Transforming Big Blue's Procurement Operations

In a transformation which the Harvard Business Review called "magnificent," IBM successfully reshaped its business from a hardware and computer company model into a dynamic services and solutions company.[1] It was a transformation in which the procurement organization played, and still plays, a critical role.

The transformation was driven by a recognition of major business and economic trends. In the early 1990s, with the acceleration of globalization and technology, particularly the proliferation and sophistication of the Internet, businesses were operating in a significantly more interconnected and intelligent world. IBM's executive leadership saw this as a tremendous opportunity to reshape the company to take advantage of these trends. Specifically, to help customers with their own transformations to take advantage of "a more global, mobile and connected world."

IBM's vision for a new company, and its successful transformation, are well documented. However, what is less well documented is the internal transformation that took place. The move into a solutions and services business model required significant internal change across people, processes and technology.

In the planning discussions that accompanied the early stages of the transformation, the procurement organization was identified as a critical component in enabling the business to achieve success. The core competencies of the procurement team, built up over years of supporting service engagements, were seen as an important asset to be leveraged. The company's size presented tremendous potential to leverage savings and deliver value to the bottom-line.

The procurement organization was focused primarily on managing hardware spend – and was decentralized in managing most of the other spend categories. As a result, the organization had little control or influence over spend. The procurement organization underwent its own reinvention, tapping its potential.

A first order of priority was to transition to a more highly centralized operation, which could more readily take advantage of the company's leverage. The plan was to take the savings and invest and portion it back into the procurement organization. This investment particularly focused on elevating the people and technology within procurement.

Over time, IBM upgraded its global procurement organization. This was no small task given that the company had procurement teams in more than 100 countries, all operating in disparate ways and utilizing different systems. Throughout the 2000s, the procurement organization steadily built common processes and global IT solutions to better guide its organization and its buyers around the world. This transformation not only enabled procurement to achieve the savings and value it sought, but also to become a key influencer and developer of business processes within the company.

IBM Acquires Emptoris

- As part of its business transformation, IBM planned to sell off certain businesses – and invest in new ones. Over the course of 15 years, the company acquired more than 100 software companies.

- In early 2012, IBM acquired Emptoris, a leading provider of strategic supply management and contract management software. The acquisition was informed by IBM's experience leveraging Emptoris solutions as part of the company's own procurement transformation.

- From a business perspective, IBM's acquisition of Emptoris was intended to bolster the company's Smarter Commerce initiative, which is designed to help companies better integrate and more effectively manage their value chain by optimizing the buying, marketing, selling and service processes.

- One of the five largest technology companies in the world, IBM has been rated a top global brand by Interbrand,[2] the 2nd most respected company in the world by Barron's[3] and one of the five most admired company's in the world by Fortune.[4]

"We recognized that the global business environment was changing, and IBM chose to evolve into a services and solutions company. In procurement, we understood it was essential to become a partner to, and enabler of, the business in this transformation journey. It is a well renowned business transformation story – and one in which procurement played a key role."

– John Paterson, Chief Procurement Officer at IBM

The IBM Procurement Transformation

Prior to the business transformation, the procurement organization was very decentralized: more than 80 percent of the staff and resources were focused on transactions, and there was little focus on higher-value activities such as strategic sourcing. There were multiple and poorly defined processes for things as basic as approving purchase orders (POs) – and most processes were highly administrative and manual.

Today, the procurement organization is highly-automated requiring only about 20 percent of the staff and resources for the transactional workload, and freeing up 80 percent to focus on more strategic programs. More than 90 percent of all spend is now pre-sourced and automated, and 100 percent of spend is compliant and centrally sourced by procurement. There is also a robust spend management structure in place and a written procurement strategy which is reviewed by leadership several times a year.

As part of the transformation, the company spent a lot of time building the processes and putting in place technology solutions to better enable and guide the procurement organization, particularly the disperse buyers located in offices around the world. The development of global processes were critical in order to control spending, attain global visibility, and ensure that risk was mitigated, and supplier relationships optimized, in every procurement and sourcing decision.

Investing in workflow design and automation also was critical to help free up resources which in turn could be dedicated to more strategic functions and extend the value procurement was providing to the business. Ensuring the right technology was applied to high-value processes was a critical element of success.

One of the biggest challenges the company faced in its transformation was getting and keeping the right talent with the right skills, specifically negotiation skills.

