

The platformization of procurement

WITH
CASE STUDIES
P. 10



**Three
strategies for
companies**

—
From cost element to
value generator

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In a nutshell

With digital disruption sweeping across industries like a tidal wave, companies can no longer assume that their established procurement processes will be successful. In the not-too-distant future, procurement as we know it today will cease to exist. This presents companies with a challenge, but also with a great opportunity. Procurement platforms offer a number of critical advantages over classic procurement channels, such as lower transaction costs, widespread acceptance by buyers, competitive pricing and an automatically expanding portfolio of products. We identify three strategies for "platformization:" Companies can use a generalist platform, they can partner with a specialist platform, or they can build their own platform – transforming procurement from a cost element to a value generator. Choosing the right strategy, or combination of strategies, is key.

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The endgame for procurement has begun

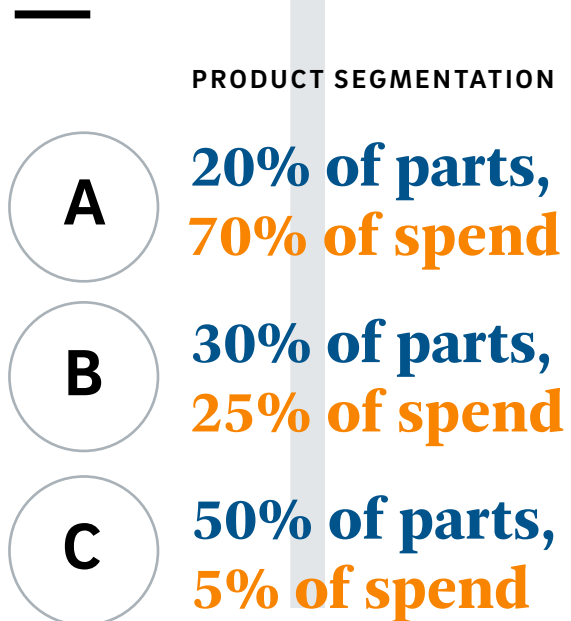
Digital disruption is sweeping across industries, radically changing established structures and calling past success formulas into question. As challenges grow and requirements increase, procurement is also undergoing intense change. The procurement endgame has begun and new opportunities abound for companies bold enough to embrace the transformation.

Procurement as we know it today will cease to exist. The way in which companies create value through their business model and the configuration of their value chain will be reshaped, placing new requirements on procurement. Advances in technology will enable the full digitalization of procurement and real-time transparency across the entire value chain from Tier "X" supplier to customer. Some strategic tasks, many tactical tasks and likely all operational tasks will be automated, often with the help of artificial intelligence.

While some elements of this transformation are still far off on the horizon, others are already affecting the procurement function, such as RPA (robotic process automation) and digital category management. Another critical element in the process of transformation is "platformization," or the use of procurement platforms. Procurement platforms are particularly relevant for the "long tail" of companies' spending – the spending on C parts in an ABC Analysis, where "A" typically represents 20 percent of products and 70 percent of spend, "B" 30 percent of products and 25 percent of spend, "C" 50 percent of parts and five percent of spend. External procurement platforms such as Amazon Business allow companies to outsource a large part of the time-consuming

procurement tasks that are necessary but add little value. This changes the role of the procurement team to one of managing the system and only intervening where necessary, with active steering limited to selected aspects of critical commodities and suppliers.

While the long tail of companies' spending is the most obvious area for using procurement platforms, platforms can in fact go a lot further. Indeed, we believe that platforms will play a critical role in the upcoming transformation of procurement. Chief Procurement Officers and procurement directors should actively drive the process of platformization rather than just awaiting the storm. We have developed three strategies that can help them in this endeavor. We present them on the following pages, alongside concrete case studies.



Classic procurement channels or procurement platforms?

