

LEAN-AGILE PROCUREMENT

An award-winning approach



"What if we've got just one day for a complex sourcing case?"

Key take-aways

- Boost time-to-market from MONTHS to DAYS
- Radical focus on business value via direct customer involvement
- Innovation through partner collaboration
- Paradigm shift to equal eye-level and true partnership

Introduction

A new approach, and even a new mindset, which allows us to source complex cases in as little as one day. Why do we need it and what did we learn from investors and start-ups?



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A handwritten signature in black ink, appearing to read 'M. Kleiner'.

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We live in an exciting, rapidly developing world where it's possible, for example, to print an aircraft engine within 72 hours (1). Commodity sourcing cases are increasingly digitized or taken over by machines. That leaves the complex, mostly strategic sourcing cases for which our existing tools such as RFI, RFP, Reverse Auction, etc. are inadequate (2).

In other words, we need new approaches to deliver added value to the business faster and so to stay relevant as procurement.

"It's a matter of delivering fast added value as procurement."

– Stephan Chassaing de Bourdeille, former Vice Head of Group Procurement, Axel Springer SE

How do we meet the challenges of increasing complexity and the demand for rapid time-to-market? The start-up scene has already shown how it can be done. They use approaches such as *LeanStartup* (3), *Scrum/Agile* (4), or the *Business model Canvas* (5), and they have absorbed uncertainty into their DNA. Benefiting from their experience, *Lean-Agile Procurement* (6) opens up completely new possibilities for procurement, sales and partner management.

Value

What is the value of Lean-Agile Procurement for customers, the business, and its partners?

Increased time-to-market means earlier customer benefit and return

>400% faster from idea to first value delivered

The success story of the CKW Group (7), an energy company in Switzerland with 1,700 employees and a turnover of ~850 million, showed that with *Lean-Agile Procurement* complex sourcing cases can be successfully processed in 4–5 weeks. This represents an increased time-to-market of 400% compared to classic approaches (4). New ideas can be introduced and tested in the market much faster, and the generated return occurs much earlier. Companies applying *Lean-Agile Procurement* have a competitive advantage with direct impact on the company's success. From a customer perspective this means a much faster availability of new services and/or products. Focusing on time-to-market changes everything for procurement!



"This is a game changer"

– Phil Thomas, Managing Director, Head of Global Sourcing at Barclays

Continuous customer feedback helps to focus on business goals and avoid non-essential requirements

~80% Savings through alignment and focus

In complex sourcing cases, especially strategic sourcing, there is a very high degree of uncertainty as to what the customer or market needs (8). This makes it all the more important to focus first on the most important business goals (WHY) and customer needs (WHAT), and only after that on solutions or products (HOW). During the development of a new business case we should already be entering into an intensive interaction with our customers and continuously collecting feedback (3). By consistently focusing on the most important customer needs we simultaneously increase our alignment, push nice-to-have's to the back of the queue, and minimize unnecessary effort (4).

Smaller batches lead to faster sourcing and faster swapping of partner or solution/product. This means agile contracts are required.

Radical risk reduction through adaptability

Tighter focus leads to smaller batches, which allow for increasingly faster sourcing, which in turn makes it possible to change a partner/product/etc. more easily (6). The overheads incurred by suppliers, legal, etc. are reduced and incremental deliveries ensure a functional solution at all times. The fact that customer feedback is collected after each iteration ensures that the solution meets the initial expectations. This requires new, more agile contracts (9) with which a partnership can be adapted, or even stopped, at any time. This radically reduces risk.



More effective procurement makes buyers & suppliers more economically efficient

~50% more efficient economically

Complex sourcing cases are correspondingly complex to implement. With *Lean-Agile Procurement* we reduce the overheads on the buyer side by an average of 50% (2). The reduction of effort on the suppliers' side should also not be underestimated. From an economic point of view, what we are achieving is an optimization of non-value-adding work (10), which ultimately has a direct effect on market performance and the associated success of the company.