Procurement Transformation Objectives

The objective of IBM's procurement transformation is to be an essential corporate function, one that delivers significant value back to the company and is a contributor to the company's business transformation. The core focus is on standardizing procurement best practices and processes globally in an effort to reduce costs, increase customer satisfaction and drive supplier innovation and collaboration.

1. **Transformation:** Build a procurement organization that delivers greater value to the company and delivers a competitive advantage for the business.
2. **Sustainable Savings:** Leverage the size and reach of IBM to capture costs savings and continue to deliver incremental value to the business.
3. **Supplier Management:** Improve supplier management and the ability to mitigate supplier risks, as well as develop, collaborate and innovate with suppliers, all of which are essential to the growth of the business.

Procurement Organization Snapshot

- The IBM procurement organization manages more than $57 billion in spend, $20 billion of that on behalf of IBM clients.
- The company's spend is divided among direct materials, hardware, services, software on behalf of clients as well as traditional indirect spend.
- In Services & General Procurement (SGP) there are several multi–billion dollar categories of spend including telecom, software, IT products, travel and contingent labor.
- All categories of spend have a highly concentrated supplier base.

Spend Analysis and Sourcing

Prior to the procurement transformation, IBM used a series of unique and manual processes to manage key sourcing tasks – and buying was conducted largely at a business unit level.

With the procurement transformation project and the decision to centralize operations, IBM targeted the automation of processes and then, when resources were freed up, focused on higher value areas for improvement, starting with strategic sourcing and spend analysis.

Spend analysis was a priority because the company considered it essential to know exactly what it was buying and from whom in order to set strategic sourcing priorities. Spend visibility allowed the company to start targeting areas for sourcing and savings initiatives. Thus, after spend analysis, the next logical area for the company to target for centralization and common technology applications was sourcing.

In assessing technology solutions, IBM sought a solution that could establish common global processes and a common repository for all its sourcing information. Executives described it as, "one place to go to answer all sourcing questions and see all sourcing activity." After a rigorous search and vetting process, IBM chose the Emptoris Sourcing solution to fulfill this vision, implementing the solution in 2006.

One of the first areas the company applied the sourcing solution was in its spare parts purchasing group. This area runs high volume, repetitive sourcing events requiring rapid responses. The sourcing solution saved the team significant effort in issuing Request For Quotes (RFQs) and enabled it to meet demand for quick parts replacement. The facilities maintenance group was another early area where the sourcing solution was applied. Facilities management is a complex spend category and typical bids and responses contain thousands of line items per event; the sourcing solution helped the group easily organize all the response data side-by-side immediately after a RFQ event ended, which in turn enabled quicker and better decision-making.

IBM found the most valuable aspects of the solution for end-users to be the standardization of workflows and RFQs; the creation of RFQ templates and the resource library; the ability to manage all supplier responses easily and within one repository; and the sourcing desk top intelligence reports. From procurement leadership's perspective, the greatest value came in getting access to central and comprehensive reporting and analysis.

Initially, usage of the sourcing solution was voluntary. However, with the deployment of the latest version of the IBM Emptoris Sourcing solution, IBM is moving towards mandatory and more pervasive usage across the entire organization. IBM found that a small e-sourcing center of excellence that masters the use of the sourcing solution can accelerate adoption and can then assist the broader procurement team in leveraging the higher functionality of the solution.

"In an increasingly complex and global world, supplier intelligence and predictive analytics are two technologies that are atop the procurement agenda – and will transform the way we all do business."

John Paterson, Chief Procurement Officer at IBM

The **IBM Emptoris Sourcing** solution helps organizations to realize best value, not just best price, from their supply base by factoring cost, risk and performance into sourcing decisions. The solution automates all sourcing events from reverse auctions to complex multi-stage negotiations—and provides both broad-spectrum and granular visibility into corporate sourcing data. By leveraging this strategic sourcing solution, companies are able to improve supplier collaboration and innovation, reduce supply base risks and bring more spend under management.

On average, companies achieve spend visibility of 99 percent with IBM Emptoris Spend Analysis and receive at least 11 percent savings on categories sourced through IBM Emptoris Sourcing.

Contract Management

For a procurement organization that maintains thousands of contracts in more than 100 global locations, a contract management solution was critical to centralize and standardize global processes, and make those processes more effective and efficient.

IBM implemented a contract management solution to act as a work flow engine, provide a collaborative work space and serve as a central contract repository. The solution ensures common contract formats, terminology and processes across the global organization. By enforcing business rules and a contract hierarchy, the company is better able to enforce legal, supplier and spend compliance. By establishing a central solution for contract processes, professionals in different locations are able to work more collaboratively with colleagues and global suppliers.