Before we turn to the three strategies, it is worth considering the advantages of procurement platforms over classic procurement channels, which focus on digitalizing and streamlining procurement processes. Procurement platforms by contrast create a paradigm shift in the way firms carry out purchasing transactions. Platforms create value by facilitating exchange between a larger number of buyers and suppliers and letting the market carry out transactions that were done by buyers before. They do this by creating scalable networks of suppliers that can be accessed on demand. Those networks grow over time without the involvement of the procurement team (*see p. 5*).

Procurement platforms have a number of critical advantages over classic procurement channels. First and foremost, they reduce transaction costs: Transactions are highly automated with standard payment and approval loops that simplify administration. In addition, procurement platforms are widely accepted by buyers, especially

younger professionals. Also, while classic procurement channels require an onboarding process for each supplier, on a platform the selection grows automatically and the market mechanism ensures competitive pricing (*see p. 5*).

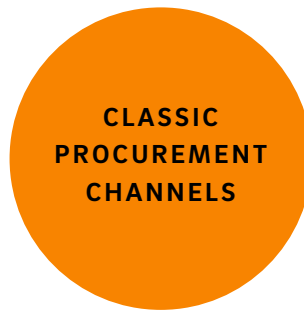
Procurement platforms provide buyers with a good customer experience. This reduces the problem of "maverick spend," whereby divisions other than procurement purchase items rather than ordering them through procurement. Maverick spend is generally caused by one of two factors: Either procurement cannot offer the required item and buyers are forced to look elsewhere, or the actual process of buying via the procurement department is too long and painful for buyers. Procurement platforms address both of these problems, providing a wider selection of goods than was traditionally available and a seamlessly integrated process. As maverick spend falls, transparency of the company's spending increases. Prices also fall as more and more volume is bought via the platform.

The advantages of using platforms for procurement departments don't end there, either. Procurement starts treating buyers like internal customers, focusing on relieving their pain points and creating value. This requires procurement to adopt the right processes, make strategic investments in technology and to secure buy-in from the business. In this regard, procurement platforms therefore represent a way for the procurement function to achieve a truly buyer-centric approach within the organization.

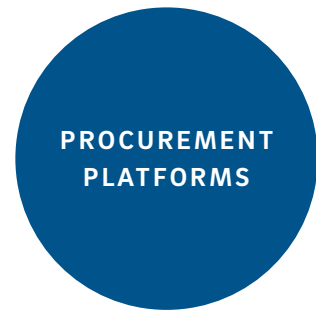
"Platforms are superior to pipelines, because they scale better due to missing gatekeepers."

GEOFFREY G. PARKER, MARSHALL W. VAN ALSTYNE, SANGEET PAUL CHOUDARY

The way forward



VS.



<u>Procurement department</u>	<u>Leverage economies of scale to reduce supply costs</u>	<u>Orchestrate networks to create value for end buyers</u>
Procurement strategy	Reduce supply costs through standardization and economies of scale	Meet buyers' needs, creating a self-regulated supplier ecosystem
Contract management	Yes	No
Pricing	Volumes and contract negotiation led by procurement	Market-based competition between suppliers
<u>Suppliers</u>	<u>Sell to procurement</u>	<u>Sell to end buyers</u>
Supplier selection process	Suppliers selected by procurement and provided to end buyers	Authorized by procurement but selected by end buyers when buying on the platform
Supplier catalog publication and master data management	Procurement team distributes supplier catalogs and inventory internally and is in charge of master data	Each supplier is responsible for its own catalog, inventory and master data on the platform
Price	Discounts based on annual committed volumes	Constantly updated by suppliers in order to stay competitive on the platform
Product information	No need for suppliers to provide rich product information	Need to provide rich product information to increase conversion rate on product pages
Onboarding	Complex, requiring involvement of procurement team	Scalable, suppliers have self-service tools for onboarding
<u>Buyers</u>	<u>Choice controlled by procurement</u>	<u>Possible to choose between different products and suppliers</u>
Buying experience	Partly based on old tools, weak acceptance by buyers	Similar to B2C e-commerce, strong acceptance by buyers

Which channel do you like best?

