How the Procurement Profession Must Evolve

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Bill Huber – Alsbridge
About LPL Financial

LPL Financial is one of the nation’s leading financial services companies and a publicly traded company under ticker symbol LPLA. LPL provides an integrated platform of proprietary technology, brokerage and investment advisory services to over 14,000 financial advisors as the nation’s largest independent broker/dealer.

We enable advisors to focus on their clients by reducing the complexity of running their practice; and we support their business by offering enabling technology, comprehensive clearing and compliance services, practice management programs and training, and independent research.

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>245</td>
<td>RIA firms</td>
</tr>
<tr>
<td>700</td>
<td>Financial institutions</td>
</tr>
<tr>
<td>14,000</td>
<td>independent advisors</td>
</tr>
<tr>
<td>$475B</td>
<td>advisory &amp; brokerage assets</td>
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Largest independent broker dealer
The Alsbridge Difference

- Advisors on Outsourcing, IT & Network Sourcing & Transformation/Change Management
- Provider of Benchmarking & Vendor Management Services
- Pragmatic focus on expense reduction & transformation, not general management consulting
- Independent—Alsbridge does not offer operation of services we source
- “No divorce” track record for all agreements we have advised upon
- Data-driven decisions using the industry’s most complete database
- Engagements address over $5 billion in annual market spend
- More than 250 professionals with an average of 20 years industry experience

The Right People

Integrated Services

Largest Provider Data
Overview

- As traditional sourcing techniques become increasingly outdated, the procurement function must evolve to remain strategic, and procurement professionals must acquire new competencies.

- You will learn:
  - How traditional roles within sourcing and procurement are changing
  - How robotics and other disruptors will impact the procurement function
  - Emerging requirements for procurement professionals
  - Specific capabilities and skill sets procurement professionals need
Predictions

- Many Strategic Sourcing functions will increasingly be performed by cognitive tools
  - Effectively “learn” from the behavior of sourcing professionals
    - Able to perform sourcing functions such as vendor identification, RFX creation, analysis and scoring
    - Able to use sourcing tools like Ariba/SAP, Basware, Coupa, GEP or Oracle for certain processes with fewer errors and higher productivity

- Streamlined negotiation based on industry standard agreements & “click-through” contracts

- More sophisticated contributions will be required from procurement, particularly in strategy, analysis and governance

- Fewer jobs will remain in procurement, but will be higher competency and higher paying
Our World is Changing

Major disruptors to business are also disruptors to procurement

- Big Data/Analytics
- Cloud
- Social Media
- Robotic Process Automation
- Mobility
- Millennials

“Resistance is futile”
Software & Automation will Replace Much of What We Currently Do

- **Spend Analytics**: Primarily automated part number recognition
- **Sourcing**: Robotic agents will be able to conduct basic category sourcing
- **Purchase Orders**: Will evolve to near full automation
- **Vendor Management**: Contract changes
- **Contract Management**: Reporting will be largely automated

**Human Software**
Traditional Roles within Procurement Are Changing

- **1980s**: Transactional
- **1990s**: Strategic Sourcing
- **2000s**: Tool Enabled
- **2010s**: Analytics & Governance
- **Agility**
### Our Focus in Negotiations Will Shift

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Traditional</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement</td>
<td>Input based</td>
<td>Outcome based</td>
</tr>
<tr>
<td>Analysis Focus</td>
<td>Process Control &amp; Deviation</td>
<td>Business outcomes</td>
</tr>
<tr>
<td>Skill Level</td>
<td>Transactional</td>
<td>Analytics focused</td>
</tr>
<tr>
<td>Delivery Approach</td>
<td>Labor</td>
<td>Automation &amp; Skilled Labor</td>
</tr>
<tr>
<td>Structure</td>
<td>Owned</td>
<td>Rented</td>
</tr>
<tr>
<td>Term of Contracts</td>
<td>Longer</td>
<td>Shorter</td>
</tr>
<tr>
<td>Financial Objectives</td>
<td>Reduce process cost</td>
<td>Improve process effectiveness</td>
</tr>
<tr>
<td>Location</td>
<td>On premise</td>
<td>External or in the Cloud</td>
</tr>
<tr>
<td>Uniqueness</td>
<td>Often customized</td>
<td>More standardized – One to Many – Unless differentiating</td>
</tr>
<tr>
<td>Incentive</td>
<td>Fees at risk</td>
<td>Outcome incentives</td>
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</table>
Where the Action will be…

- Business objectives & outcomes
- Market capabilities
- Potential solution mixes (services and technology)
- Stakeholder alignment
- Preliminary implementation roadmap
- Sources of value, risks and dependencies
- Build the business case framework

- Communications
- Retained organization design
- Operational alignment
- Transition readiness & execution
- Strategic & operational oversight
- Innovation framework
- Service integration & management
- Reporting & performance management
Emerging Requirements for Sourcing and Procurement Professionals

Use of A enables B:

**Analytics**
- Business Value Analysis
- Risk Modeling
- Technical/Process

**Governance**
- Drive Innovation
- Risk Management
- Performance Management
Characteristics of Value-Based Capability Sourcing

