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CHIEF PROCUREMENT OFFICER

At the pinnacle of
intellectual challenge

The role of chief procurement officer is unknown to many outside the profession, but it's a job with growing importance and appeal

CHARLES ORTON-JONES

A survey of children in the UK asked what jobs they'd like to do when they grow up. The top ten answers were mainly predictable: vet, teacher, firefighter, soldier and so on. These are exactly the sort of things their parents might have answered, but there is now a new entry – social media star or progamer, at number four.

Missing from the list, compiled by the charity Education and Employers, was procurement. Not exactly a mystery, as most people have little idea what a chief procurement officer or CPO does. But if you want to identify the most enjoyable, challenging and varied job currently on offer, the CPO is bang at the top of the list.

Procurement has become the nexus where all technologies meet. Artificial intelligence (AI) is amusing when deployed to tell consumers the weather via Amazon Alexa or Google Home, but only lives up to its potential when used to procure an entire supermarket's stock of 90,000 products with zero human input.

And AI is just the start. Procurement professionals must be fluent in the lingo of data analytics, know the mechanics of risk and be masters of world geography as they co-ordinate extended supply chains to all places on the planet. And just when the job description seems complete, another major mission is added to the list.

The latest? Spearheading the transition to ethical trade. "With consumers more aware than ever of their impact on the world, procurement is under scrutiny to ensure ethical sourcing throughout the supply chain," says Jonquil Hackenberg, head of C-suite advisory at Infosys Consulting.

The ethical challenge is two-fold. The CPO must first identify ethical suppliers and malefactors in emerging economies, says Ms Hackenberg. And second: "The CPO must rely on the latest technologies to provide 'proof' of sustainability, such as provenance of product, but also must focus on how people across the supply chain are being treated."

Gap and H&M are the latest brands to take a hammering for failings in this area. The press reported the way Indian and Indonesian suppliers to the brands allegedly treat their workers:



CPOs have the potential to transform working conditions of entire nations, ensuring transparency and ethical trading throughout global supply chains

Taylor Weidman/Bloomberg via Getty Images

be maintained, eliminating the need for all this local work within the four walls of each enterprise. Maersk and IBM are predicting that their new blockchain platform will save the global shipping industry billions of dollars a year."

Not everyone agrees blockchain will have an impact. "It might do, but not any time in the next few years," says James Bousher, operations performance manager at international consultancy Ayding UK.

He says systems may not be interoperable. "Until everyone agrees on a universal blockchain protocol, you're going to be left with many different systems based on blockchain, which may not talk together without integration," says Mr Bousher.

Plus the technology is placing too much pressure on a role already inundated with new ideas. "A lot of people still don't understand what blockchain really is. At a recent Procurement 2020 CPO roundtable that Ayding hosted, when asked if blockchain was having an impact in their business, only one attendee could even articulate what blockchain is, let alone explain how it might impact their business," he says.

Procurement is now so central to performance that even a credit rating can depend on the methods used by the department. For example, in the last five years there's been a boom in cloud-based procurement and invoicing platforms such as Tradeshift and SAP Ariba. These systems bring together millions of companies on a single integrated digital system. Users can order from each other and invoice, without ever leaving the platform. It means the entire supply chain and finance is digitised. Manual processes, including paper invoices, PDFs, Excel spreadsheets and so forth, are obsolete.

And since the supply chain and finance are improved and transparent, banks can make a clearer assessment of the financial strength of a borrower, lowering borrowing costs. Cash flow is boosted too, leading to a further lowering of risk.

Procurement is the job that embraces all roles: tech whizz, ethical investigator, robotics pioneer, finesser of finance and king of blockchain.

Kids may want to be YouTube stars or firefighters. But if they want a job that has the lot, it's one they've never heard of. ♦

"Abuse is daily reality for female garment workers" splashed one newspaper. Both fashion outlets vowed to investigate the claims. So, is procurement dull? In cases like this a CPO has the power to transform the working conditions of entire nations.

The ultimate proof of the soaring status of procurement is the sheer calibre of candidates it attracts. The Large Hadron Collider at CERN is the pinnacle of scientific endeavour, proving the existence of the Higgs Boson. Yet dozens of the top academics at CERN have quit to work in procurement, where their algorithms can continue to work their magic.

Professor Michael Feindt, a key figure, founded procurement algorithm specialist Blue Yonder, which helps the likes of Morrisons and Lufthansa automate prices

and supplies. The same algorithms Professor Feindt developed for CERN are now helping supermarkets estimate the precise numbers of pineapples to order on any given day and placing the order. It's no less of an intellectual challenge.

The class of 2018 in procurement sees another new character emerge in the blockchain expert. Will blockchain revolutionise procurement utterly? That's for CPOs to figure out, but one school of thought says "yes".

"Blockchain really, honestly, has the potential to have a huge impact on procurement and sourcing," says Eleanor Winn, co-founder of Work Futures, a procurement supply chain automation consultancy. "A move to distributed ledger technology such as blockchain allows for a single, immutable, secure record of every transaction to

Room for improvement

Global survey of more than 500 chief procurement officers

70% believe procurement has mixed influence internally

6% think the function operates in silos from the rest of the business

Deloitte 2018

24%

believe the function is highly regarded internally and seen as a key business partner who contributes significant strategic value

Becoming the world's favourite contract management platform

The future is data driving artificial intelligence (AI). Every dollar in and out of an enterprise has a contract behind it, and by infusing AI into contract management, we can transform the foundation of commerce, says **Monish Darda**, co-founder and chief technology officer of Icertis

When we founded Icertis in 2009, we disrupted the market with a cloud-based enterprise contract management platform that could handle any type of contract and integrate with enterprise business processes. Microsoft became our first customer, with 150,000 users in 170 countries.

Today we manage more than five million contracts for companies around the world. This gives us an enormous opportunity to gather and analyse data intelligently to help our customers unlock the hidden power of contracts and deliver value.

We recently announced our first AI applications: Icertis Contract Management (ICM) DigitizeAI and ICM DiscoverAI. These apps transform contracts from static documents into strategic assets, and unleash the power of AI in contract management by exploiting the unmatched quantity, quality and variety of data on our platform.

Customers are already benefiting from these new applications through features such as intelligent clause identification and attribute extraction, and a powerful data validation interface. They have used the apps to reduce time to digitize legacy and third-party contracts by up to 80 per cent, improve post-execution contract compliance by up to 90 per cent and discover new revenue opportunities in legacy contracts.

For example, global manufacturer and services provider Vertiv used the ICM AI apps to analyse its legacy sales contracts to enable deeper insights into risks and obligations.

Carmaker Daimler is working with Icertis to reduce cost, manage risk better and ensure compliance in the contracting process through ICM AI apps.

Until now, it has been prohibitively expensive, time consuming and risky for an enterprise to map accurately and at scale the attributes and clauses in legacy and third-party contracts to their semantic definitions. AI enables us to do it faster and better.

ICM DigitizeAI automatically imports legacy contracts in any format, then maps attributes and clauses to the enterprise's structure,

making the contracts easy to find, report on and analyse.

ICM DiscoverAI lights up third-party contracts by identifying clauses and attribute data, and matching them to a company's clause library, providing instant visibility on contract components.

With deep integration to other commonly used applications such as Microsoft Word, contract managers also reap the benefits of AI from within their software of choice, increasing contract velocity, reducing risk, improving compliance and generating substantial commercial value.

An example of the power of AI infused in the ICM platform is in negotiations. It can analyse global data, for example on price, quality and features, discovering patterns that help users negotiate with suppliers and customers.

The ICM platform also uses blockchain digital ledger technology. Combining blockchain and ICM DiscoverAI technology enables a more transparent supply chain.

This ensures data privacy in general data protection regulations, ethical standards, such as the prevention of child and slave labour, and sustainable sourcing can be enforced across the supply chain. The technology can

therefore improve regulatory compliance and data security, help companies protect their brands, and meet their sustainable and ethical sourcing goals, while keeping sensitive contract information confidential.

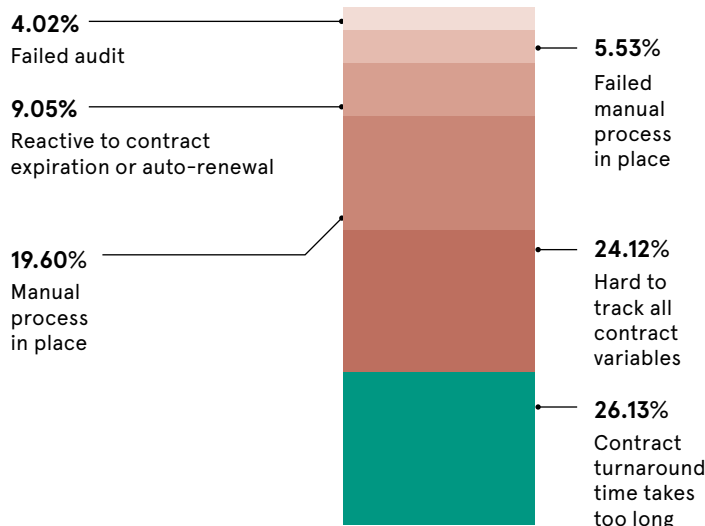
AI will unleash the potential of contract management. Many top businesses still have contracts dispersed in different locations and unmanaged. As they see the value of managing all their contracts from a central digital location, and turning them into strategic assets that participate in business processes with the help of AI, that will change quickly.

As we journey towards becoming the contract management platform of the world, I will leave the conclusion to our client BASF, the world's largest global chemical producer, which says: "The Icertis platform's ease of use and intelligent insights will help us optimise the value of our commercial relationships, increase contracting efficiencies, and help reduce contractual risk."

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Applied Cloud

What is your biggest contract pain point?

Survey of 200 respondents



Bittersweet taste of cocoa production

Our delight in chocolate comes at great cost to those who produce the cocoa, notably child slaves in West Africa

OLIVER BALCH

Chocolate is, for most of us, a guilty pleasure. We know we probably shouldn't but, hey, it's been a long day.

Yet for thousands of children in the cocoa fields of West Africa, chocolate is a source not of pleasure but of hard, sometimes hazardous, work.

The link between child labour and chocolate is, lamentably, a long one. Reports of under-age minors being made to work in Côte d'Ivoire, Ghana and other cocoa-producing countries date back two decades or more. According to the *2018 Cocoa Barometer*, a report by 15 European non-profit organisations, as many as 2.1 million child labourers are working in West Africa alone.

So why does the problem persist? And what, in particular, can the big cocoa buyers and chocolate manufacturers do to prevent it?

The answer to the first question is simple: poverty. Already poor, smallholder farmers have been hit by a slump in global prices over the last few years. On average, cocoa-growing households earn \$0.78 a day, less than one third of what the Fairtrade International defines as a living income of \$2.51.

"Until we address the poverty issue and raise farmers out of poverty, then this will continue to be a problem," says Timothy McCoy, vice president of the World Cocoa Foundation, an industry-backed membership body.

It's not just about price at the farm gate, says McCoy. Plots are often too small, plants too old and agricultural methods too dated to make farming profitable. His view for the future is phlegmatic: "If there was an easy solution to this, then we would have solved it a long time ago and moved on."

If that sounds like defeatism, it's not. The last decade and more has seen a wide array of initiatives by businesses, governments and charities to combat cocoa's child-labour problems, from building schools to training farmers in more efficient growing methods.

Trying to provide a semblance of order to all these efforts is the

Geneva-based International Cocoa Initiative (ICI). This multi-sector organisation, which counts the likes of Mars, Hershey's and Ferrero among its members, was set up in 2012 with an explicit mandate to eliminate child labour.

One of ICI's main strategies to date has been the establishment of monitoring and remediation systems, as laid out in a framework known as the Harkin-Engel Protocol. It's painstaking work, however. Currently, only 127 such farmer groups and co-operatives in Côte d'Ivoire and Ghana are covered. It's a not insignificant number, but still only a fraction of the estimated two million cocoa farmers in the two countries.