The company now negotiates just one master contract for each supplier and then adds participation agreements and statements of work (SOWs) as needed.

In the future, IBM plans to focus on integration of the contract management solution with other solutions and systems starting with the sourcing solution and its ERP systems. When the company "kicks-off" with a new supplier the sourcing data from the RFX will feed the contract template creation, reducing errors and expediting the process. When the company issues a PO, it will be tied back into the contract solution to ensure that the correct pricing and other values are met according to the agreed upon standards.

IBM is currently in process of upgrading to IBM Emptoris Contract Management V10.

The **IBM Emptoris Contract Management** solution enables companies to structure more profitable contracts, streamline

the contracting process and increase compliance. The solution automates and manages the various stages of contract lifecycle from creation and execution, through performance monitoring, amendments, analysis and renewal. It enables companies with strong contracts and contract management capture to improve supplier, partner and vendor relationships, and actively enforce compliance and mitigate risks.

On average, companies achieve 90 percent contract compliance and a reduction of more than 50 percent in contract cycle times using IBM Emptoris Contract Management.

"To achieve meaningful transformation and deliver on savings potential, procurement must drive common processes, have enabling technologies and invest in the right people with the right skills. Teams need to automate in order have the time to focus on strategic priorities.""

Patrice Knight, Vice President, Operations, Global Procurement at IBM

Services Procurement

IBM employs upwards of 100,000 contractors and contingent labor staff at any given time to help deliver services in global markets. To ensure quality, collaboration, and a high level of compliance, the company applies strict standards on its third-party service and labor providers – and establishes the same processes, solutions and standards across the globe for its outsourced labor and services. Wherever possible, those map to IBM's internal standards, solutions and processes used by employees.

Before the company's procurement transformation, services and contingent labor procurement were highly transactional and conducted through manual processes. Not only did this pose efficiency, compliance and risk challenges, but there was no visibility into what specific skills and resources were needed or available.

The company conducts a "supply and demand" equation for all services and labor procurement – taking into account the availability of internal resources. This evaluation must be done across more than a hundred markets and for hundreds of potential roles and skills. Not only do the services procurement process stretch across markets, they also stretch across corporate departments, most notably human resources. The extent of these processes, and the many variables, make services and contingent labor one of the company's most complex spend categories.

To address these challenges, IBM decided to transform, streamline and automate its contingent labor procurement processes. At the outset and core of this program, significant effort was dedicated to mapping and standardizing taxonomies, which would help ensure the internal IBM users were guided to the most appropriate level of skill for the task at hand.

Today, that program has advanced to where all third-party services and contingent labor requests are made online and guided by defined processes and taxonomies, including standard job titles and rates. Employees can send requests to suppliers electronically – and all the work is managed and analyzed via the solution.

The deep experience that IBM Procurement has developed in services procurement over the past decade is helping to inform the future enhancements and development of the IBM Emptoris Services Procurement solution.

The **IBM Emptoris Services Procurement** solution, which enables companies to effectively procure, control and manage complex outsourced services including contingent labor. The solution automates and streamlines the entire procurement lifecycle for complex third-party services categories, including temporary labor, time and materials, and SOW service projects, such as IT outsourcing and business consulting. On average, companies are estimated to save at least four to five percent on all services and contingent labor sourced and managed with services procurement software.

"Essential to the transformation of any business is the transformation of the procurement and supply management organization. One's suppliers and vendors are critical business partners, and contribute significant value to the end products or services provided. Thus, optimization of supplier performance is essential to business transformation."

John Paterson, Chief Procurement Officer at IBM

Telecom Expense Management (TEM)

Managing the usage and cost of telecom services and devices in an increasingly mobile, connected and global business environment is a daunting task. Corporate spending on telecom services and products is one of the top five expenses at Global 2000 companies and telecom and mobile device usage and costs are only increasing.

For the past few years, IBM has employed several different Telecom Expense Management (TEM) solutions to manage its wireline and wireless telecom services. These solutions range from sophisticated home-grown solutions to some of the leading regional TEM software solutions.

In 2013, IBM has made a strategic decision to centralize and standardize telecom expense management on the Emptoris Rivermine TEM solution, which is one of the few TEM solutions to offer capabilities and services across global markets.