Continuous customer feedback leads to simpler solutions and new ideas

Collaboration increases innovation

Uncertainty about customer needs can only be minimized through direct interaction with customers and users. Consultation occurs not just once, but continues throughout the entire procurement process and beyond. Not just the customers but the providers too are included and bring their ideas into the discussion. A common understanding of customer needs leads to simpler solutions, better collaboration, and new ideas (2).

For true partnerships, social facts are just as important as hard facts

True partnership – both sides win

Strategic sourcing is a two-way street. It requires an attitude of trust cooperation based on partnership and shared values (6). Binding contracts and cost focus are usually to the disadvantage of one party and do not lead to a genuine partnership. In *Lean-Agile Procurement* the hard facts like quality, costs, etc. are still important, but social facts are just as important. This leads to fundamental changes in behaviour not only towards partners but also within the company itself (10). This has consequences for the reputation, loyalty, and indirectly also for the motivation and work performance of each individual employee (2).

Differentiation

How is LAP different from a classic RfX ? And are there situations when it's not appropriate?

Areas of application are sourcing cases in all categories and industries with high complexity

Designed for adaptive, strategic sourcing

Lean-Agile Procurement is an approach that can be used in both direct and indirect sourcing (6). Originally developed for the sourcing of agile development teams in digitalization, it is now used in all categories and industries (2). The prerequisite is a high level of complexity in terms of sourcing content or organization, which is usually the case in strategic sourcing. It is unsuitable for commodity sourcing, where it may even generate unnecessary overhead.



“Lean-agile procurement reduces and distributes risk through incremental and value-added funding for improved business outcomes.”

– Pete Behrens, Board Member of Scrum Alliance

Setting up an agile product team right from the start maximizes alignment and lead time

Product development is a team effort

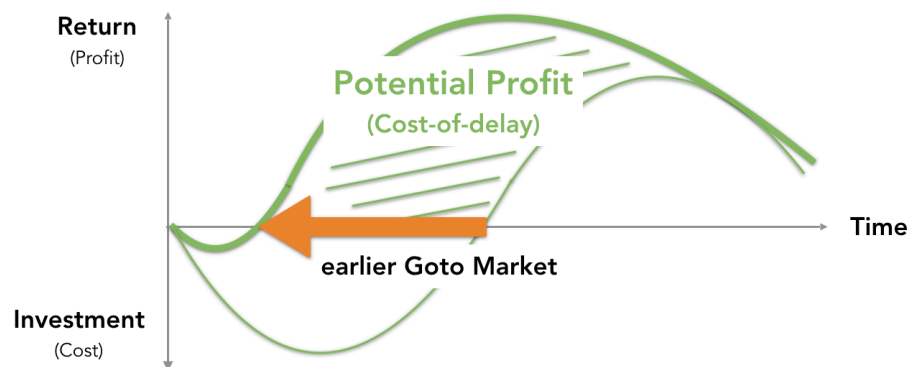
To implement complex sourcing cases in days you need everyone with expertise relevant to the product at one table (4). Sourcing with *Lean-Agile Procurement* is always a team effort. And the team is empowered, which minimizes handovers, waiting times and decision latency.

The agile product development team is set up right at the start and remains in existence throughout the entire lifecycle of the product: from the initial idea through to cooperation with the partner. Procurement and all other contributing parties are involved from the *beginning*, not just from the time a technical specification is available.

LAP takes the PULL principle to the next level and fosters incremental and value-added funding