Even so, Nick Weatherill, executive director at ICI, is "reasonably bullish" about progress. "These systems, when worked into companies' supply chains, allow them to identify child labour and, having identified it, to address it."

His comment flags up a theme of transparency, a topic that underlies many contemporary discussions about child labour. If commercial buyers knew more about the working practices on individual farms, transparency proponents argue, then they would cut out egregious operators and procure only from ethical farms.

This logic has spawned a huge certification industry over recent years. Almost every standard includes the prohibition of child labour as a core requirement. In reality, however, it remains impossible for external auditors to provide a 100 per cent guarantee that a certified farm has zero child labour throughout the year.

So says Britta Wyss Bisang, chief sustainable supply chain officer at the Rainforest Alliance, one of the best-known certification bodies. "Cases may be hidden by group members or be moved to other,

There is still more work to do to address the pervasive issue of child labour in cocoa



Benjamin Lowy/Getty Images Reportage

\$0.78

average daily income of cocoa farmers in Côte d'Ivoire, compared with the \$2.51 regarded as necessary for a living income

Fairtrade International 2018

2.1m

children involved in cocoa production in West Africa alone

Cocoa Initiative 2018



Tony's Chocolonely

01 Men and young boys working on a small cocoa farming commune near Abengourou, Côte d'Ivoire

02 Netherlands-based chocolate brand Tony's Chocolonely is 100 per cent slave-free and has direct, equitable relationships with farmers

non-certified sectors or areas, meaning the problem of child labour is not solved, and a better future for the child and its family is not secured," she says.

In response, some certifiers are expanding their work to examine the preventative mechanisms that communities have in place. For instance, UTZ, which merged with the Rainforest Alliance in January, is currently trialling an approach that requires producer groups to assess the risk of child labour on their farms, to work with the community to reduce those risks, and document efforts at remediating any cases that occur.

The Swiss food giant Nestlé, owner of chocolate brands such as Milkybar, Yorkie and Smarties, is experimenting with a similar strategy. Moving away from a strict compliance approach, its Child Labour Monitoring and Remediation System seeks to get farmers to self-declare instances of child

labour and then take actions within the community itself to prevent it.

This more collaborative approach keeps the issue visible and stops it being buried, according to ICI's Mr Weatherill. An initial three-year pilot with 26,000 farmers, mostly located in Côte d'Ivoire, saw the number of children carrying out hazardous tasks drop by 51 per cent, a "very positive trajectory", he says.

Darrell High, cocoa manager at Nestlé, shares his enthusiasm, but remains sanguine at the same time. "While this has been incredibly encouraging in terms of the progress we've made, we know that there is still more work to do to address the pervasive issue of child labour in cocoa," he says.

Scaling up the approach would certainly help. Not only does Nestlé need to expand the programme across its entire supply chain, but other buyers need to get on board as well. In the recent past, seven companies have agreed to do just

that. Crucially, the list includes the global commodity traders Olam, Cargill and Ecom, which hold huge sway over the conditions in which cocoa is bought and sold.

At Uncommon Chocolate, a California-based cocoa buyer that supplies mostly US chocolate manufacturers, Emily Stone would like to see the industry's big players go even further. Not only should they pay a fair price, she says, but they should publicly declare which farms they source from and how much they pay, as Uncommon Chocolate does.

"Farmers who employ child labour on their farms don't do it because they want to, it's what they need to do to make ends

meet," says Ms Stone, Uncommon Chocolate's founder and chief executive. "One of the main reasons we do transparent pricing is because we believe that paying farmers stable, fair prices for their business is the key to sustainable practices of all kinds."

In an age of increasingly discerning consumers, the excuse that pricing is commercially sensitive no longer washes. Yes, such a step takes courage, she admits. But only with "radical honesty" will it be possible to address the root causes of child labour and bring about real change.

"All the external projects and NGO-type activities that are happening in the cocoa supply chain are

good and important, but we need to address the core issue that prices are simply too low," she argues.

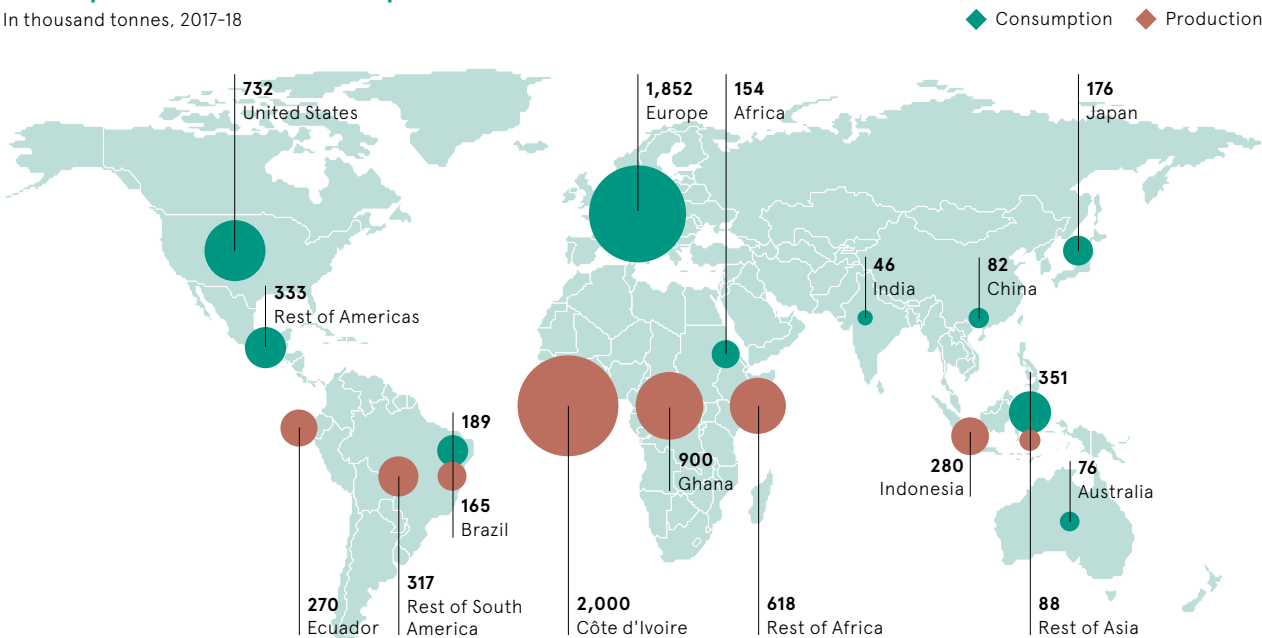
Tony's Chocolonely has some advice to pass on as well. Set up by three journalists in response to stories of child abuse in the cocoa industry, this Netherlands-based brand claims to make 100 per cent slave-free chocolate. Its approach is to establish direct, equitable relationships with farmers, while also helping them to increase their productivity and improve their product quality.

This approach to procurement is intentionally designed for larger buyers to follow suit, says Pascal van Ham, the brand's head of marketing. To prove her point, the ethical brand recently worked with the huge Belgian chocolate manufacturer Barry Callebaut to ensure all its cocoa purchases could be traced back to sustainable sources.

"We set up the company 15 years ago to create a different business model and a different way of co-operating with farmers that is based on equality and not maximising profits," she says. "And if we can do it, then the question is why can't others follow the same example?" ♦

Cocoa production and consumption

In thousand tonnes, 2017-18



International Cocoa Organization/Fountain, A.C. and Hütz-Adams, F. (2018) Cocoa Barometer 2018

Watch out for cosy deals and handshakes

Balancing sometimes personal business relationships and an ethical approach to procurement demands transparency

KATIE JACOBS

For a high-profile example of conflicts of interest, look no further than the US presidency. A report by US think tank Public Citizen has accused President Donald Trump of “unprecedented conflicts of interest”, with 64 trade groups, foreign governments, Republican candidates and others staying at or holding events at properties linked to President Trump during his first year in office. Other reports claim the Republican National Committee spent \$271,000 – 86 per cent of its venue and catering expenditure – at Trump hotels in one month alone.

Where an organisation chooses to spend its money can all too easily slip into conflict-of-interest territory. Buyers need to be on their guard. Businesses are built on relationships, but what happens when

relationships are so close that rational judgment is clouded and what is procurement’s role in preventing a misstep from turning into a public relations disaster?

Rob Handfield, Bank of America university distinguished professor of supply chain management at the University of North Carolina, sums up a conflict of interest as “when you take care of your needs as an individual above those of the organisation”. “The question is: is [something] influencing you to make a decision you wouldn’t make otherwise?” he says.

According to experienced procurement professional Kurt Warren, associate director at NYU Abu Dhabi, there are four areas of conflict of interest to be aware of: the giving and receiving of gifts, family and personal relationships, investments, and the use of company resources. “Why it falls over is because people don’t really understand what a conflict of interest is, what’s permissible and what’s not,” he says.

At more mature organisations, there should be multiple safeguards and governance processes in place. For example, says Ian Bolger, vice president at procurement consultancy Efficio, multiple levels of sign-off and a sourcing council or contracts committee, connected to the board, which approves all types of contract above a specific level or of a certain type. “Dual responsibility is critical,” says Mr Bolger. “No one person should be able to navigate all the way through.”

Some organisations go further. Founder of procurement consultancy The Fivis Partnership,

Procurement’s role is to maintain the ethical compass of the company and their own moral compass

Jens Hentschel used to work at consumer goods giant Procter & Gamble (P&G), where procurement employees were moved every couple of years, to avoid the development of inappropriate relationships. “It was frustrating for suppliers, but it did avoid those conflicts of interest,” he says.

More often though, Mr Warren points out, the potential ethical misstep will not be coming from procurement. “It’s usually not the buyer with the conflict of interest, as they are in the middle,” he says, adding that in his world “engineers love to use their friends”. “The role of the buyer is to say ‘that’s not our policy, that’s not ethical’ and make sure the checks and balances are there.”

This can be a tricky line to walk. “It’s common for CEOs to say ‘I want to go with my buddy,’” says

Professor Handfield. “Some are very good at getting to know executives on the golf course and bypassing traditional tendering. The good CEO would say they have to run it through the regular channels.”

Not doing so can be damaging to an organisation’s reputation, thanks to media attention and increasing public interest in business transparency and ethics. According to the *Edelman Trust Barometer*, only 43 per cent of the public trust businesses in the first place.

Mr Hentschel says at P&G the million-dollar question was: “Would you feel comfortable if what you’re doing was published in *The New York Times*? If not, you probably shouldn’t be doing it.”

Lack of objectivity in the tender process will also most likely not lead to the best outcome for the organisation. Mr Hentschel says it drives complacency, as suppliers feel assured of business, while Mr Bolger notes it limits innovation and lessens the chance of getting the best deal.

For startup organisations that are growing organically, things may be less straightforward. Professor Handfield says: “It’s fuzzy as people are often wearing multiple hats.” The key is to share information. “Tell someone else what you are planning to do,” he advises. “Be transparent in your actions.”

Activists of the #GovernmentSachs campaign outside the headquarters of Goldman Sachs in New York, protesting against the bank’s alleged burgeoning influence on Capitol Hill

Mr Bolger agrees it’s a balancing act. “When you’re running a small business, it’s about networks and agility, and it’s your rules,” he says. However, startup founders have often taken risks and are aligned to wanting the best outcomes for their firm, he adds. Having skin in the game provides natural constraints.

Where things have to change is once investors come on board. “When there’s third-party investment, there has to be that duty of care to make sure leaders are making the best decisions,” says Mr Bolger, who often works with startups once they have received funding, helping them professionalise their procurement processes.

He cites a current example where an individual is doing all the high-value deals and there are lots of handshake agreements. “That might have been right when the business started, but not once it has reached a certain threshold,” he says.

