Wading through the tide

The battle for the internal customer
The future of procurement
Old Mandates, New Competition

Every forward-looking Chief Procurement Officer (CPO) is aware of the shifts that threaten the relevance of their organisations. Their internal customers are increasingly restless, influenced by buying experiences outside the workplace. Procurement’s value, perceived or real, is becoming more and more difficult to demonstrate. Many procurement leaders are finding themselves on the defensive, constrained by mandates that prioritise cost reduction and risk mitigation.

The traditional mandates remain important. But how does the CPO continue to deliver value when frustrated business users “opt out” and turn to simpler but noncompliant means of getting what they need to run the business? CPOs are finding that legacy “one size fits all” buying channel strategies, while effective at lowering procurement’s cost-to-serve, are limiting the procurement organisation’s ability to adapt to the business’s evolving needs. The symptoms of the disjoint show up most readily in indicators like maverick indirect spend, which has now reached alarming levels in some organisations.

The New Competition

When employees leave the workplace, they can use their mobile devices to purchase goods and services on easy-to-use apps from any source, track order status in real time, choose rapid delivery, and expect service focused on their satisfaction. Back in the workplace, they face legacy desktop procurement technology, with cumbersome functionality. For CPOs, the comparison is rarely favourable. So internal customers peel away, inexorably, transaction by transaction.

Even the providers’ digital-procurement solutions acknowledge this reality, and now offer “punch outs” that connect users to relevant external marketplaces. The household-name marketplaces that have driven the customer-experience (C/X) revolution around the world are not passive to this development, of course.
Having already invested enormous sums in artificial-intelligence driven innovation, it is only a short matter of time before they repurpose these same capabilities in ways that could fundamentally—and permanently—disintermediate procurement organisations.

**A new paradigm**

Leading CPOs see opportunity in the virtuous circle of C/X evolution, where digital innovation drives increased e-commerce convenience, which in turn drives ever-higher consumer expectations, which in turn push businesses to introduce yet more customer benefits. Now, CPOs are in position to adaptively replicate the technology, processes, and behavioural assumptions of the B2C marketplaces, to the procurement organisation’s benefit.

This paper looks at four broad convergence trends driving change and opportunity for procurement organisations:

1. **First things first: Acknowledging the internal customer**  
   The challenges and lessons of the C/X revolution, as they impact procurement.

2. **Bespoke procurement: Designing customer-centric buying channels**  
   The opportunity to combine C/X design with spend compliance to sustain value.

3. **Intelligent adoption: Leveraging C/X procurement technology**  
   Implications of low-cost access to advance C/X innovation, for procurement organisations.

4. **Beyond skills development, to behaviour: Addressing procurement cultures**  
   The necessary shift to customer-centric thinking, and the implications for training, performance metrics, hiring, and incentives.

**Towards a new model: User experience + spend compliance = value**

At KPMG, close market observation suggests that a paradigm shift may be at hand, which will unfold during the next three to five years. Procurement agendas built on the promise of “impersonal”—rules-based, situation-neutral, and impartially applicable—will have to become quite “personal,” attuned to the circumstance, individual preferences, and user benefits of individual customers.

Some CPOs will seize upon the confluence of opportunities to chart a new course, building organisational capabilities that can design and deliver thorough, personal experiences around the customer, and so drive sustained engagement, satisfaction, and loyalty. For them, the short list of benefits includes ability to evolve as business needs change, continued strategic value to the organisation, and differentiation from competitors.

At KPMG, close market observation suggests that a paradigm shift may be at hand, which will unfold during the next three to five years.
Broadly, they understand the general goals of cost savings and risk mitigation. But many have a difficult time articulating the value the organisation really provides—to them, individually. In the hands of corporate procurement, the internal customer feels not like a guest, but instead a hostage—overly complex protocols, opaque mandates, and a reaction-based service ethos.

The forward-looking CPO begins by acknowledging that the internal customer is a human first, already familiar with advanced C/X functionality. As a category of stakeholder, they are knowledgeable, empowered, and demanding, accustomed to personalised purchasing experiences built around their habits and preferences. They regularly use or are at least familiar with the broad-marketplace household names and many mono-brand retail channels that constitute the CPO’s competition.

Customer-centric procurement starts from that baseline of awareness, and seeks to understand the user’s behaviours, circumstances, and challenges. It embraces the concept of delivering tailored purchasing experiences that meet outside-the-workplace standards of convenience, choice, and seamless commerce.