Incremental and value-added funding

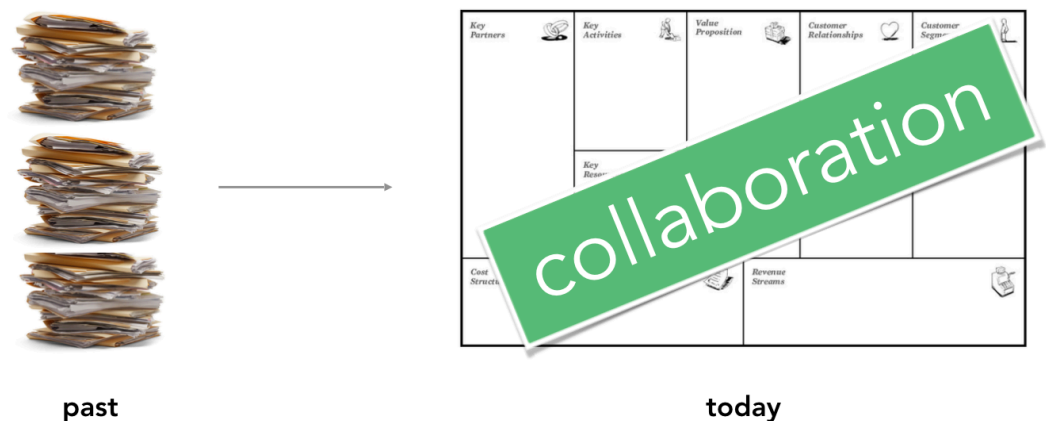
Smaller batches allow an incremental and value-added funding of new ideas for improved business outcomes. *Lean-Agile Procurement* takes the pull-principle of *Lean* (11) to the next level. Think of a company with a stack of business ideas that have been prioritized on a portfolio level. By always taking next the idea with the highest priority we ensure that the whole company is working on the most valuable things first. Each idea is itself sliced into smaller batches, so the business value is delivered incrementally (4). With every shipped product increment we get customer feedback, which enables us to decide whether to stop or continue with this idea.



Speed over cost

Earlier return is more important than costs

With innovative ideas, it is more important to be ahead of the competition than to optimize the last few percent of costs. Because we are only sourcing in small batches, the risk of a bad investment remains small (3).



Accept uncertainty and focus on doing the right thing – with the help of the *Lean Procurement Canvas*

Effectiveness vs. efficiency

LAP doesn't make the existing sourcing process more efficient. Instead we always focus on being *effective* – doing the RIGHT things. In an uncertain environment (8) this also means saying goodbye to detailed specifications, and accepting that anything can change at any time. In today's smart business development scene the Business Model Canvas (5) is a living document and 100-page business cases are a thing of the past. With *Lean-Agile Procurement* we demand the same, and the *Lean Procurement Canvas* provides it.