“Procurement’s role is to maintain the ethical compass of the company and their own moral compass,” says Mr Warren. But there will often be shades of grey. As Mr Hentschel concludes: “Business is always about personal relationships and, as procurement professionals, we need to be aware of this.” The key is managing it in as transparent a way as possible. ♦



Erik McGregor/Pacific Press/LightRocket via Getty Images

Automating tax calculation is an essential step towards the right invoice every time

Companies are increasingly buying worldwide resulting in different tax across transactions. With regulations changing constantly, manual resolution of international tax can lead to invoice dispute, so businesses are turning to automated systems

Tax rules are updated daily around the world, which means getting purchase orders and invoices right the first time is far from straightforward. It presents a serious challenge to businesses of all sizes attempting to transact in different locations, but it also offers an opportunity to develop favoured buying relationships by getting the process consistently right.

In procurement, many departments aim to address the issue by manually keeping track of changing legislation in different parts of the world and then applying the rules to their purchase orders. But they regularly need to speak with sellers to correct tax on problematic invoices. Finding themselves over or underbilled for tax causes frustration with suppliers, aside from potential financial problems, so there is a strong incentive for buyers to ensure things are right from the start.

The latest systems help by monitoring changes to tax regulations in real time and feeding directly into procurement technology. These services enable users to get closer to optimal invoicing, saving time and money while improving relationships.

"Governments around the world hold both the buyer and seller responsible for tax, and last year there were over 5,000 tax changes across 15,000 jurisdictions in the US alone. New technology helps businesses avoid the burden of manually checking thousands of shifting regulations," explains Chris

Carlstead, managing director of global indirect tax at Thomson Reuters.

The company's ONESOURCE system automatically applies current taxes to 'businesses' purchase orders and invoices, reflecting buying and selling locations, product or service type, and usage.

"When companies get tax right they remove a big problem between the buyer and seller, and ultimately improve the relationship," he adds. "They also help the bottom line by minimising time spent on invoice calculations and discrepancies, as well as eliminating 'VAT leakage' in which value added tax paid is inaccurately reclaimed."

Getting tax right begins at the point of order. While it remains essential that suppliers invoice correctly, it is even more important that buyers start the process off well, getting ahead of the game by including the right information.

"For the whole buying process, having accurate tax and usage information on purchase orders means making the right start," says Mr Carlstead. "By including the right tax calculation on the purchase order, businesses avoid a lot of discrepancies later on and make reconciling much easier."

The complexity of tax is evident in many national and local examples. In Brazil, regulations present particular difficulties because of the need for real-time tax reporting and payment at the moment of purchase, a revolutionary approach to tax that causes a headache for many firms. In India, a huge change is being made to sales tax, shifting from VAT to goods and services tax, transforming the processes required.

Meanwhile, for the six Middle Eastern countries that make up the Gulf Co-operation Council, VAT is in the process of being gradually phased in from a well-known zero tax baseline. Then there is the ongoing case of ecommerce firm Wayfair, heard in US courts, about if and how online sellers should collect tax for remote purchases.

This complicated environment is prompting a shift in the way buyers approach procurement, especially as the use of ecommerce is opening many firms to broader geographic sales. "You can be a 'mom and pop' store selling shoes, and one day you're in one location somewhere in the world; the next day you're selling digitally and you're not only selling all over the world, but

Protect buying power and eliminate tax exposure

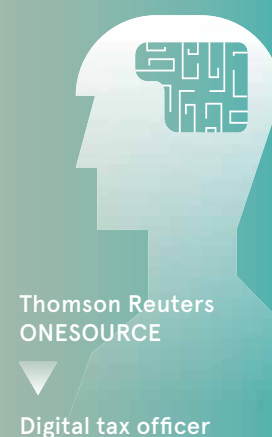
TAX ISSUE

- ▶ Pay too much tax on purchases...
- ▶ Incorrectly account for VAT/GST paid
- ▶ Fail to account for use tax on purchases
- ▶ Invoice reconciliation issues caused by tax
- ▶ Supplier relationship troubles

BUSINESS IMPACT

- ▶ Wasted money - tax refunds are costly
- ▶ Overpay VAT on return
- ▶ Tax penalties and interest
- ▶ Miss early-pay incentives
- ▶ Supplier frustration and conflict

SOLUTION



you're also able to purchase your supplies globally," says Mr Carlstead. "You are then faced with an array of tax rules you have to get right.

"For many companies, the more places they operate, the higher the probability of having errors on invoices, and this is why many are moving to automate the entire process."

Software business Adobe, which operates globally, is one firm that faced a challenge of tax process inefficiency. The company transformed its tax processes with ONESOURCE, saving more than \$1 million annually through process improvement and automation, and through cutting custom enterprise resource planning (ERP) system code by 95 per cent. It slashed tax return times from two weeks to thirty minutes.

The Thomson Reuters ONESOURCE platform is constantly updated with

the latest regulation in 190 countries, and last year tracked 24,000 product and service taxability changes. It integrates with procurement systems, such as SAP Ariba, as well as ERP technology. "By having the latest regulation automatically updated, companies can be sure they no longer have to manually keep pace with those complex tax structures, and they can focus instead on efficiency and good business," says Mr Carlstead.

Of course for some businesses, the motivating factor will remain fear of a fine or reputational damage for underpaying tax or concerns of ruined client relationships after disputes over too much tax. But many are beginning to focus on the new opportunity instead. Professionals in procurement and their suppliers can get tax right as a core part of developing better supply chain relationships.

"It's understandable that businesses don't want to be issued with big fines or to face a reputational hit, but it's interesting that so many more now recognise that getting tax right is a big strategic opportunity allowing them to have much closer supply chain relationships," says Mr Carlstead. "Procurement departments are well aware of the common problems with tax on invoices and they see proper purchasing processes as a key answer." Automating tax calculation, enabled



Chris Carlstead
Managing director of global indirect tax, Thomson Reuters

by real-time information, is enabling businesses to get their payments right the first time and every time. Success here is not only good business, but also a proactive means of solving problems, enhancing relationships between buyers and sellers in multiple countries.

To find out how to automate tax on purchase orders and invoices please visit <http://onesourceindirecttax.com>

THOMSON REUTERS
ONESOURCE™

935

tax rate changes and
595 new tax rates

24k

product taxability changes
were tracked in 2017

3rd

largest cash flow for
companies is indirect tax

2015 Global Benchmark Survey,
KPMG International

The Thomson Reuters ONESOURCE platform is constantly updated with the latest regulation in 190 countries, and last year tracked 24,000 product and service taxability changes

Brexit: be ready to react

With exit from the European Union less than a year away, procurement teams must act now to ensure they are ready to adapt to all eventualities if they are to maximise competitiveness in a changing market, says global procurement consultancy **Efficio**

The UK will exit the EU on Friday March 29, 2019. Exactly what this will involve remains unknown. But the political and economic landscape could shift dramatically, bringing with it a raft of challenges and new opportunities.

For procurement, a specialism traditionally based on hard facts, the EU exit is proving to be a curve ball, thrusting it into unfamiliar territory.

In the absence of any concrete information on areas such as trade and freedom of movement, organisations should use these vital few months to assess their risks and draw up contingency plans that will enable them to respond to whatever the coming months might bring.

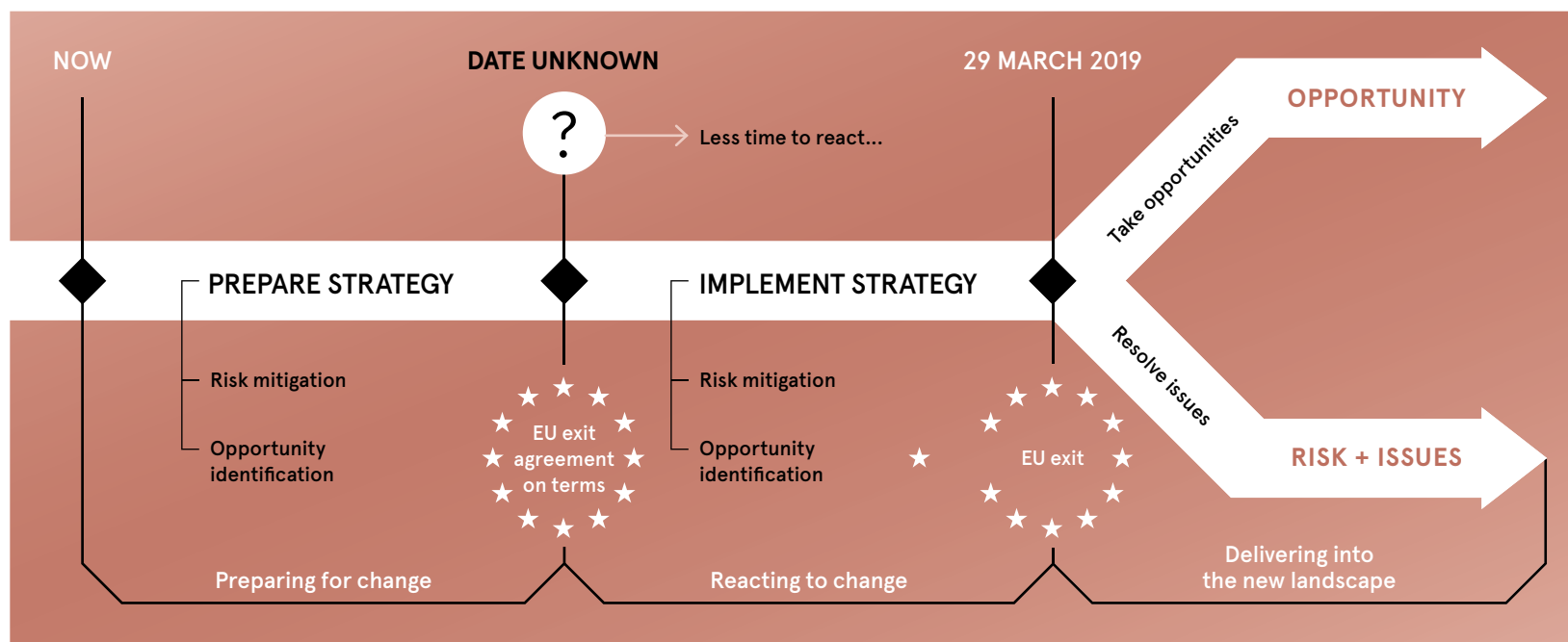
Assessing risks

Daniel Peck, a principal at Efficio, says: "Details of the Brexit agreement will soon begin to emerge, whether it's a transition deal, a hard exit or something else. Public and private sector companies should be assessing the impact of change on their supply chains now and positioning themselves to capitalise on new opportunities."

Arguably the biggest question mark hangs over freedom of movement. Since the 2016 referendum, the number of EU workers searching for jobs in the UK has dropped by 11 per cent.

Phil Woode, senior manager at Efficio, says: "The UK exit will have direct implications for many low-margin industries, such as construction, care, agriculture, retail and distribution, possibly resulting in further cost pressures."

"If labour costs increase, it could push some businesses to consider whether now is the time to invest in digitalisation and automation, the benefits of which could improve productivity and mitigate the effects of a skills shortage. The construction sector is already beset by a skills shortage and investing heavily in modular-build solutions. Other sectors may need to follow suit."



Sourcing strategies, suppliers and contracts

According to Efficio, organisations should start by considering three core pillars of procurement: sourcing strategies, current suppliers and existing contracts. Those with a deep understanding of these areas, coupled with strong contingency plans to deal with change, are best placed to mitigate risk, manage disruption and seize opportunities.

Strategic sourcing

Businesses need to assess the full impact of the UK's exit on existing sourcing strategies for their key categories of spend. Changes in cost drivers or the speed at which goods can be transported may be strong reasons to consider implementing alternative strategies.

"Clear visibility of existing sourcing strategies and an understanding of how sensitive they may be to factors triggered by the UK exit is crucial," says Mr Woode.

The UK exit will have direct implications for many low-margin industries, such as construction, care, agriculture, retail and distribution, possibly resulting in further cost pressures

"Knowing how far these factors may need to move for companies to change their strategies and having the required resources in place to be able to implement any changes will give businesses first-mover advantage."

Suppliers

Understanding how suppliers and supplier markets will be impacted is another necessary consideration.

As Mr Peck points out: "Visibility is vital. The origins and traceability of goods are essential building blocks, so it's important to understand your extended supply chain – your suppliers, but also their suppliers."