in percent

Younger professional buyers are more likely to prefer procurement platforms
Preferred buying channel

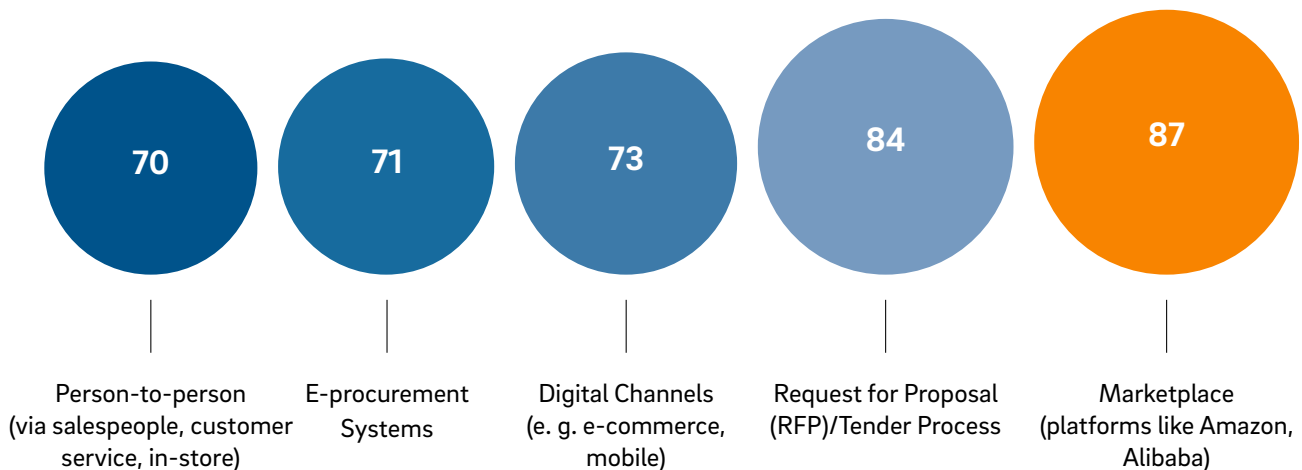
● Millennials ● Baby Boomers



Which channels do you generally use?

in percent

Procurement platforms are the most widely used purchasing channel
Share of professional buyers using different purchasing channels



Three strategies for platformization

We turn now to our three suggested strategies for leveraging the power of procurement platforms to optimize purchasing. Below we discuss each strategy in turn, look at which situation they are relevant in, enumerate their advantages and impacts, and outline the criteria that companies can use to select the right platform or technology (*see p. 8*).

STRATEGY 1

Use a generalist platform

The first strategy is to use a generalist procurement platform for the company's tail spend sourcing. The company selects a platform which is operated by a third party and creates a process for end users (the buyers within the company) to purchase items via the platform. The chosen platform is also used by other businesses who wish to externalize some of their spend. Sourcing suppliers, managing the catalog and operating the platform all lie within the responsibility of the third party. Examples of generalist platforms include B2B marketplaces such as Crowdfox and Amazon Business. Various B2B generalist platforms offer ready-to-use solutions that companies can integrate into their own ERP systems fairly easily via PunchOut catalog functions or even web interfaces.

Strategy 1 is suitable for standardized and low complexity products such as office supplies, standard

IT solutions and cleaning products. It is also appropriate for companies with long tails of spend that are either unmanaged or unjustifiably expensive to manage. By contrast, companies that manage all their spend efficiently may find it more attractive to negotiate with suppliers directly or agree framework contracts.