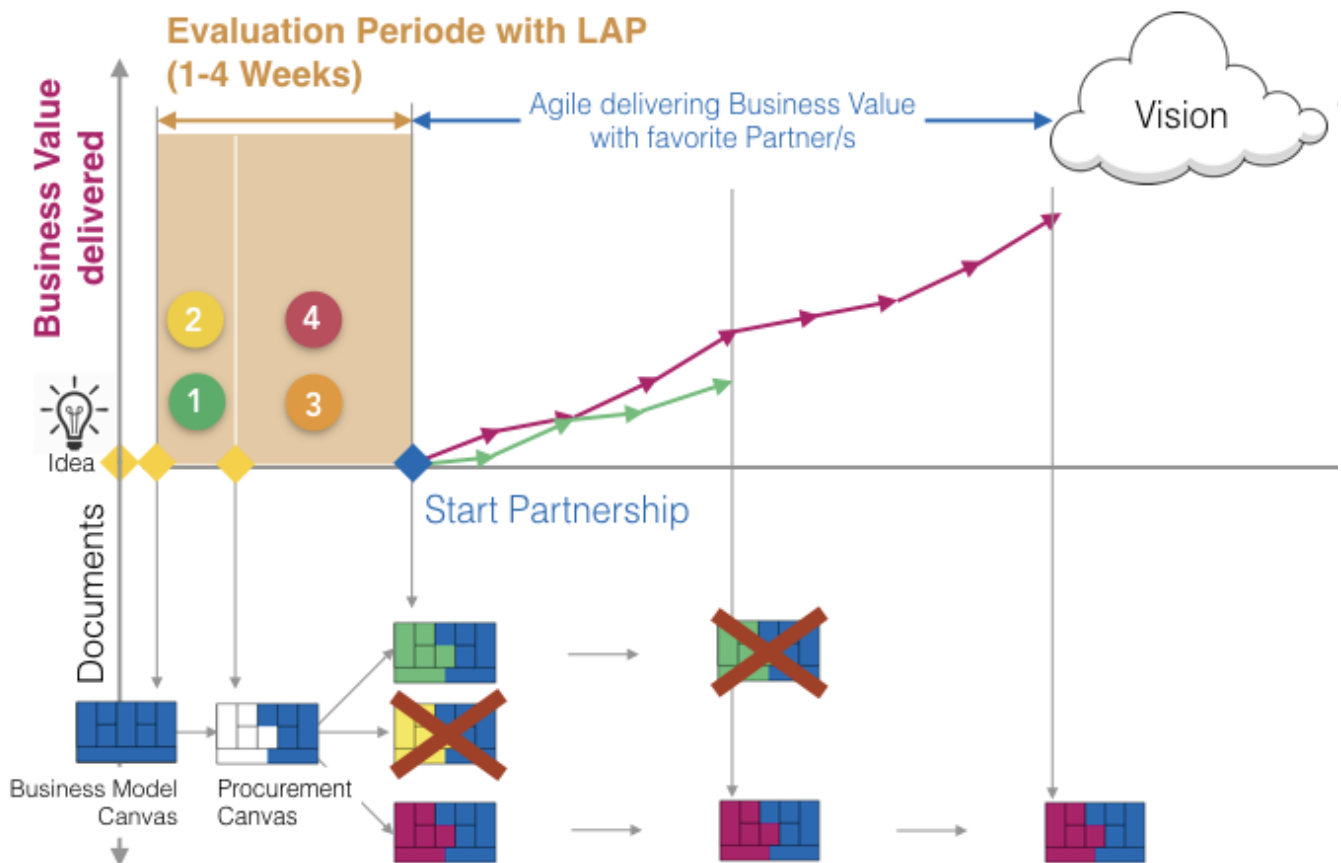
Approach

How does LAP work in detail, where do I start, and is the one-page Lean Procurement Canvas really enough?

First form an agile product team that's cross-functional and empowered

1. Initialization

The first step is to set up an agile cross-functional product team around the product vision and strategic goals. Team members are the people who will be doing the job in cooperation with the new partner. Additionally, the team is empowered to make decisions within its boundaries.



Define needs with the real users or customers, preparatory to inviting partners

2. Preparation

Based on the business case, the high-level needs are defined by the team together with all stakeholders (real users or customers). Section by section the *Lean Procurement Canvas* is filled in and all necessary appendices are added. Then invitations to a *Big Room Evaluation Day* are issued to all potential partners that we think could do the job. The invitees are not provided with any of the information gathered so far, and they are asked to bring with them all the people who would be doing the job, plus decision takers.

Putting the right people into one room together is more effective than having a series of meetings

3. Big Room Evaluation Day

4. Peer Feedback / Decision

At the *Big Room Evaluation Day* all potential partners are gathered in one room at the same time, or brought in one by one. We co-create the *Lean Procurement Canvas* together with each of the vendors. This too is done using an agile approach, with several iterations of (e.g.) planning, break-out sessions, hackathons, reviews, demos, etc. When necessary appropriate appendices – for example an agile roadmap, or new customer needs (user stories) – are developed together.

Just as important as co-creating the hard facts is the co-creation of the soft facts. How do the potential partner's people behave? – Would we enjoy working with them? – Do they have all the necessary skills? – and so on. For this we continually seek peer feedback from the potential partner(s) and ourselves. We gather everything we need to make a decision.



“Lean-Agile Procurement – Innovation through true partnership and start-up methods for corporates”

– Astrid Borgmann, former CPO Swarovski.

The *Lean Procurement Canvas* is also a partner management tool

5. Start agile delivery & manage partnership

In step 3 we also co-created our collaboration model and agreed on an agile contract. Another outcome of the *Big Room Evaluation Day* is that the full team is now assembled and ready for action as an agile product team.