"If supply chain costs change, businesses are likely to feel the impact, either immediately through price increases or more gradually as suppliers seek to recover profitability in other ways."

In worst-case scenarios, suppliers may conclude that certain contracts, or even their business, are no longer viable and seek to exit.

Mr Peck recommends working with key strategic suppliers, particularly

those operating in low-margin environments such as construction, logistics and distribution, to develop a set of principles or plans to adapt to the changes a UK exit might bring.

Businesses should also seek to understand the key markets that their supply base is built on, for example labour or raw materials, and consider modelling the impact any movement in costs or regulations could have on their performance. "Your company may be well prepared, but that doesn't mean your suppliers or their suppliers will be," says Mr Peck. "Assessing the supplier relationship will enable you to decide whether to renew, renegotiate or terminate contracts."

Contracts

Organisations should be familiar with the terms of their supplier contracts as a matter of course, but it is particularly important in times of uncertainty.

According to Mr Woode: "Companies need to know exactly which contracts involve data transfer, freedom of movement, cross-border logistics or imported goods in the supply chain and, importantly, which are at risk due to change."

Among the questions they should ask are when do contracts expire? What extension rights or options are there? What commercial models are suppliers on? What are the potential supplier performance risks in long-term agreements where businesses are locked in?

It's also critical to assess the extent to which contracts offer a level of certainty and protection. For example, what constitutes *force majeure*? Does the UK's departure from the EU apply? Which party picks up the cost of aligning to regulatory change?

"Understanding your contracts gives you a good base from which to react. You will know which areas are stable, where you have the most contractual protection and where you have the least," says Mr Woode.

Time to act

Some businesses will undoubtedly ask themselves whether they can afford to invest time and money looking at what ifs? But these aren't extraordinary measures and should form a core part of business-as-usual activities. Moreover, being underprepared carries serious risks.

Mr Peck concludes: "Without a clear understanding of their contracts, supply base and sourcing strategies, businesses leave themselves wide open to risk. While the EU exit will be a unique and momentous change in the market, it also presents an opportunity to prepare for general developments in the supply chain and future-proof your organisation in a changing world."

Efficio is working with public and private sector companies to carry out detailed readiness analysis ahead of the EU exit. The service is designed to prepare organisations to make fast, structured change and mitigate risk when the time comes. To find out more please email brexit@efficioconsulting.com or visit efficioconsulting.com/brexitandprocurement



Daniel Peck
Principal, Efficio



Phil Woode
Senior manager, Efficio

INTERVIEW



Gareth Rhys Williams, government chief commercial officer, says there are huge savings and improvements to be made

Dealing with taxpayers' multi-billions

The government's chief commercial officer tells how he aims to get taxpayers the best deal when awarding sometimes billion-pound contracts

CLARE GASCOIGNE

Procurement officers often sigh over the misapprehension that their job is all about cost-cutting. For government procurement officers, the penny-pinching reputation is even harder to shake.

"The perception is that we only buy on cost," says Gareth Rhys Williams, government chief commercial officer. "But I can't ever remember a contract where cost was the only issue."

Mr Rhys Williams, who has been in post for just over two years, is on a mission to change a number of similar perceptions. He has led a serious drive to upskill central government's commercial arm, a drive that began with his appointment from the private sector, where he was chief executive of workplace services supplier PHS Group and Charter plc before that.

In a blog post a mere 14 weeks into the job, he said it was clear "that there are real opportunities to make huge savings for taxpayers and improvements in service levels, through better-designed contract negotiation and ongoing management".

"Government had recognised that we had underinvested in our commercial skills set," he says. "If we are fluffy about contract design and how we score the quality elements in a tender, price will become the determining factor. We need to be much more sophisticated about how we drive quality and get much

It's all about driving a higher quality of procurement and we need to be crystal clear about evaluation in order to do that

better about making those quality elements more precise. It's up to us to make the quality assessment very granular."

Innovative assessments of suppliers can help provide that element of quality. A recent selection process for a £1.3-billion investment programme at submarine bases on the Clyde involved a series of interviews and workshops to assess how collaboratively the bidders were able to work.

The procurement process was discussed with potential bidders beforehand; behavioural experts observed, scored and helped to evaluate the behaviours of each firm in a series of practical exercises running over several days.

Companies were required to develop objectives with the Defence Infrastructure Organisation, discussing how they would approach and implement the work. It was, according to the contractors taking part, "a refreshing way to do business [and] a huge leap forward from a procurement perspective".

Not that cost is overlooked; a recent McKinsey report found public sectors around the world could save about 15 per cent of their spending through smarter procurement, which given that the UK government's commercial function spends about £49 billion every year on external contracts, is not to be sniffed at.

Part of ensuring that quality is at the forefront of everyone's mind involves getting the procurement specialist in early and the department has been developing cross-functional teams, ensuring commercial experts are involved in contract design from the get-go.

Making sure government contracts are available to as wide a range of suppliers as possible is another part. In August 2015, the government set a target of 33 per cent of spending to go to small and medium-sized enterprises, a target Mr Rhys Williams describes as "a tough goal, but a good one".

"We have to make ourselves easier to deal with and have changed a lot of our processes, such as only asking for supplier information once," he says. "It's not in our interests to buy only from big vendors; we want this to be as innovative a process as possible. But there are a lot of unintended consequences in this game; if you award a contract to a small-sized supplier one year, it might turn them into a big supplier. Does that mean we can't award them a contract next year?"

Much of the work in changing behaviour involves changing the way big suppliers do things and bringing in measures that encourage good behaviour all the way down the chain. So, for example, it is currently mandatory for all government suppliers to pay their sub-contractors promptly and the commercial function is consulting on ways of eliminating those companies that fail to pay within 30 days, even on non-government work.

"The devil is in the detail," says Mr Rhys Williams. "We are making sub-contracting opportunities more available. We recently made it mandatory for our suppliers winning contracts worth £5 million or more to advertise any sub-contracts above £25,000 via Contracts Finder [the government website that publicly advertises current contract opportunities]."

Since the start of 2017, more than 22,000 suppliers, almost two thirds of whom are small businesses, have signed up to Contracts Finder, according to figures from the Crown Commercial Services. But increasing procurement from smaller businesses can mean increasing the workload for the procurement department.

"There's a trade off," says Mr Rhys Williams. "We have disaggregated a lot of the larger IT contracts. But if you chop a contract up into 300

33%

of public sector procurement spending should go to small and medium-sized enterprises

UK government target 2015

\$9.5trn

of goods and services are purchased by public sector organisations worldwide each year, equal to around 13 per cent of global GDP

McKinsey 2018

smaller contracts, you need more civil servants to manage that.

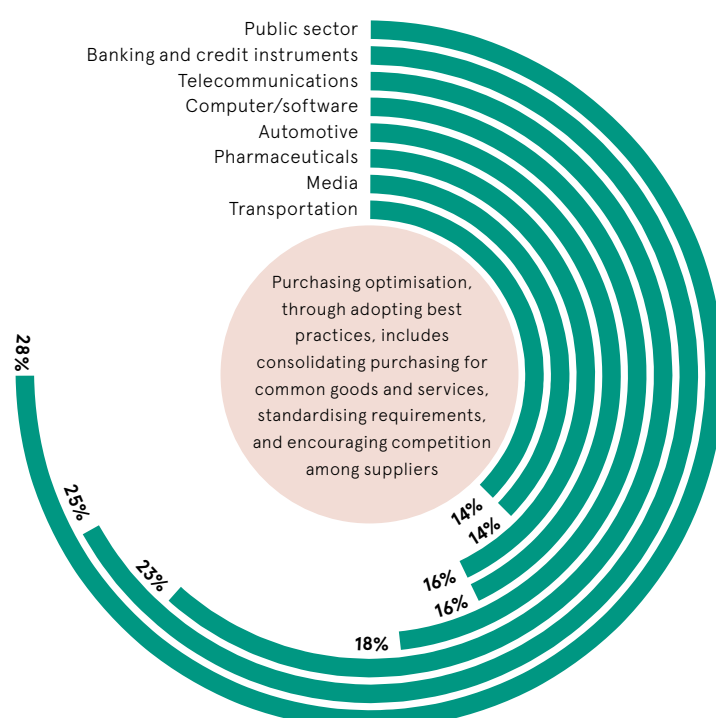
"It's all about driving a higher quality of procurement and we need to be crystal clear about evaluation in order to do that."

So, for example, it may be politic to award contracts in such a way as to help regenerate unemployment blackspots, with suppliers promising to take on a certain proportion of long-term unemployed. But if those long-term unemployed don't have the skills set required for the contract and need huge amounts of retraining, it may not produce the best-value outcome.

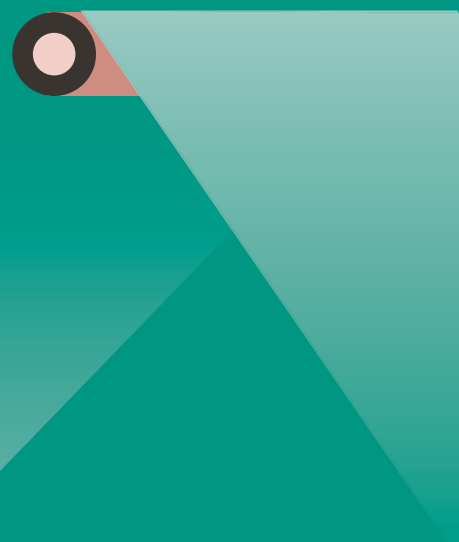
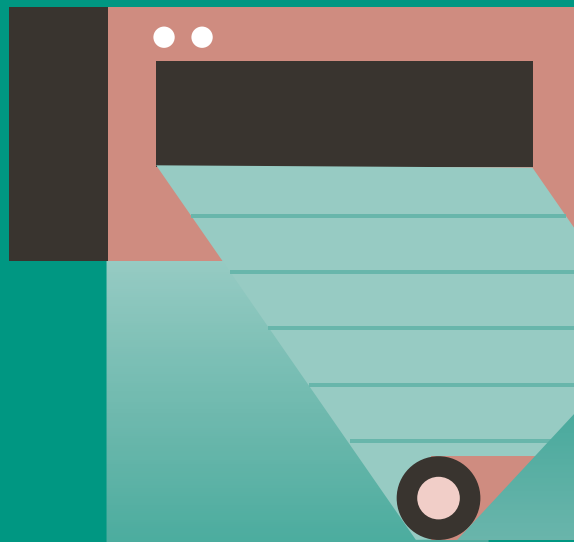
"It's all about relevance and proportion, and thinking through the wider agenda," says Mr Rhys Williams. And that brings us back to the quality of the staff at his command. It's not just about cost, it's about quality. ♦

Savings potential from purchasing optimisation

Percentage of total procurement spending that could be saved in selected industries



McKinsey 2018



- Collaboration networks and business-to-business markets
- Predictive/advanced analytics
- Robotics
- Intelligent content extraction
- Visualisation
- Artificial intelligence/cognitive
- Cyber-tracking
- Sensors/wearables
- 3D printing
- Crowdsourcing
- Blockchain
- Virtual/augmented reality

DRIVING PROCUREMENT ONWARD

Business leaders are beginning to realise that procurement is no longer a cost-cutting function and can deliver real value to organisations, though this will only happen with the right approach, technology investment and the backing from wider stakeholders