- The company acquires a new or enhanced capability through sourcing.
- The cost of sourced services may be more than the client is currently spending.
- The sourced service may rely heavily on a combination of analytics and automation with a basic transactional service, often in a BPaaS model.
- There is an expectation of increasing automation or innovation over the life of the contract.
- The benefits of the initiative may occur upstream or downstream from the in-scope process. Often these may be analytics driven. These benefits can be top-line or bottom-line.
- Realization of the value may be dependent upon the company acting upon the information and insights resulting from the service to achieve the value.
- A more holistic governance approach is required to realize the benefits, as vendor management is not sufficient to drive necessary actions within the company.
An Alternative to Traditional Cost Savings Methods

- Upstream or downstream impact – effect of the core process change to upstream or downstream costs
- Sourcing or procurement – effect to external spend
- Inventory management – effect to cost of inventory
- Time to Value – Including cost vs. benefit of sourcing cycle
- Risk Mitigation – (Baseline probability x dollar impact) – (mitigated probability x dollar impact)
- Revenue Enhancement – More complex but can work if structured conservatively with no perceived windfall. Must work politically as well as mathematically!
Business Case Requirements

- Determine Assumptions to be used by Finance Organization (cost of capital, growth assumptions, hurdle rate, etc.)

- Provide detailed visibility and granularity into assumptions on affected areas
  - Detailed Baseline
  - Assumptions
  - Dependencies
  - Formulas that will be used to Measure
  - The Measurement Process

- Be conservative to protect the perceived integrity of the business case. Perception of “over optimism” cannot be easily reversed. Credibility is key!

- Define the necessary contractual and governance frameworks to make it work.
  - Value can only be achieved through executive cooperation between provider and client.
# Procurement Strengths, Weaknesses, Opportunities & Threats (SWOT)

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tr>
<td>• Adaptability to buying diverse things</td>
<td>• Price centrism (whether you call it TCO or not) at the expense of business value</td>
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<tr>
<td>• Spend visibility</td>
<td>• Cost takeout obsession</td>
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<tr>
<td>• Legitimate role – if we don’t abuse it</td>
<td>• Current processes were designed to address yesterday’s challenges, not tomorrow’s</td>
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<tr>
<td>• Good, and improving technology</td>
<td>• Perception as bureaucratic, “lawyer wannabes” or both</td>
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<tr>
<td>• Tools and templates</td>
<td>• Propensity to commoditize, driving to lowest common denominator</td>
</tr>
<tr>
<td>• Sourcing, evaluation and negotiation skills, however…</td>
<td>• Overly arms length sourcing processes that stifle collaboration</td>
</tr>
<tr>
<td>• Market Intelligence</td>
<td></td>
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<tr>
<td>• Supplier relationships</td>
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<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>• Develop more sophisticated business value models</td>
<td>• The world is changing</td>
</tr>
<tr>
<td>• Technology means that much more is possible through improved visibility</td>
<td>• Speed and agility are becoming paramount, but procurement processes can be long</td>
</tr>
<tr>
<td>• Improve governance, including prioritization, risk tolerance, &amp; business outcome and supplier innovation focus</td>
<td>• Resource constraints in the short term, but many jobs will go away</td>
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<tr>
<td>• Improve self-service experience, &amp; transparency</td>
<td>• Current skills and processes do not reflect the digital future – team members who do not adapt will not succeed</td>
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<tr>
<td>• Strategic relationships are becoming more critical</td>
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The best strategy is driven from the inside out

**Why do we exist?**
Organizations connect with the driving impetus at the core of everything that they do.
Our success is driven less by what we do and more by why we do it.

**How do we apply that core in terms of our approach to deliver value?**
Most companies know how they do things.

**What are the things we do?**
All companies know what they do.

“The goal is not to do business with everybody who needs what you have. The goal is to do business with people who believe what you believe.”
- Simon Sinek, “Start with Why”
Defining a Strategy for Procurement

**Why:**
To create sustainable and mutually beneficial relationships with providers that help our company to compete and grow

**How:**
- Innovation
- Collaboration
- Learning culture
- Strategy alignment
- Data-driven
- Sourcing prowess
- Transparency
- Risk Management

**What?**

**Commodities**
- Basic Goods and Services
- “Run the Business”

**Enablers**
- Business Technology
- Complex Services
- “Change the Business”
The Path Forward…

People
- Right people
- Learning culture
- Align to business enablement
- Culture of accountability
- Use partners for non-strategic & enabling elements

Process
- Redesign for digital future
- Faster, with more sophisticated decision models
- Focus on strategy, vendor management and governance

Technology
- Get “Social” for collaboration, learning and market insights with peers, providers and clients
- Embrace robotics as it matures
- Embrace analytics-centric strategy
Evaluation How-to:

**Why?**
- Your feedback **drives** SIG Event content
- By signing and submitting your evaluation, you are automatically entered into a prize drawing

**How?**
- **Option 1: App**
  1. Select **Schedule**
  2. Select **Schedule by Day**
  3. Select **Day**
  4. Select **Session**
  5. Scroll to **Description**
  6. Click on the **Evaluation link**
- **Option 2: Browser**
  1. Go to **www.sig.org/eval**
  2. Select **Session (#17)**

Complete and submit!
Session #17

Staying Strategic: How the Procurement Profession Must Evolve

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Winners announced Thursday.