

# STRATEGIC PROCUREMENT IS DEAD

*Posted by Frank Sundermann in eProcurement on October 17, 2017*

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## An Obituary from the Future

Yes, we had a good run with you, strategic procurement. Back then, at the turn of the millennium, you had just become important. Ignacio Lopez had brought category management to Germany and Gerd Kerkhoff had made you, strategic procurement, accessible to everyone with his book *The Bermuda Triangle of Business: Procurement* (German Edition: *Milliardengrab Einkauf*).

Our company also trained some of the first employees specifically for strategic procurement and systematically reworked each category. No supplier could be far enough East, no outsourcing project was challenging enough; because everything that you tackled meant savings. And the savings kept coming. People were already starting to talk about the Head of Procurement becoming the future CFO.

## All the Fuss About Procurement 4.0

But then, the others came with their talk of digitalization. People started talking about “procurement 4.0”, but nobody knew, at first, what this might entail. You also dismissed it as a gimmick and thought people were making a fuss about nothing. Bits and bytes couldn’t hold a candle to clever strategic procurement, surely.

The first signs appeared in 2013/15 in the form of software solutions from start-ups like *riskmethods* and *Shouldcosting*. They used data from the internet or from information providers to predict potential sources of risk in the supply chain. Others extracted internal data from CAD and ERP to create parametric cost models. At any rate, it was always about data.

Suddenly, the others were able to react more quickly to unforeseeable global events and could determine target costs for new parts within seconds. This speed gave them an advantage that you hadn’t taken

seriously back then. It just looked like playing around with data.

## **When Corporations Started Using It in 2017, You Should Have Started Paying Attention**

At the very latest, you should have started paying attention when big companies like IBM popped up with their Watson technology and when corporations began to program search algorithms to find supplier information from the social web.

That was the beginning of 2017, and after that it really took off:

- Calls for tenders were no longer set up by strategic procurement. Now there were so-called “purchasing bots” that automatically initiated and evaluated calls for tenders.
- Forecasting models that had made Amazon huge back then were now being used to determine requirements in Procurement. Requirement quantities were adjusted based on data from Sales, and purchase orders were sent out. Purchasers only stepped in on rare occasions.
- Strategies were automatically generated based on the automatic analysis of categories. If parameters such as supplier loyalty or request quantities changed, certain actions would be initiated automatically that would handle it.
- Every strategic purchaser also had their own “Piri”, the Siri for Procurement. She was controlled by spoken commands and would continuously search the internet for things like new technology or for suppliers.
- Piri could also compare contract drafts from suppliers and the company, and could immediately determine the wording that would be most likely to result in an agreement.
- If there was no agreement, game theory algorithms would be used to point purchasers in the right direction and provide recommendations for negotiation tactics.

- And even the last bastion of anarchy—the free-text order—disappeared. Piri analyzed every order from the last several years and automatically created a master database and framework call-off orders for the new, standardized services.

That was too much for you. Digitalization was the end of you because the advantages offered by its speed and analytical approach couldn't be beat. May you rest in peace. Long live the new purchaser! In your place, a “coexistent” strategic purchaser has risen up who is still human but has two partners—algorithms and Piri—whose speed and analytics make them an unbeatable team.

### **About the Author:**

**Frank Sundermann** is the founder and executive of the innovative consulting agency **Durch Denken Vorne Consult GmbH**, which focuses on procurement management and product costing optimization.