Top opportunities and barriers to procurement technology

Survey of C-suite executives

Ayiming 2017

Opportunities

01 Increased integration with supply chain

02 Ability to harness big data

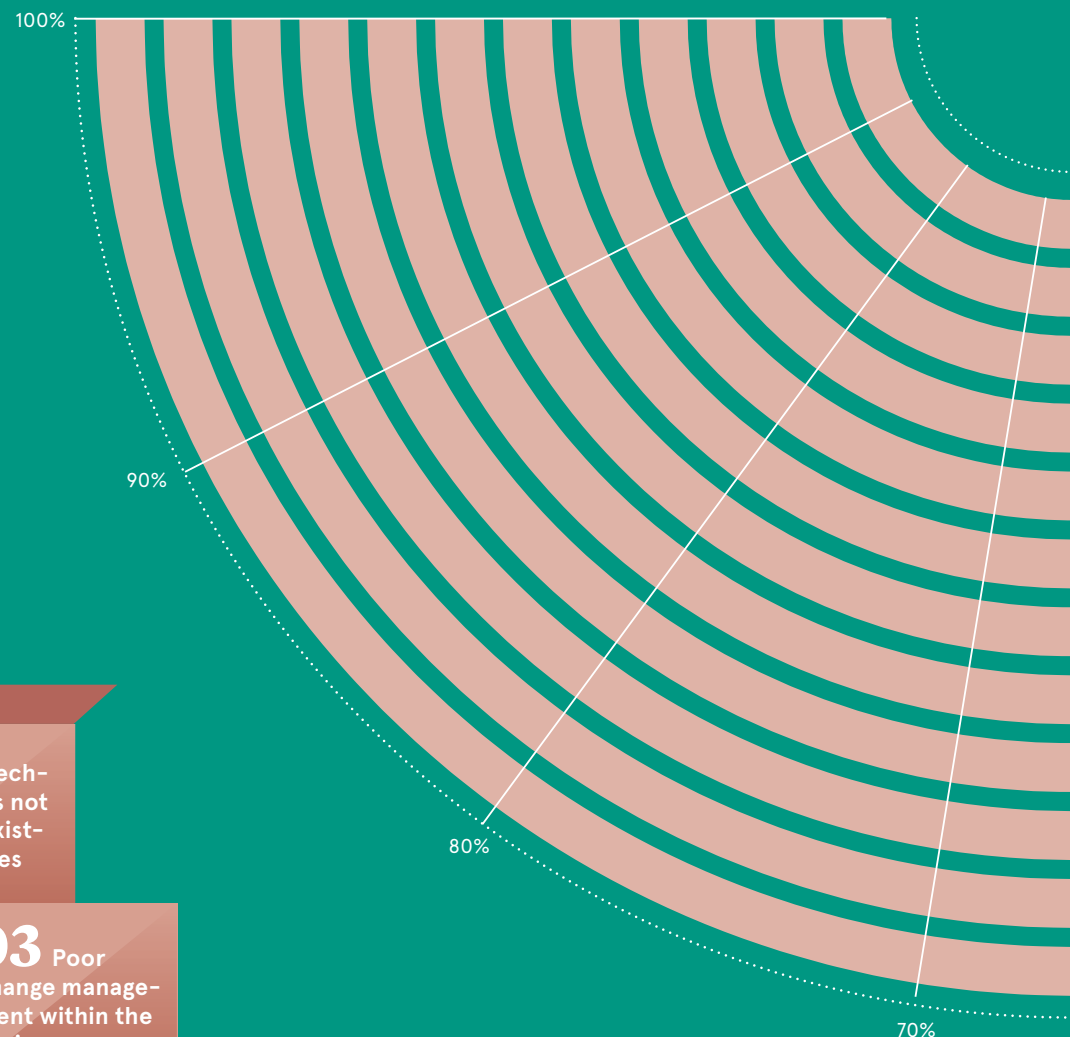
03 A more efficient workforce

Barriers

01 The technology does not fit in with existing processes

02 Lack of resources to implement solution

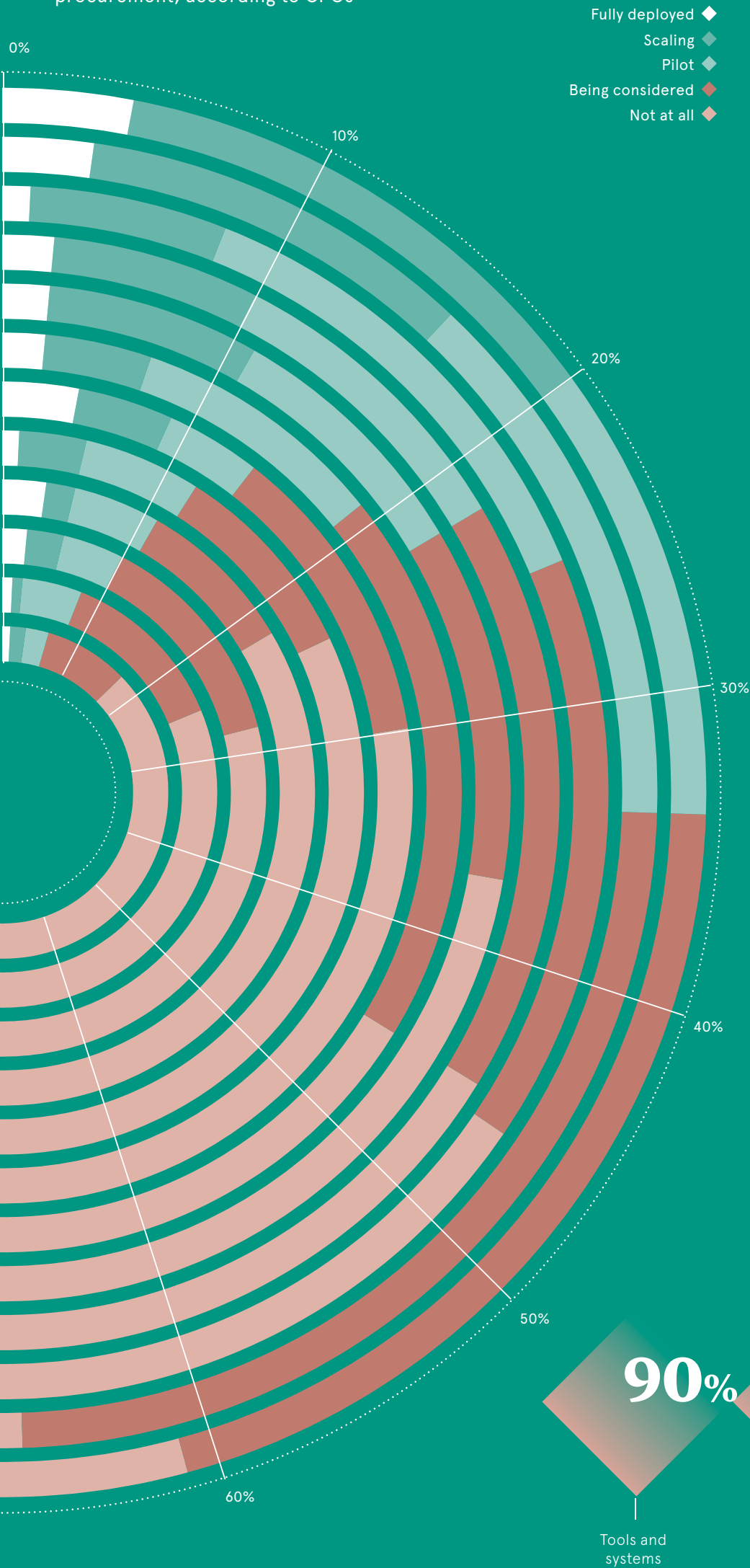
03 Poor change management within the business



Current and future use of procurement technologies

Stage of deployment across global procurement, according to CPOs

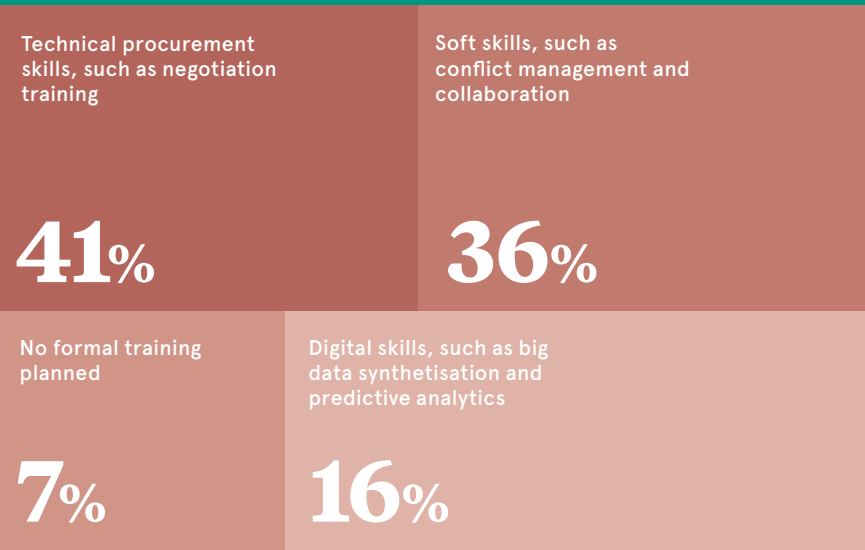
Deloitte 2018



Skills needed for the future of procurement

Percentage of CPOs focused on the following areas of training in 2018

Deloitte 2018



Biggest future risks for CPOs

Percentage of procurement leaders ranking the following as high risk

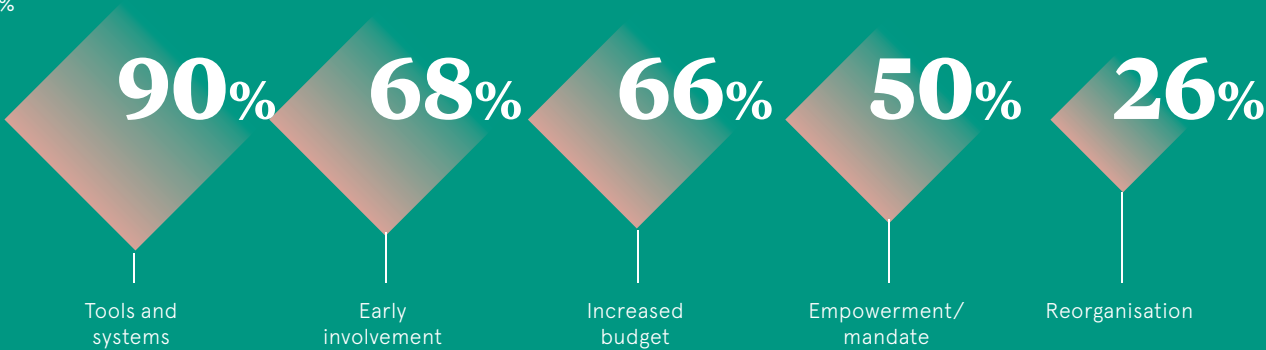
The Hackett Group 2018



Areas for improvement in procurement

Percentage of CPOs who believe the following is needed to increase value creation from procurement

Ayiming 2017





Five ways forward with technology

As organisations embrace connectivity with an emphasis on efficiency and productivity, digital technologies are opening up new ways for them to respond to the needs of consumers and suppliers

BURHAN WAZIR

For sectors as divergent as government departments, transport companies, and hospitality and tourism firms, breakthroughs such as cognitive procurement, which harness blockchain, machine-learning, cloud computing and the internet of things, are being employed to overhaul every aspect of supply-side economics.

For any institution in the business of buying and selling goods or services, whether government

administered or privately owned, procurement presents an unrivalled set of challenges. Variables as unpredictable as demand, war, climate change and migration can all adversely impact supply.

But according to the 2018 Deloitte survey, *Leadership: Driving innovation and delivering impact*, compiled after gathering the views of 504 procurement leaders from 39 countries, representing organisations with a total annual turnover of \$5.5 trillion, the digitisation of procurement is helping overcome a number of key challenges. These

include market volatility, collaboration and leadership.

While key findings discovered that 61 per cent of procurement leaders said they delivered better savings in 2017, 66 per cent predicted that digital technology would be responsible for the biggest changes in supplier management over the next five years. Half said they were using advanced analytics in a bid to help reduce costs.

Five sectors experiencing significant technological shifts in their approach to procurement illuminate how the profession is being driven forward:

Food and analytics

Customer data is having a profound effect on the food industry. In the United States, the International Foodservice Manufacturers Association has teamed up with HAVI, a supply chain management company, and Kinetic12, a food industry consultancy, to use data as part of a collaborative effort to enhance the relationship between some of the biggest food brands and suppliers. The objective is to evaluate how to optimise supply chain practices and address how the farm-to-fork movement could lead to new offerings which address changing consumer tastes.