A visionary CPO shares the same goals that drive C/X leaders today: building the organisational readiness to design and deliver thorough, personal customer experiences that can drive engagement, satisfaction, and loyalty. When approaching target-operating-model and buying channel design, the working assumption is that employee-as-consumer strategies can be harnessed to deliver spend-compliance objectives.

Once a determination is made to embrace a customer-centric procurement model, market-tested solutions and lessons-to-be-learned are everywhere. For CPOs, one of the most interesting developments in the C/X world is the building out of sophisticated, benchmarked insight—much of it derived B2C commerce—about what actually works in differentiating customer experiences. Yes, the customer experience is personal. At the same time, it is made up of discrete components that can be identified, analysed, benchmarked, aggregated, and integrated. For organisations willing to learn from the examples of peer leaders, this body of knowledge constitutes an invaluable advantage.
In response, forward-looking procurement organisations will configure their technology, processes, and behaviour away from a “one size fits all” model to one that supports multiple purchase paths.

The design/test/build phase for these customised channels freely borrows from precedents used and pioneered in the behavioural psychology, marketing, and advertising worlds. One promising area of procurement innovation is the use of internal-client personas, humanised profiles based on major categories of shared procurement experience, defined by job function, spend category, purchase pattern, and decision drivers and use of specialised support. Personas are frequently used in tandem with journey maps, which granularly detail the wide-ranging purchase process—including touchpoints, hurdles, issue-resolution scenarios, and successful conclusions.

Personas and journey maps help procurement teams empathically define the nature of their customer challenges (including adoption barriers), match the right solutions to the right problems, and deploy resources accordingly. This in turn will set the foundation for the buying channel design and innovation needed to address each persona’s unique requirements within each category of spend and finally tailored by the volume of spend. Results might include the setup of separate purchase channels for self-service and high-touch, supported transactions, triaged by customer circumstances.

In conversations with some visionary CPOs, KPMG has noted an emerging interest in design thinking, a problem-solving technique that brings together cross-functional stakeholders to codevelop solutions and innovate on buying channel designs. Often supported through workshopping methods, design thinking intentionally engages with internal customers up front—to codevelop bespoke channel solutions that take into account the goals of the entire business.

The investment in up-front stakeholder buy-in—through personas, journey maps, and design-thinking—makes a crucial difference. Procurement process changes are no longer perceived by internal customers as impositions, but instead as improvements that reflect their input. The benefits typically include more successful uptake of spend-compliant behaviour as well as fuelling innovation.
Self-service in channel design

Increasing levels of self-service are fundamental to procurement transformation, regardless of industry or business-specific consideration. Already used to what KPMG calls “extreme self-service” in their personal lives, the internal procurement customer expects nothing less in the workplace.

A Ladder of Capabilities

For the CPO assessing where to begin, procurement self-service will be a journey rather than a fixed destination, with a spectrum of capabilities as customer behaviour and expectations evolve.

Foundational functionality

- Punch-outs for simple purchases
- Selected automated approvals
- Portal invoicing to reduce paper.

Intermediate bot-enablement

- Monitoring of supply and price shifts
- Prescriptive suggestions on when to buy
- Pre-emptive requisitions generation
- Aggregation of user-relevant information.

Future-state “guided buying”

- Artificial intelligence to predict purchase needs
- Automated approvals based on historic behaviour and intelligent process mining
- Supplier searches to meet purchase requests.

Empowering benefits to the customer, and the procurement organisation

For internal customers, self-service offers alternatives to slow, complex, or Accounts Payable-dependent processes. It also gives them better visibility of the entire purchase and payment process, and a better understanding of their role in it. For the CPO, a self-service path lets procurement redeploy resources, shedding low-value-add tactical tasks and instead engaging with customers proactively and becoming a valuable partner to the business.
Leveraging C/X procurement technology
As a baseline for technology-paced C/X procurement models, digitised cloud technology is a win for all parties involved.

First off, cloud procurement platforms provide a cost-effective solution that enables day-to-day transactional support for internal customer-facing procurement professionals, by simplifying workstreams and automating many lower-value activities. Secondly, this in turn offers procurement leaders the category insights and financial transparency it requires, often in realtime. Thirdly, they support continuous process improvement after initial deployment, through remote delivery of application updates and upgrades, with minimum manual intervention or disruption.

