



Future of Procurement

2021

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Private Equity

Foreword

What is the future of procurement in Private Equity?

For the last three decades, Private Equity investors and the management teams of PE-backed businesses have frequently used procurement optimisations as one of the key levers to drive value creation strategies and to deliver EBITDA savings. Whilst the benefits of optimising procurement at an individual portfolio company level are universally understood, executing change across an entire portfolio is often seen as more challenging, and yet in an environment of greater data transparency, substantial opportunities exist in taking on sizeable challenges across the portfolio.

Cross-portfolio optimisations are challenging – finding commonality in a diverse set of procurement policies, procedures, systems, data structures, categories, supply base, sourcing and geographic distribution is hard. Solving this challenge requires a two-pronged approach: identify and solve for early wins by building supporting structures and mechanisms, while customising an approach that is strategic, inclusive and sustainable for all stakeholders.

New disruptive technologies are providing CPOs with a comprehensive set of tested tools to leverage the areas of synergy identification, demand management, category management, supplier management, product development and carbon monitoring. Some of the best of breed maturing technologies include:

- **Cognitive Intelligence:** Deployment of intelligent, self-learning technologies that can rapidly assimilate, cleanse, automate and classify data at an individual operating unit or at a consolidated portfolio level.
- **Business Networks:** Integration of suppliers, partners and portfolios through a seamless digital platform, leveraging analytics, workforce capabilities, better management of risk and an agile working model to create connected, powered and trusted enterprises.
- **Software-As-A-Service:** Accelerating time to value using SAAS deployments and increased digitalisation using data and automation to uncover insights and improve performance.
- **Sustainability Tracking:** Tracking sustainability measurements in the procurement function, using systems, sourcing process, supplier evaluation tools to calibrate ESG scores and incentivise suppliers to reduce carbon emissions.

KPMG's approach to helping the CPOs of both PE funds and their portfolios with this transformation starts early on by creating a tangible and operational value realisation plan and engaging actively across the lifecycle (pre and post) deal. Our methodologies identify early synergies in direct and indirect spend, digital maturity, sustainability opportunities, procurement maturity, and develops a pragmatic value realisation plan.

In the following report, we explore why and how procurement more broadly must disrupt itself to stay a step ahead of new demands. It begins by looking at the drivers shaping the future of procurement, from digitalisation to extreme automation, big data and the need to be resource savvy. Next, it dives into what procurement must become -supplier and customer centric, innovative, data driven and agile. The report also explores the procurement workforce of the future, showing how the combination of strategy, platforms and people are the formula for success.

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What is the future of procurement?

CEOs are looking to the procurement function to take on a broader and deeper set of strategic responsibilities than ever before.

Organisations are facing unprecedented change and disruptions that threaten their future viability. Consumerisation, expanding regulatory requirements, pricing pressures, an ever-evolving industry landscape due to M&A activity, and shifts to outcome-based pricing are all key forces compelling procurement leaders to reevaluate strategies.

In the midst of continuous disruption, one thing can be certain: procurement should disrupt itself to grow and stay in front of change.



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Disruptors shaping the future

What is driving this shift in procurement? One word – digitalisation.

In a world where most purchasing experiences are available at the touch of a button, customers and employees alike are no longer willing to accept a cumbersome process and extensive delays. The procurement organisation of tomorrow will likely need to evolve from purchasing and sourcing, to enabling a seamless digital experience.

Suppliers, customers and your organisation will likely need to seamlessly integrate and be enabled through digital platforms, extreme analytics, leading workforce capabilities and an agile working model to compete in the future.