Partners so far include 15 major chains, such as Burger King, Chick-fil-A, Starbucks, Subway and

Wendy's, as well as manufacturers and distributors.

This could have a profound effect on an industry where the revenue for 2017 is estimated at around \$799 billion and where the country's top 300 chain restaurants introduced more than 5,000 new menu items over the course of the year. The food service industry is the second-largest private employer in America with a workforce of 15 million.

The use of data will drive down costs and inefficiencies, and free resources for innovation. Data use should also encourage supply chains which can broaden the range of fresh foods available to customers. Distributors, suppliers and manufacturers that traditionally use different methods of data collection should be able to use the same information and devices – a mobile phone, for instance – to redirect inventory, address in-store promotions or accurately forecast demand.

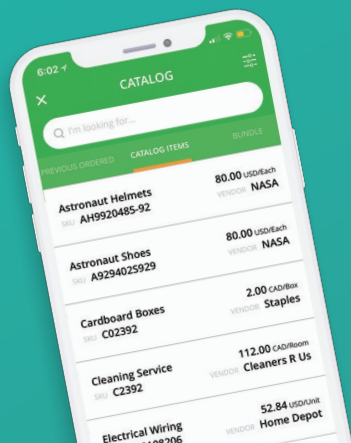
Public sector and AI

While the UK government recently announced plans to invest £300 million in artificial intelligence (AI) research to secure its status as a leading hub for "deep tech", the public sector has already delved into the world of AI in a number of ways. Earlier this year, the Serious Fraud Office (SFO) announced it would expand its use of AI after successfully putting it to use in an investigation involving Rolls-Royce.

The SFO, which often needs to process large amounts of data in

fraud inquiries, used an AI bot in a four-year bribery and fraud investigation. The bot was able to process more than half a million documents a day at speeds 2,000 times faster than a human lawyer. It marked the first time AI was used in a criminal case in the UK and ended with Rolls-Royce agreeing to pay a settlement of £497.25 million.

Since then, the SFO has announced plans to use tools to cut the time it takes for its investigations teams to categorise financial documents and identify transactions.



“Since we’ve implemented Procurify, I’ve heard nothing but good news. I can think of no higher compliment for a procurement platform.”

CEVDET SAMIKOGLU, CFO, SAMUMED

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Manufacturing and machine-learning

When Boeing and General Motors wanted to procure mass 3D-printed metal parts for commercial jets, they turned to Citrine Informatics, an innovation-focused Californian company, for help. The challenge for Boeing and General Motors was to mass produce printed blocks of welded alloys which would be strong enough to be fitted to commercial planes.

With the traditional 3D printing of alloys, a metallic printer lays down

individual layers of metallic powders which are then welded together by an overhead laser. Over a number of hours, the machine can print a small block about the same size as a bar of chocolate.

To speed up the procurement process and make stronger alloys at the same time, researchers at Citrine used machine-learning to come up with ten million recipes for improving the possible metallic combinations of the alloys. Algorithms then took only days to determine which ones to mass produce. Several prototypes were printed; all passed durability tests when they were microscopically examined and subjected to thousands of pounds of force.

Tourism and beacon technology

The tourism industry is beginning to harness personal data and technology to help procure a number of new services for guests, including hotel rooms which automatically adjust themselves to the tastes of each guest.

In an indication of what hotels of the future might offer, a prototype at a trade fair in Madrid recently showed how receptionists could vanish, allowing customers to check in using only facial recognition at the front desk. Once the customer was identified, the room automatically adapted itself to a series of demands made on reservation, including adjusting temperature and lighting settings, and even changing the types of paintings displayed in digital frames hanging on walls.

Some hotels and resorts have already harnessed new technology to offer such an experience at an introductory level, using virtual reality headsets as tourist brochures, for example. The Spanish model, however, aimed at travellers seeking a luxury experience, also used the latest in speech recognition technology to enable guests to order pizzas in one of 40 different languages.

The prototype, which has been designed by a French technology company Altran, also allows guests to use WhatsApp to unlock their room doors. Bedroom mattresses are equipped with sensors which record movement, prompting hotel staff to offer guests a coffee on awakening.



Defence and AI

The defence industry is in the early stages of a major shift as AI and robotics are enabling “intelligent” warfare of the future, enabling governments to shift to more efficient and cheaper AI and robotics systems.

In the United States, the Department of Defense has started to develop a range of advanced technologies for nearly every facet of its role. The department is creating a more intelligent procurement system, using AI to improve existing platforms for recruiting staff, soldiers, purchasing munitions and decision-making. It also aims to create a more autonomous fighting force, pairing AI-enabled systems with humans, aiming for faster decisions and better outcomes. ♦

Bloom and NEPRO innovation can flourish in private sector

Procurement can be transformed by embracing technology and encouraging innovation, says **David Shields**, chief executive of Bloom Procurement Services

Public sector procurement is transforming through Bloom and NEPRO, for which we are the delivery partner. I strongly believe that the impressive growth and positive impact generated by the platform can be leveraged across the private sector too.

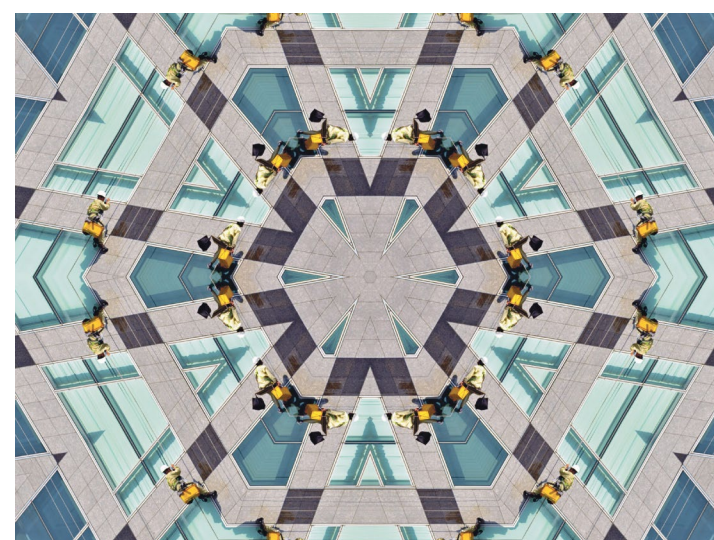
For more than two decades I have worked in procurement in the public and private sectors, and have advised governments on both sides of the Atlantic. I have spent the majority of my career driving efficiency and improving outcomes for the taxpayer, and this solution means these objectives are achieved faster and more transparently.

In my experience, having led a number of public and private sector commercial functions, professional services are often not procured in the most appropriate manner for the market. They are usually misaligned with how suppliers operate and bought with too much focus on price rather the ultimate purpose and outcomes in mind. As a result, procurement can be seen as being transactional, and often the promised outcome isn't realised and added-value opportunities are lost.

Bloom, the delivery partner for NEPRO since 2015, has brought together a vast and growing community of buyers and high-quality suppliers to help the public sector achieve better outcomes from their professional services procurement and assure delivery and value for every professional services project. There are 19 categories of professional services spend and 240 sub-categories. In less than three years, the number of public sector bodies working with Bloom has more than tripled from 51 in 2015-16, with a projected turnover of £90 million by the end of the 2017/18 financial year.

Given this incredible growth and the future opportunities to innovate within the industry, it was an easy decision to return to the UK from America and join Bloom in May. I am now looking forward to driving our expansion into other markets and territories, including the private sector.

Not only can this flourishing community, which has approximately 200 public sector buying organisations and 4,000 service providers – around 120 suppliers are being added every month – achieve up to 19 per cent savings, the speed to market is significantly quicker as well. One hundred days is the



traditional procurement route time, but with Bloom, consultants can be in place and ready to deliver in as little as a fifth of that.

Recently, for a children and social care project for Cardiff Council, proposals were received from several suppliers and ready for review within just ten days. Bloom is helping customers and suppliers become 55 per cent faster at delivering projects compared with 2014-15, reducing unnecessary costs and speeding up the delivery of benefits for customers and payments to suppliers. Little wonder Bloom has been asked to manage more than 3,000 projects to date.

Having access to suppliers within the Bloom community that buyers might not otherwise make contact with, is proving a game-changer for innovation and adding value. Further, transparency and trust is essential and Bloom excels in this regard. Every supplier is carefully vetted before being awarded accreditation. In addition, it is free to register with Bloom; supplier organisations can participate in as many opportunities as they wish and only once business is secured is a fee payable.

That transparency is another reason I believe this model can succeed in the private sector where I've not come across any platforms like NEPRO, focused on services. And there are a whole range of different marketplaces. Bloom offers dynamic, flexible supply chains, rapid speed to market and a comprehensive procurement solution. We are continuously seeking to improve and develop the platform and

170
public sector organisations
work with Bloom

11-19%
savings

4,000
suppliers in a growing pre-
accredited supplier community

associated services, taking into account supplier and customer feedback.

Generally speaking, procurement as a function has not fully harnessed technology – it is still quite process orientated – and we are missing a trick. By embracing tech and encouraging innovation, Bloom will provide the best choice for buyers and more business opportunities for suppliers, big or small.

For more information please visit
www.bloom.services

Bloom *
Opening up procurement

Procurement is ripe for digital transformation

Digital transformation today is a key priority for enterprises to drive innovation and remain competitive. Procurement, with its increasing strategic reach and impact on the business, must be placed high on the digital transformation agenda

Only a few decades ago, procurement was characterised primarily to be a tactical team focused on cost reduction. Now procurement leaders are increasingly expected to play a more strategic role within the enterprise, working closely with the C-suite as a trusted adviser to the business.

Given this shift in procurement's remit, chief procurement officers (CPOs) are seeking increased visibility into, and control over, spend and greater agility to be able to meet the rapidly changing requirements of enterprises. They want to ensure that the huge swathes of data they generate are under their control and can be analysed for key insights to enable timely and effective decision-making.

"Procurement teams at market-leading enterprises are turning to new technology to make fundamental shifts in the way they work," explains Paul Blake, associate director of product marketing at GEP, a leading global provider of procurement software and procurement services. But he warns that many businesses are "still locked into the same technology framework that was set up decades ago".

Indeed, hindered by legacy systems, CPOs often don't get the levels of visibility, efficiency and integration they want. A large proportion of procurement activities continue to be managed manually, even within large corporations. Microsoft Excel spreadsheets remain in common use among procurement professionals worldwide, so there is a high degree of manual and time-consuming processes.

"If we are talking about transformation and next-level productivity, it's not possible to achieve it working in the same kind of technology environment that we have today," notes Mr Blake. "So digital procurement transformation has to be about changing the processes, changing how people work, but you have to do that by removing the roadblocks that current technology presents."

Digital procurement transformation requires best-in-class technology that is unified from source to pay, to leverage efficiencies, insights and value from a common process, user experience, and data set

Research suggests this notion is not lost on procurement professionals, with 95 per cent of procurement leaders surveyed recently by The Hackett Group believing that digital transformation will fundamentally change the way procurement functions within the next two to

three years. The adoption of emerging technologies, such as big data, artificial intelligence, robotic process automation and blockchain, is expected to increase, the study reveals.

Bill Harris, director of indirect procurement strategy at Honda North America, concurs: "At Honda, procurement is a very strategic function. And technology has always been critical for our success; we have made substantial efforts to structure our data for stratification to keep pace with our business needs. It's a core element of our overall digital transformation programme."

While there seems to be universal agreement on the potential game-changing impact of digital procurement transformation, less than half of CPOs surveyed believe they have the resources and technology infrastructure to move ahead.

"Digital procurement transformation requires best-in-class technology that is unified from source to pay, to leverage efficiencies, insights and value from a common process, user experience, and data set," explains Jamie Ogilvie-Smals, vice president of consulting at GEP.