The game-changing dimension of cloud procurement solutions resides, however, in their enablement of customer-data aggregation, reporting, and analytics. The first-to-market giants who powered the C/X revolution understood that the most valuable asset in the world today is aggregated customer data. Customer-centric procurement models require the continuous use of analytics and predictive insight to engage and execute in a responsive and orchestrated way across all internal-customer touch points.

Early-adopter leaders pioneered the underlying C/X technologies in use today, investing heavily in mobile, voice, big data analytics, and artificial intelligence. Few organisations could match the singular focus or the scale of investment brought to bear as they developed, piloted, and launched waves of new C/X innovation. Until recently, these technologies were prohibitively expensive, each offered by only a handful of solution providers.

Now, as CPOs look to reproduce the frictionless commerce features of external-marketplace leaders—mobile-access, chatbots, text alerts, voice, and one-click transactions—they will have easier access to the same underlying technology tools as the giants.

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A dramatic, sustained Moore’s Law-style lowering of price-points is taking place for leading-edge procurement “must have” technologies. The economic path is similar to those seen in other technology arenas: a continuum of reduced cost, increased power, and proliferating options from more and more market entrants.

This is good news. The advances brought about by eProcurement third-party solutions birthed in the past 15 years are powerful, and getting more so. They support cost-saving and risk-mitigation with powerful automation, standardisation, and reporting tools, but they are not engines for customer-centric procurement.

CPOs looking to leverage the power of third-party procurement solutions to create differentiating user experiences will need to acquire an ecosystem technology enabler. A number of C/X-related digital solutions will have to be evaluated, selected, configured, deployed, and integrated in ways that reflect the specific organisation. The ability to navigate and manage technology partnerships, alliances, and digital ecosystems will be an important organisational asset.

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Historically, procurement professionals have been incentivised to engage using tightly defined spend-compliance criteria. For their managers, “training” may be narrowly defined by skills mastery on chosen technology platforms. The notion that a purchase request is actually a customer touchpoint, or a value lever, is a radical concept.

So, the shift to customer-centric mind-set is not a matter of displacing this knowledge and proficiency, but amplifying its impact on the organisation. In the broadest sense, it means helping the procurement specialist think and behave differently—from the customer’s viewpoint. User-centric procurement organisations will need to help their professionals unpack the customer journey—asking what steps, activities, questions, barriers, and emotions come up throughout it, with the goal of delivering a superlative experience.

Successful behavioural shifts at this depth and scale will borrow from the already established principles of change management: The customer-centric vision and roadmap will need to be clearly and frequently communicated to those charged with execution. Training and development will emphasise empathy, contextual thinking, and “people skills.” Performance metrics will incorporate customer-satisfaction survey data.
In their efforts to capture value opportunities, CPOs begin with powerful built-in advantages that almost no outside purchase platform can match.

Hiring requirements and role definitions may shift. Incentive structures will encourage empowered decision-making and initiative.

In their efforts to capture value opportunities, CPOs begin with powerful built-in advantages that almost no outside purchase platform can match. First, they have a natural relationship to the five key stakeholder groups that need to be cultivated: customers, business functions, employees, external alliance partners, and the digital ecosystem. Second, they preside over a large body of tacit knowledge—the objectives and business strategy of the enterprise, category—or market-specific product/service expertise, risk management criteria, and working knowledge of supplier and supply-chain networks.

Historically, interactions between the internal customer and the procurement professional have been asymmetrical. A single purchase for the internal customer may be a high-stakes matter; to the procurement professional charged with facilitation, it’s another in a long stream of daily transactions. In a customer-centric procurement future, perception of the stakes and definitions of successful outcomes are more likely to be shared between the procurement professional and the internal customer.
Different circumstances, common investment priorities

As CPOs pivot to customer-centric strategies, they’ll be faced with inevitable requirements to prioritise their investments. Investment strategies will reflect the specifics of their organisation—its industry, risk profile, procurement mandates, organisation, culture, and business objectives. Our conversations with CPOs suggest the following general investment guidelines:

01. Learn from the customer, continuously

Knowledge of the internal customer is a critical CPO asset, and one means procurement organisations can deliver new strategic value to the enterprise. Initiatives that seek to understand internal customer behaviours will identify vulnerabilities as well as opportunities for investment in additional process, technology, or organisational change. Building customer profiles is not a discrete event, but a continuous process, supported by analytics to align and anticipate customers’ needs with procurement’s capabilities.

