Procurement Transparency: A challenge or an opportunity?

NOA corporate member Mtivity discusses the benefits and challenges of procurement transparency, and how its new engine Opportune can help.

What does transparency mean for the service provider when we talk about procurement on behalf of the client? In a nutshell, procurement transparency means "the ability to both demonstrate and measure the value and savings delivered whilst disclosing the basis of the service provider decision making when procuring goods and services on behalf of the client."

Where is the demand for transparency coming from?

Several key factors are currently converging resulting in a trend towards increased transparency in procurement. This includes widespread proliferation and availability of data ("Big Data") paired with the current generation of business users who have been using consumer products and service procurement tools like Amazon for years. The people awarding outsourcing contracts are, after all, the same people who have been using price comparison websites like Priceline, Confused.com, E-lance and others and are beginning to expect the same real time pricing, ranking, and reviews in their B2B procurement processes.

Did you know? From 2007 to 2014 UK consumer use of price comparison websites for car insurance, home insurance and travel increased from 2% to 56% and when looking at the same statistic for 30-44 year olds this jumps to 82% - Source: Consumerfutures.org.uk.

A recent article in Procurement Insights magazine says that "the B2C consumer experience has forever changed the business world's approach to B2B engagements... Whether in the private or business world, buyers simply want something that simplifies their job in terms of making best value procurement decisions."

What does this mean for revenue generation?

The financial models for service provider contracts are on the verge of a major shift, with the fixed markup or management fee-based contract becoming undesirable and clients beginning to expect the service provider revenue to be intrinsically linked with the value and savings being delivered.

In line with this shift is the reemergence of the gainshare model, which is beginning to gather pace. However, this isn't the gainshare model of old. Now clients expect savings and gainshare calculations to be transparent from beginning to end in real time when the transaction takes place. This allows the client to determine the true value being delivered before making a purchasing decision.

Demonstrating savings in a robust and auditable way

Savings measurement is a topic that has been debated publicly for a number of years, due to the persistent challenge of defining the benchmarks to be used when calculating the savings achieved and, as expected, there is no "one size fits all" approach.

Benchmark definition plays a key role in the contract negotiations with clients and must include factors such as historical pricing, market rates, anomalous price exclusion and others. Once these are agreed, the method of disclosure of the savings calculation comes into play.

A recent Computer Weekly article stated that "One of the persistent customer complaints of organisations using outsourced service providers is the lack of pricing and service transparency.

"Several factors are contributing to this including the complex way in which supplier contracts are presented to the customer and the often arbitrary way that services are bundled together which makes it difficult to compare the price of individual service components with competitive offerings on a 'like-for-like' basis. As a result of this blur, clients assume - accurately or not - that they are paying more than they should but don't have access to the information they need to prove it. C level execs are becoming increasingly self-educated and want to know exactly what they are getting, how much they are paying and how it compares with other offerings.

"The danger to service providers is that if their competition is providing more open pricing detail to meet market requirements, those who withhold, or simply don't possess, sufficiently comprehensive information are on a collision course with customers who are sourcing data from either specialist consultants or the marketplace and may use it to challenge their providers."

This is where the largest shift is occurring, driven by the end user experience discussed earlier. Clients are no longer accepting a quarterly or monthly summary of the savings achieved (often the calculations and benchmark source are not exposed in these summaries) – they expect savings calculations and the method of benchmarking identification to be fully exposed, sometimes directly to the end client. This can prove to be a significant technical challenge to service providers, as the process can be extremely time consuming and subject to human error or oversight. Fortunately the combination of massive amounts of data available in the Cloud, and a new breed of procurement functionality tools from companies like Mtivity, are now available to help outsourcing providers and companies solve these challenges.

Moving forward, how should gainshare be calculated?

Once a robust and demonstrable benchmark identification and savings calculation process is established, gainshare can be measured. Gainshare is applied to the savings achieved that go beyond the agreed savings targets for a client, providing additional revenue for both supplier and client.

Gainshare is an excellent method of increasing service provider revenues, on the condition that the provider has visibility and control over their supply chain, and has implemented operational efficiencies across their procurement teams. The key is to aggregate and automate as much work as possible in order to maximise the potential to achieve savings in excess of the target.

The future of service provider procurement

Benchmarking, savings calculations and gainshare are not new concepts, however the method and ability to operate these models is beginning to create a significant divide in the competitive landscape of the service provider. Clients are identifying and expecting the transparency of calculations related to the savings provided and beginning to view service providers in one of two ways:

1 - Service providers that are open, transparent and link their revenue to the savings achieved for the client, OR
2 - Service providers that offer savings but are unable to demonstrate the savings in a transparent and auditable way.

Transparency does not equate to lowering profit margins. In fact, it often has the opposite effect, as modifying business processes and procurement strategy increase margins through the use of gainshare, and even increase client retention and improve renewal rates due to increased trust between client and provider. The ability of service providers to adopt these new processes will rely heavily on technology to drive efficiencies and automate the process as far as possible.

For further information on how Mtivity can vastly improve your procurement process with its procurement engine Opportune, email hello@mtivity.com or visit http://www.mtivity.com/product/opportune-the-benchmarking-and-savings-engine/.

About Mtivity:
Founded in 2001, Mtivity has established itself as a leader in SaaS applications for the services and BPO community, with workflow, approval, sourcing, finance and analytics functionality. Mtivity has offices in London, New York and Silicon Valley.

Gartner Mtivity was selected as a 2015 "Gartner Cool Technology Company"

Mtivity – Opportune:
Opportune is a product from Mtivity that contains market-leading functions to assist the service provider by automating the process of identifying, managing and demonstrating both the benchmarks and savings achieved, with further functions to automate the calculation of gainshare.

Opportune was soft launched over a year ago with a number of existing Mtivity clients, the initial results have been extremely impressive at driving efficiencies and managing the concepts discussed within this paper.

Opportune has been the underlying driver of an average 148%* efficiency gain and resulted in double digit profit margin increases.

*statistics compiled by independent third party auditing, top five consulting firm.

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