"Using separate tools or common 'platforms' that are not unified just builds inefficiency into processes, limits the value of the data and does not provide the insights that high-performing teams need to succeed," he says.

GEP's focus in recent years has been on developing a cloud-native, unified source-to-pay software platform, SMART by GEP®, that provides users, both within and outside procurement, a comprehensive digital workplace to



SMART by GEP® – the platform for digital procurement transformation

SMART by GEP is the industry's leading cloud-native, unified source-to-pay platform with comprehensive procurement functionality, inclusive of spend analytics, sourcing, contract management, supplier management, procure to pay, savings project and financial management. SMART by GEP leverages the power and scalability of the cloud to offer a single, digital workspace for all stakeholders that enables and accelerates digital procurement transformation. Designed as an open platform, SMART by GEP allows enterprise procurement teams to harness the potential of new and emerging technologies, such as artificial intelligence, big data, blockchain and the internet of things to achieve truly transformative business outcomes.

For us, digital transformation is a key strategy to deliver more value to the business, faster. We needed an easy-to-use technology solution that could help us source more effectively, minimise risk, drive greater adoption and compliant spend, and deliver on changing business needs. SMART by GEP ticked all the boxes

Mette Villebro Sievers,
head of procurement
at Copenhagen Airport

transform their end-to-end sourcing, procurement and spend management operations. By unifying all the tasks of source-to-pay into a single workspace, SMART by GEP eliminates duplication, maximises visibility and control, and optimises results.

Among the dozens of market-leading organisations that have turned to GEP's source-to-pay software as part of their digital transformation strategy is a large multinational consumer packaged goods company with \$9 billion in spend across more than 40 countries. The company has been able to drive nearly \$800 million in savings by bringing more than 80 per cent of its spend under management and achieving 95 per cent process compliance.

Another GEP client, a UK-based global diversified engineering company, achieved more than 98 per cent visibility into \$1 billion of spend by consolidating data from 20 different systems, across five divisions and 25 countries, enabling the procurement team to identify significant opportunities to create more value for the business.

"Clearly, there's a strong case for digital procurement transformation and it's no longer just a good thing to do in the future, it's something you must do today. And enterprises should prioritise procurement on their digital transformation roadmap, given the impact it can have on the overall business performance," says Mr Blake.

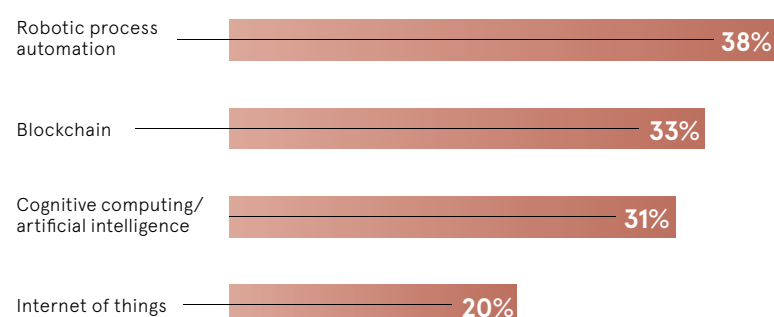
By prioritising this increasingly strategic function on their overall digital transformation agenda, enterprises can ensure they are able to maximise the return on investment of digital transformation.

For more information please visit
www.smartbygep.com
or www.gep.com

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GEP®
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Percentage of organisations piloting digital technology



95%

of CPOs believe digital transformation will fundamentally change the way services are delivered over the next three to five years

46%

believe they have the resources to handle digital transformation

Key Issues Study, The Hackett Group, 2018

SUSTAINABILITY



Chris Ratcliffe/Bloomberg via Getty Images

Building in sustainability is no problem

Reconciling best-value procurement and sustainability should not be a problem as the two represent a win-win

JIM McCLELLAND

Procurement is all about value, so too is sustainability as long as that value is measured in more than just money.

In principle, the synergy is clear, says Duncan Brock, group director at the Chartered Institute of Procurement & Supply. "Sustainability runs through the heart of procurement," he says. "It is not only in the best interests of customers and the environment, but typically makes processes more efficient and less costly."

In practice is where the challenge starts. Procurement is critical to embedding sustainability into decision-making and the supply chain is

the engine room, explains director of sustainability for Canon Europe, Stuart Poore. "Any business serious about changing its value chain needs to get practical in the way they manage suppliers," he says. "Clear and precise expectations must be laid out in tendering and contracting, including targets for improvement. Without that, there's a danger nothing substantive will be delivered."

How best to target and track supply chain sustainability is open to debate, says Mr Brock. "There is a range of ways businesses are integrating sustainability into procurement. Heathrow Airport, for example, has embedded sustainability in supplier contracts for construction

of the third runway, including key performance indicators and evaluation criteria," he says.

Most sizeable organisations rely to some degree on supply chains to deliver set goals, but the construction industry is almost archetypal in its traditional contracting model.

Unfortunately, fallout from the disastrous failure of Carillion illustrates just how many supply chain businesses can take a hit in the wake of a major collapse. Its implosion looks set to break national insolvency records, with liabilities of almost £7 billion, leaving creditors among its 30,000 suppliers facing a payout of less than one penny in every pound.

Even in this industry, though, the procurement game is changing, and for the better, says Shaun McCarthy, director of Action Sustainability and chair of the Supply Chain Sustainability School. "In construction, around 80 per cent of main contractor revenue goes to the supply chain," he says. "However, it is no longer just about ticking boxes; the new standard for sustainable procurement, ISO 20400, provides guidance on aligning sustainability goals."

The writing is on the wall for bare-minimum compliance, according to Mr McCarthy, who led the UK delegation on the new standard. Furthermore, it seems entirely appropriate the world first for completing assessment against ISO 20400 should have been claimed by a leading UK-based international infrastructure and construction company, Balfour Beatty.

A more holistic view of sustainability is emerging in construction, says Dr Shamir Ghumra, BREEAM sustainability certification scheme

director at the Building Research Establishment (BRE). "Procurement professionals are increasingly looking at total value. For instance, there is now much more emphasis on the social-value contribution and also how risks such as modern slavery can be minimised," he says.

Indeed, in a bid to shoulder responsibility and show leadership, the construction sector will this September launch an index of the Top 100 Corporate Slavery Influencers, created by BRE, with Sustain Worldwide.

As an industry famous for long project lead-times and duration, construction also needs to get proactive and preventative with procurement, rather than merely reactive, adds Dr Ghumra. He says: "Sustainability considerations early in the project have greater impact on the finished asset. More sustainable and ethical products can be specified and the procurement team plays a critical role in ensuring no substitutions at a later stage."

Such prime-mover impetus can generate increasing momentum further down the supply chain, known as a bullwhip effect.

While acknowledging procurement often plays the role of gatekeeper for an organisation, smart procurement expert at Ivalua, Alex Saric, is also keen to emphasise the creative potential of a more collaborative, less prescriptive approach. "By creating a dialogue with suppliers, procurement can tap into a rich source of innovation that can help drive green initiatives," he says. "This collaboration will open up the entire production process to change, allowing for greater efficiency and waste reduction."

Estimates suggest construction accounts for 33 per cent of all waste in the UK, plus it consumes 60 per cent of all materials. Not surprisingly, circular economy is now a hot topic.

If you think sustainable procurement costs more, you are doing it wrong

At a strategic level, there is growing support for adoption of offsite construction methods, where manufacture of key elements and even whole buildings in factory conditions can help boost resource efficiency.

There are also myriad small wins in supply chain procurement contributing to a cumulative circularity effect. For example, as the largest UK housebuilder by volume, Barratt purchases millions of roof tiles a year. Switching to an interlocking system from Forticrete meant using up to four times less material. Building at scale, such specifics really start to add up.

Weaving together all these strands of supply chain sustainability is where procurement optimises outcomes, says Dale Turner, director of procurement and supply chain at Skanska UK. He says: "Procurement is fundamental in deploying a balanced scorecard approach, ensuring we win and deliver profitable projects through an integrated safe, green, ethical, diverse, innovative and best-value supply chain."

Ultimately, best value need not involve some grubby trade-off between eco or ethical ambitions and economic realities. Procurement and sustainability represent a win-win.

In fact, any problem reconciling the two probably means the problem is you, concludes Mr McCarthy: "If you think sustainable procurement costs more, you are doing it wrong." ♦

Small wins in supply chain procurement, such as changing roof tiles to interlocking ones that use less material, can have a big impact for large firms such as Barratt, which purchases millions of tiles a year

Current level of supply chain transparency

Global survey of chief procurement officers

54%

Limited visibility below tier one

11%

Virtuality no visibility below tier one

1%

NA

27%

Good transparency below tier one

7%

Full transparency of entire supply chain

Deloitte 2018

Be objective and go for good value

In an increasingly volatile world, procurement decisions are in danger of being influenced by politics, not to mention emotions, rather than what's best for the bottom line

FINBARR TOESLAND

In an era of unprecedented supply chain complexity, it's clear to see why the role chief procurement officers (CPOs) play in global enterprises has become increasingly crucial.

In fact, a survey by recruitment agency Korn Ferry found that 82 per cent of CPOs now have direct access to their chief executive, up from 60 per cent in 1999.

Forward-thinking and adaptable CPOs are able to deliver cost-savings across their business, at the same time as mitigating

potentially damaging supply chain risks. The renewed pressure on supply chain integrity has brought CPOs to the forefront of organisation-wide decision-making.

However, political uncertainty on both sides of the Atlantic is turning previously uncontroversial procurement decisions into high-profile news headlines and drawing uneasy CPOs into politicised debates.

After the Home Office awarded the contract to produce post-Brexit blue UK passports to Franco-Dutch firm Gemalto, over the UK's De La Rue, many Brexit supporters criticised the choice, even though government ministers insisted the tender was fair and rigorous.

"The Home Office tender will have set out its requirements for the new passport, including 'good value' terms and other issues such as security, with the contract awarded to the organisation that best met those conditions," says Nick Barnett, MSc purchasing and supply chain management course leader at Westminster Business School, University of Westminster.

"The problem for some in the media was it was not awarded to a British company. Of course, it is an emotive issue in this case, but it shows how easy it is in the current climate to be drawn into a debate that is not about overall business value."



The awarding of a contract to produce passports to a non-UK firm angered many Brexit supporters

For CPOs managing international supply chains, taking the emotion and politics out of procurement can only be achieved when their decision-making process is as robust and transparent as possible

In a perfect environment, the only factors CPOs would consider when making any procurement decision would be around value and cost. Yet the procurement function is not insulated from other business areas and CPOs will undoubtedly be influenced by the current political climate, alongside the opinions of C-suite colleagues. CPOs have always faced external pressures and a central part of the role is to weight these different perspectives objectively.

"There are obviously risks associated with offshoring work, but a good CPO and their procurement team would ensure that their procurement process fully evaluates these risks and develops appropriate mitigations," says James Bousher, operations performance manager at international consultancy Ayming UK.

For CPOs managing international supply chains, taking the emotion and politics out of procurement can only be achieved when their decision-making process is as robust and transparent as possible. If the reasoning behind a procurement choice is sound, then CPOs

will be well positioned to react and adapt to any policy changes, rather than being controlled by unexpected political disruption.

"For example, the burgeoning trade war that the US is instigating may create some headaches for CPOs if prices start changing, but it's not going to launch a raft of politically motivated procurement decisions. Ultimately, the foundation of good procurement practice is about isolating the process from unrelated outside influence and delivering the most optimal outcome for their company," says Mr Bousher.

It's still not clear what form Brexit will take, with a soft Brexit that sees the UK maintain favourable trade terms with the European Union or a hard Brexit that disrupts supply chains both being in the realm of possibility. Preparing contingency plans for a hard-Brexit scenario is a prudent course of action.

"Segmenting your supply chain is a key step for decision-makers, ensuring you know which items can be quickly switched to other suppliers or countries if there's an issue or, if substitution is more difficult, developing contingency plans should something negative arise," adds Mr Bousher.