TEM software solutions are generally designed to help companies manage the mobile and network-related communications lifecycle – and capture savings of related spend. Savings are accumulated by optimizing carrier service plans, identifying and resolving billing errors and tracking inventory and usage. The solution or services will also organize all billing, ordering and usage data – across carriers – into a uniform format.

The **IBM Emptoris Rivermine Telecom Expense Management** solution enables companies to reduce telecom expenses by actively managing the full mobile and network-related communications lifecycle. The solution streamlines and automates the entire telecom lifecycle including inventory management; procurement and order management; invoice processing, auditing and cost allocation; mobile expense and device management; and advanced business intelligence and reporting. Leading analysts have estimated that businesses can reduce telecom costs by up to 35 percent annually leveraging TEM solutions.

"The next biggest trend in procurement technology will be predictive analytics. At IBM, we have found that analytics is one of the key common denominators that can be used to enhance thinking, methodology and practices to solve the most complex challenges facing organizations."

John Paterson, Chief Procurement Officer at IBM

Supplier Intelligence

IBM's Chief Procurement Officer, John Paterson, has said that the common denominator in achieving success across all procurement objectives is "recognizing the increasing complexity of business, particularly in managing a sea of supplier data."

As a result of this vision, IBM Procurement is driving broad adoption of business analytics across every category of spend. The company is shifting from a warehouse and data management approach to supplier intelligence and predictive analytics strategy.

With a large and increasingly global supply base, and supplier data scattered across processes, procurement professionals must rethink supplier management processes – and how they collect and leverage the vast amount of supplier and market data. Supplier on-boarding, qualification, classification, supplier performance assessment, development, and risk management can no longer be considered siloed steps or separate process.

IBM believes companies must aim for more unified supplier processes and global supplier intelligence. In this way, companies can more readily address the critical challenges and complexities related to strategic supplier management from reducing costs, to driving continuous improvement and mitigating risk. By applying advanced analytics to supplier data, IBM believes procurement can then help influence, shape and change behaviors upstream to bring about additional savings and value to the enterprise.

"IBM's platform utilizing Emptoris, Cognos, ILOG offers fast time to value by enabling predictive analytics. Organizations who leverage this new technology will be the leaders in the next wave of procurement."

John Paterson, Chief Procurement Officer at IBM

Investment in Supplier Intelligence

Supplier intelligence management is one of the fastest growing areas of technology investment; analysts estimate investments in supplier intelligence to grow three times faster than that for procurement and supply chain technologies in general through 2015.[5]

Predictive Analytics
Predictive analytics help organizations predict and project, with confidence, what will happen in the future so that they can make smarter decisions and improve business outcomes. Organizations may never be able to take risk completely off the table, but they can go a long way towards mitigating it by combing supplier intelligence with predictive analytics. The applications of this technology seem limitless, from risk modeling to enabling companies to project spending trends, from demand management to analyzing volatility within the supply chain.

IBM Emptoris Supplier Lifecycle Management (SLM) is a comprehensive, end-to-end solution to automate and manage all the business processes associated with supplier management including supplier on-boarding, qualification, performance management, classification, development, risk assessment and rationalization. The solution provides visibility into all aspects of supplier relationships and enables companies to improve the efficiency and effectiveness of their supply base.

IBM Procurement Transformation: Results

- **Strategic Sourcing:** Implemented a comprehensive strategic sourcing agenda which centralized, standardized and streamlined sourcing processes globally.

- **Spend Compliance:** Brought increased spend under management and achieved spend compliance greater than 99 percent.

- **Sustainable Savings:** Procurement contribution is recognized across the company as delivering competitive advantage.

- **Common Processes:** Established common processes for sourcing, contract management and transaction execution, improving efficiency and compliance.

- **Business Opportunity:** Applied procurement knowledge and success to help clients through IBM BPO services.

- **Supplier Intelligence:** Began centralizing all supplier data, intelligence and processes in a single supplier lifecycle management solution.

"Our experience with the Emptoris strategic supply management and contract management solutions is a key driver of IBM's procurement transformation – and our experience, along with that of other Fortune 1000 procurement organizations, was a key driver in IBM's acquisition of Emptoris."

John Paterson, Chief Procurement Officer at IBM

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[1] Harvard Business Review, Sam Palmisano's Transformation of IBM, January 2012.

[2] Interbrand, World's Most Valuable Brands, 2012.

[3] Barron's, The World's Most Respected Companies, June 2012.

[4] Fortune Magazine, Fortune 500, 2012.

[5] Gartner, Forecast: Procurement Technologies, Worldwide, 2011-2015.

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