02. Put user-experience capabilities on an equal footing with spend compliance.

Customer-centric procurement will continue to take its lead from consumer-driven innovation, so think of C/X functionality as foundational investment: Create procurement paths of least resistance, with features that they already have proven to appreciate such as chatbots, text alerts, and mobile-access. Aim for simpler user experiences, with a strong emphasis on self-service. Build buying channels that keep operational details in the background so internal customers only see what they need to make decisions and resolve problems.

03. Treat data as an asset and use analytics to unlock value

Data is a strategic asset that lets CPOs unlock procurement’s value as well as maintain control of the procurement agenda in times of disruption. For the customer-centric CPO, data needs to go beyond traditional “procurement data” such as suppliers, categories, and spend and include data to help profile the internal customer and their needs. The ideal analytics will yield customer-spending metadata that can help both predict and influence future purchasing behaviour, and deliver customer insight that can be used to improve procurement performance as well as procurement’s actual and perceived value.
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Foster a “business partnering” and “innovation” culture

CPOs set on building customer-centric procurement models will need to reconsider their human capital strategy, at every level of the organisation. They will be willing to invest in the development of behavioural skills—communication, situation resolution, collaboration, innovation—that augment technical proficiencies such as sourcing and contract lifecycle management.

Cultivate an agile and scalable technology ecosystem

It is unlikely that CPOs can rely on a single third-party solution to build customer-centric procurement models. They will need to evaluate and implement supplemental digital enablers such as artificial intelligence, voice, and big data analytic solutions to cultivate an ecosystem of technologies and providers. Importantly, technology investments need to have built-in scalability and adaptability, using the SaaS/PaaS/IaaS features of cloud solutions to deliver improvements with minimal disruption.
1. **They know employees are consumers, too**
   Leading organisations understand that employee expectations for user ease and functionality are conditioned by their experiences as consumers outside the workplace.

2. **They understand today’s data innovation is tomorrow’s table stake**
   What constitutes differentiating data capabilities is a moving target. As organisations strive to build real-time 360-degree views of their customer, they are willing to continually invest in new data sources and new ways of using existing data.

3. **They embrace holistic solutions**
   Leading procurement organisations take a multidisciplinary approach to customer-centricity—considering technology, processes, and people. They pay attention to the ways these dependencies impact each other, and stay attuned to ripple-effect impacts of major change.

4. **They lead ambitious change with strong business cases**
   Leaders build strong business cases driven by return on investment for major technology or process change, to help them define successful outcomes, prioritise investments, and secure stakeholder buy-in.

5. **They recognise the value of strong technology ecosystems**
   In a digital-powered world, procurement organisations cultivate and maintain strong relationships with digital-solutions providers, striving for leading practices in their supplier-selection and management programs.

6. **They know technology and processes are as strong as the people who use them**
   Winners pay attention to behaviour and culture, going well beyond baseline user-training for new technology solutions. They invest in C/X behavioural skills development and change management to help procurement professionals think like their customers.

7. **They steward their internal reputations**
   In the destination state, reputation risk and brand equity are no longer concepts applicable to the enterprise, but a calculus in their relationship with internal customers.

8. **They think five steps ahead**
   They understand “agile” is not an event, but a way of life. Procurement leaders aim for organisational design that can adapt quickly to change, and keep absorbing the high-quality innovation needed to meet it—with speed, at scale.

9. **They are willing to learn from other leading organisations**
   Leaders understand there’s not enough time for “made here” pride, and willingly embrace relevant lessons from organisations that have clearly “cracked the code” in building customer-centric procurement models.

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**Who will win: Differentiators for customer-centric procurement leaders**

As both catalyst and participant in the trends we’ve outlined, here are some of the traits that KPMG observes about organisations likely to “win” in the race to build customer-centric procurement models.
How KPMG can help

If procurement organisations are to sustain their value to the enterprise, they must pivot to new operating models that embed customer-centricity in their technology, process, and people. CPOs will be pressed to retire “one size fits all” assumption, and displace them with procurement approaches that address the varied needs of multiple internal-customer audiences.

As C/X standards continue to evolve outside the workplace, the definition of “successful” customer-centric procurement will move with it. Procurement leaders will need journey partners capable of meeting them at any level of C/X maturity, able to help them leverage overlooked advantages within the enterprise, and ready to deploy at the scale and in the configuration they need.

We invite your inquiries.
KPMG’s Operations Advisory team can help your organisation discover the benefits of a closer supplier relationship. Embracing new technology that disrupts business as usual is not always easy. Our tailored approach incorporates strategy, security, cost, privacy, performance, risk management, and more.

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