But pre-emptively breaking supply chains based on fear of the unknown can be problematic. According to a Chartered Institute of Procurement and Supply survey, 45 per cent of businesses in the EU are in the process of finding local companies to replace UK suppliers, with 32 per cent of British businesses seeking local firms to take over from EU suppliers.

If a Brexit with few tariffs is realised, then the companies that, for example, withdrew their manufacturing operations from the UK will have done so unnecessarily and at a cost to the business.

From US President Donald Trump imposing tariffs on imports, an



Top three impacts of protectionist policies

Survey of 6,000 firms worldwide

40%

Cost of doing international business has increased

28%

More joint ventures/collaborations

28%

Skills/labour shortage

TNS Kantar/HSBC 2018

404

new protectionist legislative measures were taken globally in 2017

Allianz 2018

unclear Brexit deal and the rise of protectionist rhetoric in a number of European countries, the challenges facing CPOs are numerous and it's virtually impossible to avoid all the knock-on effects this volatility will have on global supply chains.

By proactively assessing the most at-risk elements of the supply chain and creating comprehensive back-up plans should these links be broken, CPOs will ensure a fact-based conclusion is reached.

"A CPO's role is to deliver the best results in procurement for the company that they work for. If, following the evaluation of a well-run procurement process, a CPO is offered the option of significant savings from an equivalently well-qualified international supplier, or a local supplier, most wouldn't bat an eyelid in banking the savings," Mr Bousher concludes. ♦

'How might the supply landscape change and what are the implications of these changes?'

The Chartered Institute of Procurement & Supply (CIPS) has recently launched *The Future of Supply Management*, a white paper produced in conjunction with the University of Liverpool and Aston University, Birmingham. This significant piece of academic research explores what the future holds for the procurement and supply profession.

How might the supply landscape change in the coming years and what are the implications of these changes? The paper explores two future scenarios entitled *Titans* and *Networked*.

The *Titans* scenario suggests that the business landscape will polarise with a few, very large and powerful organisations, and move to many much smaller organisations.

Under this viewpoint many supply chains will have been radically reconfigured, driven by widespread adoption of additive manufacturing (3D printing) and servitisation. Many more products and services would be commoditised through the rise of commercial exchange platforms. Decision-making will be brand and sustainability "blind" unless such criteria are explicitly written into algorithms, therefore there may be reduced attention to environmental and social factors, just enough to comply with legislation or regulation.

Here it is expected that tendering costs will fall dramatically through automation, removing a key barrier to entry for many and increasing market dynamism. We would see significant reductions in regulation, leading to a regulatory wild west, creating a far more dynamic business landscape, enabling innovation, but also increasing unpredictability. So as costs fall, automation will increase in low-cost countries, their prices will fall and there will be a swing back to global sourcing.

Data security will be a huge risk, with supplier breaches having the potential to destroy firms. Robots and analytics will be more widely used for procurement and supply activities. Contracting, ordering and payment along with most sourcing decisions, including the more strategic, will be automated, supported by competitive intelligence derived from big data.

The *Networked* theory on the other hand predicts a more evenly distributed market power where organisations are more interconnected. Procurement's principle strategic contribution will centre on network

co-ordination and supporting network strategising. Transparency and accountability will be increasingly valued over speed and there will be far more consultation with stakeholders.

A crucial point, apparent within these two scenarios, is that supply managers are not passive actors within them. The procurement community needs to initiate debate, challenge current practices and build capabilities and their capacity to develop new, appropriate supply management options, rather than sleepwalking into undesirable futures.

The procurement profession continues to evolve with opportunities for professionals to play a more strategic role. The move from tactical procurement to dealmaker and value creator will require a broader and more complex skillset that not everyone has. This will inevitably result in a contraction of roles, but an elevated status for procurement.

Questions must be asked where this leaves junior entry-level jobs to attract new talent. Or indeed those who cannot adapt to the changes? The early days in our careers where we cut our teeth on processing orders and expediting will be long gone. In fact, the roles for young people leaving school in the next ten years or so are unlikely to even exist yet. Nor can you expect to make a lifelong career in the same role any more.

No one has a crystal ball in any of this but, in today's pressured environment, it's hard to find time to sit and consider such substantial questions and so the white paper starts that process, looking 15 years out. These are not predictions and I'm sure not all will agree with the narrative presented, but it at least provokes the debate and gets us thinking.



Gerry Walsh
Group chief executive
CIPS

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FASHION

Rag trade clean-

Enlightened fashion brands are cleaning up their supply chains by ensuring ethical standards and sustainable use of resources

SHARON THIRUCHELVAM

The fashion industry has arguably grown into one of the world's most needlessly polluting, wasteful, energy-intensive and inefficient industries. Its supply chains are so fragmented, vast and distant that many retailers are unaware of how their fabrics are made, and who runs the factories that supply them. This dislocation is all the more concerning now that the life cycle of a garment is known to be far more environmentally damaging than previously assumed.

Microfibres shed from washing synthetic materials are estimated to account for 15 to 30 per cent of plastics found in the oceans, according to the International Union for Conservation of Nature. Almost 65 per cent of all garments end up in landfill or are incinerated, releasing toxic chemicals as just 1 per cent are recycled, according to Wrap (Waste and Resources Action Programme). Global garment production, meanwhile, has doubled over the last 15 years, says the Ellen MacArthur Foundation, with supply vastly outstripping demand.

“Several fashion companies are consulting with sustainable advisory firms, and investing research and development into alternative production methods and materials

H&M's Conscious range is made from 100 per cent organic and recycled materials

“The fashion supply chain, in all its discombobulated glory, is a problem in itself,” says Orsola de Castro, co-founder of the transparency index Fashion Revolution. “It is as inefficient as it is opaque. It is designed to hide rather than proclaim.”

This wasn't always the case. Less than 30 years ago, most luxury fashion brands in Europe owned the factories that made their clothes. Garments for Armani, Dolce & Gabbana and Bottega Veneta were made in northern Italy. England's textile industry thrived in Leicester, Manchester and Bradford. People could smell the leather tanneries, and see the factories and cotton mills. “The minute we moved the fashion industry from our shores, we lost touch,” Ms de Castro says.

Corporate transparency is the first step towards raising universal standards across the industry and holding companies to account. It is impossible to police and prevent environmentally damaging processes if they are unknown, Fashion Revolution says. Its annual index ranks 150 fashion companies according to their public disclosure of sustainable policy and commitments, governance, traceability and remediation efforts. Encouragingly, this year industry-wide transparency has improved 5 per cent, but even so, only ten brands – adidas, Reebok, Puma, H&M, Esprit, Banana Republic, Gap, Old Navy, C&A and Marks & Spencer – scored more than 50 out of 100.

up could set a new trend



H&M/Mikael Jansson

Overcoming entrenched business processes and corporate norms is a challenge even for companies committed to reform. “If you imagine a large design house, there is no relationship between the design studio and the sourcing team – that in itself is indicative,” says Ms de Castro.

Several fashion companies are consulting with sustainable advisory firms, and investing research and development into alternative production methods and materials. In early-2018, adidas released a new sneaker line in collaboration with Parley for the Oceans that is made from fibres recycled from waste plastic. The luxury fashion conglomerate Kering has made commitments to cleaning its supply chain, by implementing the Natural Resources Defense Council-implemented Clean by Design programme across its brand suppliers.

Sustainable ranges from high street brands, such as Zara’s #Join-Life, H&M’s Conscious and ASOS Africa, carry a slightly higher price point and take slightly longer to produce, but are traceable and use environmentally friendly fabrics and processes. Tellingly their designs also tend towards classic minimalism over current trends. These efforts represent a step in the right direction, Ms de Castro acknowledges, but she says such standards should be the norm across these multinationals.

For consumers concerned about their environmental impact, small and medium-sized fashion brands founded on sustainable business processes represent the best bet. Reformation and Everlane in the United States are entirely vertically integrated and made onshore, so waste is minimised and labour and environmental practices are above board. Others are nimble enough to provide closed-circle services, such as T-shirt company For Days which replaces stained or damaged T-shirts with recycled new ones.

Jenny Houghton, founder of Fashion Enter, based in Haringey, London, provides support on running a sustainable business for young fashion brands. She maintains that retailers and factories “need to be joined at the hip and work as one”. Like many of the industry’s critics, Ms Houghton identifies its relent-



Mango

Case study

Mango

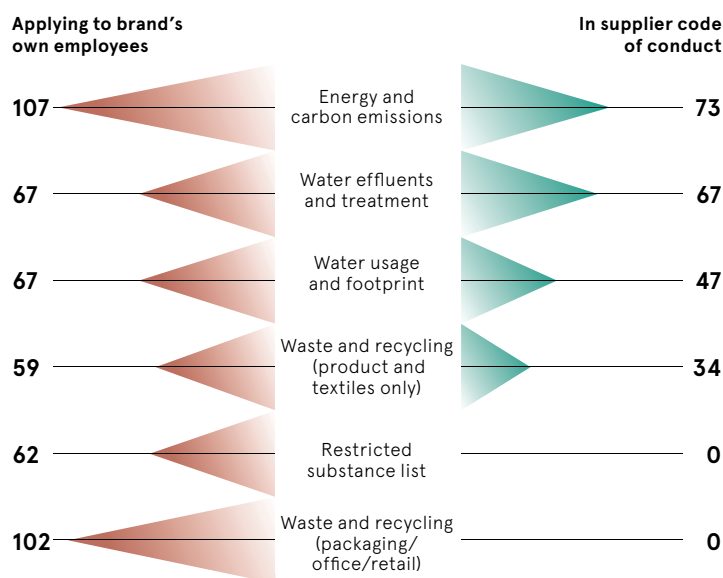
High street brand Mango is the latest fashion retailer to roll out a sustainable range with its Committed Collection. Now in its third season, and manufactured in Portugal, Morocco and Turkey, the range features garments made from certified organic and recycled cotton, recycled polyester or cellulose-based fabric Tencel.

Beyond this capsule collection, Mango says 44 per cent of its range of garments

comprise of natural fibres. The company is currently developing an internal tool to calculate the company’s water footprint and identify the processes, garments and installations with the greatest water-saving potential, which will help it reduce water consumption. Mango has also joined the Better Cotton Initiative and aims to source 50 per cent of its cotton from sustainable suppliers by 2022.

Sustainable commitments

Number of fashion brands that have published policies on the following sustainability issues*



*Survey of the 150 biggest global fashion brands

Fashion Revolution 2018

less season-driven focus as creating systemic inefficiencies, which are amplified if retailers buy in bulk from overseas. “Suppliers in China tend to want long production runs of 5,000, which require commitments of nine months ahead on production,” she says.

Rolling ranges produced onshore, she believes, are the way forward. “A good buyer will squeeze the life out of a best-selling garment – changing the colour or print, adapting it for a specialty section such as ‘petite’ or ‘maternity’. It is all about reaction to consumer demand,” she adds. This approach favours smaller runs of 800 to 1,200 units compared with an average of 3,000, which is far more sustainable from environmental and business perspectives. “The retailer is not overbuying a style and therefore not contributing to landfill or discounting,” says Ms Houghton.

The UK may have stringent labour regulations, but if enforcement is lacking malpractice thrives. Compliance tools, such as voluntary audit Fast Forward, forensically interrogate the legal, labour and ethical standards throughout a

company’s supply chain. Launched in 2016 by auditing company Complyer and used by the likes of ASOS, it follows all company transactions and tracks payments to staff.

Other technologies help companies to make ethical procurement decisions. Blockchain services offered by London-based Provenance enable companies to trace and certify their supply chain. Cloud-based system Galaxius tracks supply chain activity from fabric orders to garment delivery and enables performance-related pay calculations that can result in garment workers earning up to £17 an hour.

The fashion industry is changing, but people also need to take responsibility for their consumption choices. The average piece of clothing in the UK is kept for 3.3 years before it’s discarded, according to Wrap. Sustainability campaigner Livia Firth invites consumers to consider whether they would wear an item at least 30 times before they commit to buying it. “We need to acknowledge that as consumers our wardrobes are part of the supply chain,” Ms de Castro concurs. ♦

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