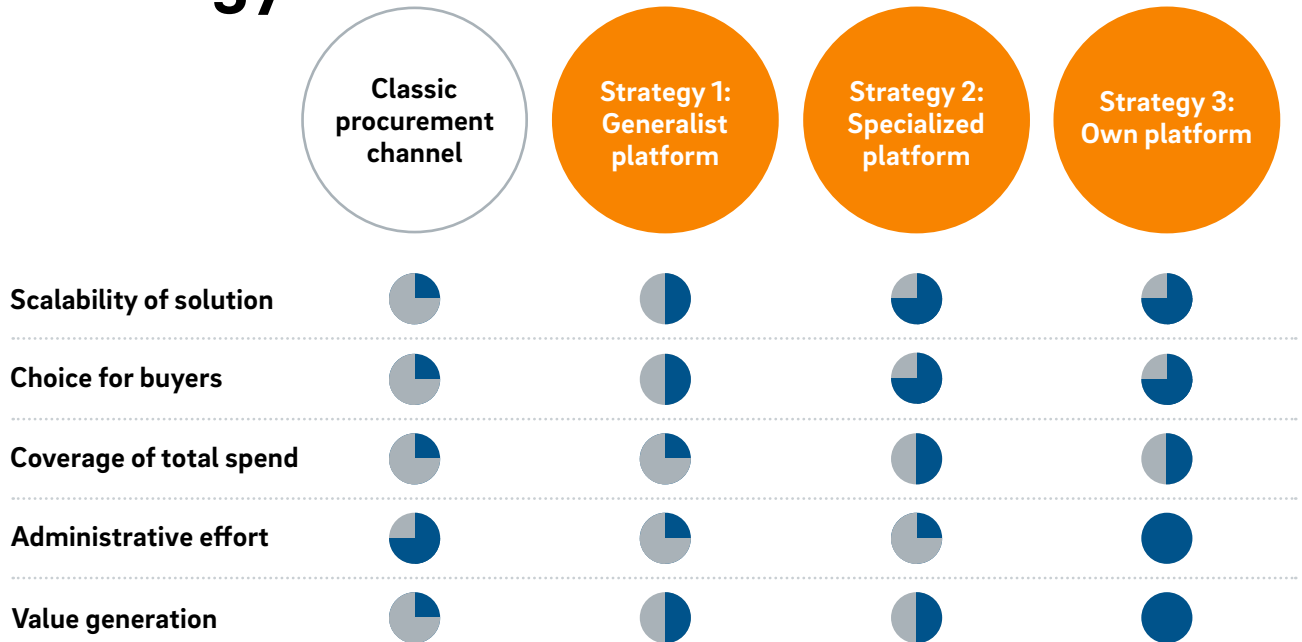
Generalist platforms offer a number of advantages for procurement departments. First, they keep maverick spend to a minimum and make all spend by the company trackable and manageable. Procurement is now in a position to monitor buying volumes and identify when they reach thresholds where they should be managed more closely. Generalist platforms also reduce the auditing costs to companies by standardizing invoice flows and reducing the number of orders and invoices made without POs (purchase orders).

Second, using generalist platforms simplifies the procurement process for both the buying entity within the company (be it marketing, legal, accounts or whoever) and the procurement function. Many products are available directly from the platform and even non-standard items do not need to be requested specially by procurement. The ordering and controlling processes are also simpler. Some firms reduce approval workflows, use blank POs and track budgets later to reduce the process effort even further. Annual renegotiation of contracts also becomes superfluous.

Third, the buying entities within the company can choose from a wider range of products than in the past. They interact with the platforms the same way that consumers interact with online shops, making the buying process easy and enjoyable. This leads to high levels of acceptance by buyers.

Finally, procurement platforms offer competitive prices thanks to the operation of the market mechanism. This happens automatically and is more efficient than having to negotiate and renegotiate prices. The only ►

8 Choose your strategy



Source: Mirakl, Roland Berger

requirement in order for this to function properly is that a critical mass of buyers and sellers use the platform.

Of course, for these advantages to materialize it is vital that the company selects the right platform in the first place. Companies can apply a number of criteria here. For example, the platform's portfolio must be comprehensive, covering all the needs of the buying entities. The prices offered by the platform must also be competitive, which relies on the platform achieving a certain scale. An issue peculiar to platforms is that prices are not fixed but can vary depending on who is participating in

the marketplace. Companies can check if prices are competitive by taking a snapshot of the prices offered or analyzing prices over a set period of time for a sample pool of products. Additional services offered by the platform may also be important, such as limitation of the catalog to a pre-defined selection or special user management.