If there is still uncertainty, it can be an option to choose (e.g.) the best two potential partners and start agile delivery with both. This will be cheaper than switching partner in a later state.

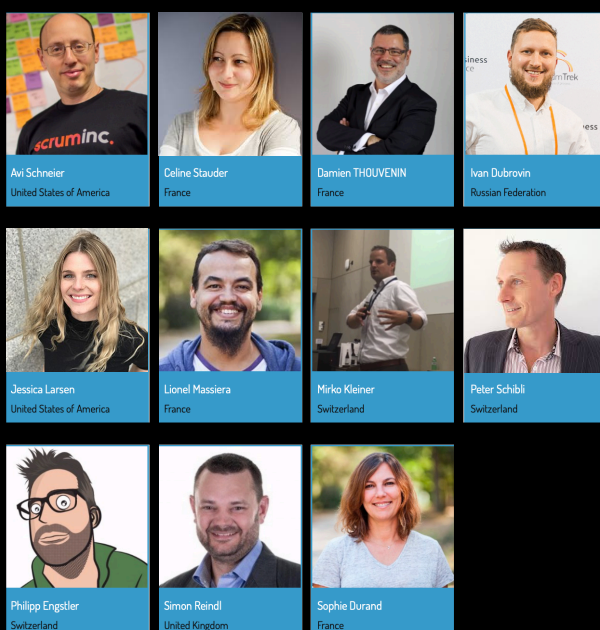
The *Lean Procurement Canvas* is continually updated to reflect any new state and becomes the key instrument for agile partner management.

Conclusion

What is important, what are the main take-aways, and where do we start?

- *Lean-Agile Procurement* is a **proven** approach for **indirect and direct sourcing in all categories** where the sourcing case has a **certain complexity**. Applied in commodity sourcing cases it creates unnecessary overhead.
- It is a practical approach that **improves time-to-market** significantly and **radically decreases risk** through **incremental and value-added funding** for **improved business outcomes**.
- LAP has a **sustainable impact** on the way we work together, both internally and with our partners – because the **soft facts** are evaluated by the very people who are going to be working together.
- With LAP it is once again possible to **deliver added value** to the business **faster** and thus **remain relevant** as procurement.

A Certified Lean-Agile Procurement Trainer®
near you:



For more information go to:

<https://www.lean-agile-procurement.com>



Resources

Literature

- (1) Additive Manufacturing, GE 2016
- (2) Survey/research about agile@procurement & sales, flowdays, Switzerland, 2018
- (3) *The lean startup* by Eric Ries
- (4) For example: “Twice the work in half of the time” by Dr. Jeff Sutherland, co-creator of SCRUM, author and founder of Scrum Inc.
- (5) Business Model Canvas, Alex Osterwalder
- (6) lean-procurement.com & Lean Procurement Canvas by Mirko Kleiner, flowdays
- (7) “CKW case study”, CKW & flowdays, 2018
- (8) *Complexity theory* by R. Stacey, 2019
- (9) See agile contracts at e.g. <http://www.flexiblecontracts.com> or <http://www.vestedway.com>, 2019
- (10) Decision latency, www.scrumatscale.com 2019
- (11) Pull system by Lean Manufacturing 2019

Picture credits

- (Title Page) “Award Ceremony” by CKW Group and flowdays, 2018
- (Page 1) “Mirko Kleiner in action”, by Mirko Kleiner, 2019
- (Page 2) Mirko Kleiner, 2019
- (Page 3) “Weighbridge of stones”, by www.istockphoto.com, 2019
- (Page 5) “Invest vs. Return”, by Mirko Kleiner, 2019
- (Page 5) “Living document”, by Mirko Kleiner, 2019
- (Page 6) “Lean-Agile Procurement Approach”, by Mirko Kleiner, 2019
- (Page 8) “List of Certified LAP Trainers®”, by LAP Alliance, 2019
- (Page 9) “Lean Procurement Canvas®”, by LAP Alliance, 2019