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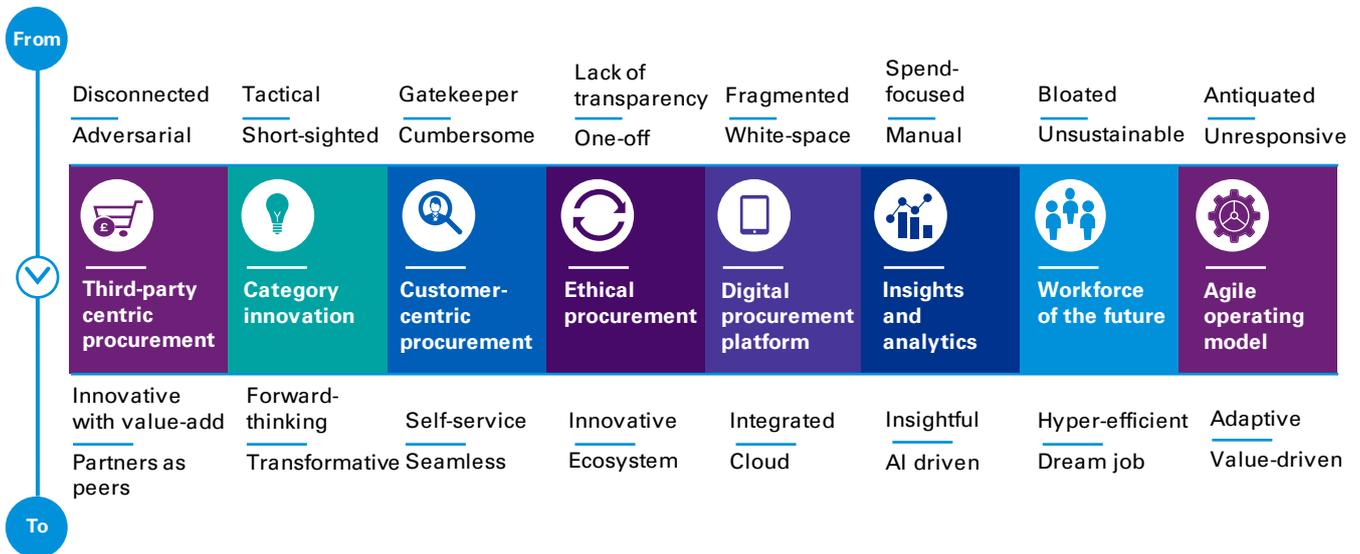
How should CPOs respond?

Leading procurement organisations have developed an agenda to deal with disruption. They are moving into the future with a focus on innovation, supplier and customer relationships, and a decentralised operating model to support the business.



The CPO agenda for the future of procurement

Leading procurement organisations are developing an agenda to deal with disruption.



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Third-party centric procurement



Third-party centricity focuses on integrated relationships. Today's supplier interactions are largely tactical and lack any real insight or platform integration. That's why the future of procurement is dependent on creating a new operating model to support third-party centricity; one which drives supplier and third-party performance and relationships to a new level while fostering innovation and mitigating risk.



It is not just how a supplier is doing against its contracted service level agreements (SLAs), but also making sure a company's best suppliers have the ability to bring innovations to the account, resulting in better and more fruitful relationships. In this environment, procurement becomes the relationship broker managing performance and driving innovation, including clearly defined roles for supplier management, procurement, front-line business units, and second-line risk functions. In addition, supplier sentiment helps track how the parties "feel" about each other and fosters deeper and tighter economic and process integration that can be enabled by technology.

An organisation can benefit from a supplier that treats its customer as a true business partner, and procurement can open that door for suppliers. Are your suppliers in tune with your business objectives? Are you getting what you paid for? Those are both critical questions, and ones in which analytics and data play a role by providing a means for measuring performance, identifying opportunities, mitigating risk, and helping move the organisation from being reactive to one that is proactively engaged with both the business and its suppliers. When your supplier conversations are based on facts it can enable you to drive extra value.

Challenges being faced...



Increased industry regulation, legislation and compliance requirements driving costs higher.



Increasing adoption of new products, services and commercial models leads to increasing complexity, connectivity and risk exposure.



Increased expectations of data privacy given our complex and interconnected world.



Increasing number of third parties (fourth and fifth parties). Multiple delivery locations, diverse terms and conditions – includes modern slavery, sustainability, etc.



Information latency can no longer be tolerated. Ongoing, continuous monitoring of suppliers is now expected.

Third-party centricity focuses on driving supplier performance and relationships to a new level while fostering innovation and mitigating risks. It includes:

01

Extreme integration

- Visibility through deep interconnection of systems and data
- Third parties' managed storefronts and content

02

Third-party innovation

- Third parties contribute to business, product, and category innovation
- Evaluated based on value added to the business

03

Optimised performance

- Proactive/predictive AI management of performance
- Integrated view (sentiment, community and third-, fourth- and fifth-party data)

04

Perfect compliance

- Automation of transaction, contract, and regulatory compliance
- Continuous monitoring/ongoing management, predictive compliance management leveraging community data

05

Partners as peers

- Tighter relationship between suppliers and customers to deliver true win-win outcomes

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Category innovation

What does category management do for you today? Probably not much. Being a leader in category innovation is about supporting the organisation to deliver the most optimal commercial model for the organisation, and acting ahead of the market as opposed to reacting to the market.