Another criterion for selecting a procurement platform is whether it can be integrated into the company's own ERP (enterprise resource planning) system. Normally, firms need to be able to integrate the platform via a PunchOut catalog, although some firms use the Web interface of the platform. Adopting this solution for tail spend can sometimes be achieved in less than a month.

Functionality is also an important factor in selecting a platform. The buying entities need to be able to use the platform simply and efficiently so that it requires no further attention from the procurement department. A useful approach for companies is to pilot the chosen procurement platform and measure how effective it is. This is fast and relatively

"Platforms turn companies upside down."

GEOFFREY G. PARKER, MARSHALL W. VAN ALSTYNE, SANGEET PAUL CHOUDARY

inexpensive to do. If the platform fails to deliver the desired results, it can easily be jettisoned.

In the graphic on the following page we look at Amazon Business, possibly the largest and best-known generalist platform. Amazon Business offers a wide range of products, especially in the categories office products, computer and business suppliers, enabling it to meet much of the need in tail spend categories. The web interface is also easy to integrate (*see p. 10*).

STRATEGY 2

Partner with a specialist platform

The second strategy available to companies is to partner with a specialist platform to address additional spend categories and services. Typically, as we move towards the B spend, the company's requirements of the platform change. The platform provider needs to be more of an expert partner than a generic one-stop shop. It could be that more specialized products are required, calling for a curated product portfolio with a special set of products not available on a normal platform – raw materials, packaging, IT products or specific cleaning services, for example. Or it could be that distinct processes are required, such as a special delivery process or a particular audit process. This approach may also include customized negotiation with specific sellers that can then bid on the product.

Companies will often use Strategy 2 for their B spend in combination with Strategy 1 for their C spend. This tactic reduces the effort required by the procurement function when buying more complex products and enables buyers to concentrate on more value-adding tasks. Another advantage of Strategy 2 is that some specialist platforms offer additional services such as specialized or joint auctions or RfQs (requests for quotation) that bundle the power of multiple participants on the platform. The fact that the platform specializes in particular products means that the trading volumes are bigger, resulting in greater competitiveness (bigger volumes mean lower prices). Some specialist platforms

also act as a quality gate, selecting only the best suppliers and products and hence avoiding the risk of inferior products or even fraud.

Companies need to select a specialist procurement platform that has precisely the specialist sellers and products that they require. They should also take into account the additional services added by the platform, such as pooled RfQs, curated product/seller portfolios and special delivery services.

As an example of a specialist procurement platform we can look at stockd., the marketplace that Premier Healthcare plans to launch in June 2019. Stockd. will connect medical practices and care providers with suppliers. The B category items it plans to offer have more critical requirements than C items, so stockd. will audit suppliers and make sure that the products available are legitimate and not sourced via dubious channels (*see p. 10*).

STRATEGY 3

Build your own platform

The third and final strategy is for companies to establish their own platform by building a marketplace which they operate. The platform can either function internally or also serve other firms, turning procurement into a value generator rather than just a cost element in the profit and loss statement.

For Strategy 3 to work, clearly the business needs to be big enough to realize network effects. If internal demand is too low, the marketplace will not attract sellers and will not function efficiently. In this case the company can open up the platform to other market participants and so achieve the necessary scale.

It goes without saying that the market needs to be sufficiently attractive. Before building a marketplace, companies should carry out a thorough evaluation of whether it makes sense to enter the market in the first place. Players such as Amazon Business and Crowdfox already offer a wide se- ►

CASE
STUDY 1

Amazon business

-- Amazon Business is a B2B marketplace with specific features for business buyers. Customers can buy items directly from Amazon or from third-party sellers. Business Prime, a fee-based service, offers free premium, same day and scheduled delivery, spend analytics tools and guided buying.

