

[Information] Technology is Only a Tool: Procurement Myth No. 14

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We continue our series of the top procurement myths here on Chief Procurement Officer.

14: Tech is Just a Tool - Used it Only When You Need To

This is a myth you will hear frequently in different forms. The most frequently cited version of it is that technology should come only after process simplification and standardization. In other words, you never want to pave the proverbial cow path. Who could argue with that, right? Senior executives particularly like this one. It is burned indelibly in their brain when funding requests for technology projects come around. The stock answer becomes, "I'll tell you what. Why don't you go and simplify and standardize the processes first, and then come back for funding to do the automation. Next project please." End of story.

Unfortunately, this line of thinking is a sure fire way to stifle innovation and prevent you from taking the money that is sitting on the table staring at you. Even worse, it might even put your company in jeopardy. Crazy talk? Not really. Let me explain...

Technology = Strategy

First, try telling traditional media companies that Google's search technology is only a tool. Tell limousine companies and taxicab companies that [Uber](#) is just a tool. Information technology (or "digital technology," if you prefer) is not just a tool, but also a fundamentally separate and parallel supply chain similar to a financial supply chain of cash and a services supply chain of labor - all of which interact with the physical supply chain. Calling technology a tool is like calling cash a tool or a person a tool (perhaps not a good example since I've know a few people who definitely are 'tools'). There is so much activity happening right now with regards to digital business strategies at a strategic level.

It may feel very 1999 here, but the technology now is very real and your ability to fund and link internal technology projects in your supply chain to your customers (and suppliers, of course) in a strategic way is a perfect way to bump your project to the top of the list. For example, Flextronics helps fund Elementum not because corporate treasury wanted to play venture capitalist, but really to help transform the firm from a low margin contract manufacturer to a higher margin (and higher valuation multiple) technology leader.

Technology Helps Enable Any Transformation

But, let's get even more specific with procurement...

First, technology is an equal partner with other capabilities that can be used to transform your

processes: organizational models, talent, process redesign and so on. As I like to say, "best practices hunt in packs." In other words, procurement should practice what it preaches in terms of demand aggregation not just applied to the physical demand, but also aggregating demand for transformation opportunities. Obviously, you do not want to over-scope a transformation project, but you also don't want to have paralysis by analysis and stripping transformation down into all of its various bits so that you pick apart the ROI of every single individual development. This is similar to bidding out every line item in a market basket as a separate bidding event.

For example, if you are going to do electronic invoicing project that also re-engineers processes, converts payment terms, changes P2P accountability/metrics, gets supplier master data improved and so on, does it really matter that it is under the banner of a technology project? It shouldn't. Yet, it too often does to those who hold the purse strings, so you have to be smart in how you bundle these improvement levers and also how you package it all up. It is important to realize that perception (and "perception is reality" right?) is reality and that when a company is terrible at implementing technology for whatever reason, your best pathway forward may not be to position a transformation project as a technology project.

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On the flipside, you have a potential partner in IT that may have some funding that you can use for a project that will include more than just technology. And in a world where everything becomes a service, you should have some flexibility in your ability to bundle technology services along with other types of services to achieve your desired outcomes. So, the bottom line is that a technology budget can be a tool for broader transformation rather than just a tool in its own right. In fact, technology is getting into even in the most technology-adverse environments such as Lean and Six Sigma areas where technology used to be perceived as the enemy. Manufacturing firms now use technology hand-in-hand with these techniques to actually help failsafe their proper implementation. Which gets to the next point...

You Just Can't Do A Lot of Procurement Processes Without Technology

Business complexity and supply chain complexity have gotten to the point where such complexity has far outstripped human abilities to manage processes effectively and efficiently in the face of that complexity. For example, while "nothing beats face-to face time" with a supplier walking around their operations, what is the cost to doing that? You'd love for your suppliers and supply chain partners to proactively notify you when a critical shipment is going to be delayed, but you can't *really* count on that can you? You *could* try to run a reverse auction manually (which is what prompted the firm FreeMarkets to be created), but it seems silly now.

Now consider "[market-informed sourcing](#)," and the ability to try doing "apples to oranges" bid comparisons without the use of expressive bidding powered by [combinatorial bid optimization](#) software (CombineNet and [Trade Extensions](#) are the 2 leading providers here even though others have some support). The combinatorial explosion of award scenarios you'd need to deal with will crush you out of existence. The key here is that the technology enables a more powerful set of processes and techniques that will unlock new value and also elevate procurement's role with stakeholders to be able to "magically" manage such complexity. As I wrote in a previous post on bid optimization titled [What Do Bid Optimization and Corporate Strategy Have in Common? Everything:](#)

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“Sourcing optimization is about optimizing the sourcing process strategically, not the combinatorial optimization of supplier bids. Don’t throw out the best practice based philosophy, methodology, and techniques because of an advanced technology tool.”

When you start getting into broader analytics (specifically predictive analytics and machine learning) and market intelligence, the argument of treating technology as a tactical tool versus part of the new value chain reality and business reality is a silly argument that’ll be made by companies that sail off into the sunset or maybe even sink quickly to the bottom of the sea.

Make your choices wisely.