
<td>Higher ROI Payback 10.4x</td>
<td>More employees served per</td>
<td>Higher % projects meeting</td>
</tr>
<tr>
<td>finance as valued partner</td>
<td></td>
<td>HR FTE 44%</td>
<td>ROI 138%</td>
</tr>
<tr>
<td>$338M</td>
<td></td>
<td></td>
<td>Application projects started</td>
</tr>
<tr>
<td>Cash flow opportunity</td>
<td>22% More sourcing savings</td>
<td></td>
<td>in last one year</td>
</tr>
<tr>
<td>for peer group</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organizations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More tax savings</td>
<td>Cost increase in digital</td>
<td>Less total cost of</td>
<td>Fewer technology platforms</td>
</tr>
<tr>
<td>per tax domain</td>
<td>transformation technology 64%</td>
<td>workforce 19%</td>
<td>supported 7x</td>
</tr>
<tr>
<td>225%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have a digital</td>
<td>58% More transactions through</td>
<td>Have HCM analytics group</td>
<td>Infra projects are handled by</td>
</tr>
<tr>
<td>transformation strategy</td>
<td>electronic catalogs</td>
<td>up and running 63%</td>
<td>specialists 75%</td>
</tr>
<tr>
<td>89%</td>
<td></td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Lesser cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>225%</td>
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</tbody>
</table>

Source: The Hackett Group’s SG&A Benchmark Database

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In Conclusion

Think Across All Procurement-Related Processes

Global, Common Strategies And Processes Are Your Friend

Invest In Your Team And Their Capabilities

Technology Is An Enabler – Not A Solution

Measure Your Current And Future Performance
Presenters

The Hackett Group
Geoff Peters
Principal
gpeters@thehackettgroup.com

Iron Mountain
Linda Behan
SVP, Global Procurement
linda.behan@ironmountain.com
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