-- The platform can be integrated into common e-procurement and ERP systems via a PunchOut catalog or more deeply into the ERP system via a direct catalog feed. It supports systems such as SAP Ariba, Coupa, Simeno, Onventis and Plenus.

-- With around 250 million products from around the world and hundreds of thousands of sellers globally, Amazon Business aims to provide easy ordering, a comprehensive product offering and competitive, transparent pricing. Its customers include 50% of the FTSE 100 companies.

CASE
STUDY 2

stockd.

-- stockd. will be launched in June 2019 as a marketplace for healthcare products such as gloves and masks, alongside TVs and computers for medical professionals. It will connect medical practices, hospitals and care providers with sellers via a secure platform featuring transparent prices.

-- Initially 22 sellers will be available, with a total of some 300,000 products. Besides standard and strikethrough pricing, the platform will also offer member pricing.

-- The platform aims to provide a convenient ordering process, a one-stop shop and a curated supplier portfolio. That means that standards will be checked, eliminating the risk of fake or faulty products.

CASE
STUDY 3

Coperama

-- Coperama was founded in 2013 by NH Hotels as a central purchasing organization. The marketplace, also open to non-NH hotels, was added in 2019 offering items such as food, cleaning products and general supplies. Additional services include supporting negotiations with suppliers and pre-scheduled and on-demand tenders.

-- The platform provides a B2C-like buying process for buyers that regularly buy the same items. It aims to achieve better prices thanks to increased competition and optimized supplier selection. It also offers a curated catalog of products, with suppliers carefully selected and vetted by Coperama.

-- Coperama currently offers more than 45,000 products from around 1,000 different sellers.

lection of goods so companies will most likely want to enter niche or specialized markets that have additional requirements. Companies should also check that their procurement department has the necessary capability to run a platform; if not, a platform run by an external platform provider (using strategy 3 but with the platform provided by a service provider) could be the right choice.

Owning your own procurement platform has three major advantages. First, the revenues from the platform, both subscription fees from suppliers and commission on transactions, go to the company, generating a new revenue stream. Second, having your own platform minimizes the risk of unfavorable terms or conditions being imposed on you, such as increased commissions or unfavorable marketing requirements. And third, you can customize your platform to the needs of the business, adding specific features and other requirements. As more buyers and suppliers join the platform, it will grow in scale and so become more attractive. Companies need to select appropriate technology

for running their own procurement platform. Here, they can follow a standard software selection process, describing their requirements, evaluating all available providers against those requirements and then selecting the most suitable provider.

The Coperama platform launched by the Spanish NH Hotel Group in 2013 is a good example of this third strategy in practice. Coperama originally bundled purchasing for NH hotels and three other firms. In 2019, it added an online marketplace to its offering and is now able to connect approximately 1,000 sellers with more than 50 hotels. The platform also provides additional services, such as negotiating prices for certain products. Tenders are also possible through the platform, allowing for more advanced sourcing strategies, such as bundling the volumes of different participants in the marketplace (*see p. 10*).

Platform trade will grow and grow

How do we see the future of procurement platforms? Fundamentally, we believe that the marketplace ecosystem will expand. More and more specialist platforms will emerge to cater to the specific needs of buyers. At the same time, procurement organizations will themselves tap into the marketplace business and new buyers will enter the game as the overall pie grows.

The range of additional services offered by platforms will also expand. This includes both services available via the platform, such as equipment installation or office supplies replenishment, and services offered by the platforms themselves, such as RfQs and tendering options.

Another key development will be the emergence of "meta" platforms integrating different platforms into

a single platform. This will be driven by the fact that firms generally prefer one-stop shops to having to onboard a number of different platforms.

Finally, we expect to see all three strategies outlined above coexist. Companies will use both generalist and specialist external platforms and also set up their own internal platforms. Not only that, they will continue to use e-procurement tools and traditional purchasing methods. With this in mind, the key task for procurement departments is to find the right combination of strategies and tools that will enable it to focus on core value-adding tasks and contribute to the success of the overall business.

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