In the procurement organisation of the future, the emergence of big data and analytics should allow insights for category managers that have not been available before. The organisation should have the right systems, processes, and people in place to know how to enhance the value. Only then, can intelligent automation help provide on-demand insights that can assist with forecasting, demand planning, and should-cost modelling.

In a global and decentralised environment, category management organisations can face several challenges to deliver added value, including:

- high research effort necessary to stay up-to-date with market trends
- lack of automated workflows generating high amount of manual paper pushing
- missing stakeholder engagement to execute category strategies – “not invented here”
- time consuming stakeholder management in a globalised environment
- impact of commercial procurement levers significantly diminished
- limited knowledge about use cases for technology like data and analytics, and artificial intelligence (AI) in strategic procurement
- validation of category strategies on an ongoing basis competing with daily business
- significant risk of loss of knowledge
- lack of standards jeopardising compliance.

Category innovation is needed to help unlock untapped value through:



Automation of tactical activities



Data and analytics to develop and support strategies, inform decisions, and drive action



Predictive AI to forecast changes and monitor leading indicators



Deep insights which transform supply market knowledge into business strategies



Driver-based category demand and costs which link to business activities



Disruption-seeking approach for step-change performance improvement and supplier engagement

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Customer-centric procurement

How would your internal customers rate their experience with procurement? Procurement is typically blamed for having outdated and non-integrated technology, hard to understand policies and procedures, limited insights on purchases being made, and overall contributing to frustration versus alleviating it.



Customer expectations have fundamentally changed in recent years and this is now making its way from the home into the business world.

In the procurement function of the future, customer centricity will likely be a focus in all aspects of procurement, including systems, processes, and people. Procurement will look to become a true business partner, not a spend gatekeeper, and business leaders can recognise the value added from procurement and want to work with them.

Customer-centric procurement will likely transform both procurement's role and behaviour through:

- being a key contributor in the business-planning process
- driving spend behaviour using key insights into spend data, supplier relationships, and risks
- acting as a broker to products, skills, and sources of innovation to solve business problems
- being responsible for long-term decisions that benefit the business, its customers, the environment, and society
- instilling a human-centric approach to solving problems and measuring true customer satisfaction
- focusing on reducing the cost of change and adapting more quickly, for example by investing in digital technologies
- monitoring market trends and assessing potential impacts to procurement in order to foster a culture of innovation
- driving spend behaviour proactively by making the right data available at the right time and investing in AI.

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Sustainable procurement

Sustainable procurement integrates requirements, specifications and criteria that are compatible with the protection of the environment and the society. It is no longer simply about not using child labour or illegal chemicals that can damage the environment and peoples' health.

Sustainability has risen up the corporate agenda in recent years and this focus has accelerated post COP26. 70 per cent of the world has now committed to achieving net zero and most major businesses have started on this journey. On top of the focus on E (Environmental) there is also an increasing focus on the S (Social) and G (Governance) elements of ESG. Procurement needs to engage suppliers across a broad range of sustainability issues across the E,S and G to deliver their businesses commitments and purpose.



Embed sustainability across your supply chain to meet your ESG ambitions, manage risk and increase resilience

- Create transparency in procurement — achieve real-time visibility of suppliers and operations through technologies such as AI by collecting insights and data to provide tracking and traceability
- Understand the risks and opportunities - assessing suppliers for sustainability enables you to identify the material environmental, social and governance risks across your supply chain – and seize the opportunities
- Accelerate the decarbonisation of your supply chain - Determine emissions hotspots within your supply chain, enabling the prioritisation, design and implementation of targeted and practical mechanisms to decarbonise
- Make sustainability business as usual for procurement - integrate responsible and sustainable KPIs and thinking into your day-to-day processes, decisions and digital platforms so that it becomes the standard approach
- Identify human rights issues in the supply chain – gain visibility over human rights risk associated with your operations and value chain, and embed a framework to manage these risks
- Advance supplier inclusion and diversity - Establish supplier diversity programmes, set goals and ambition, develop execution strategies, and put in place the management framework to monitor, measure and manage effectively

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Digital procurement platform

Today's leading procurement organisations recognise that technology and automation will likely continue to improve all aspects of the procurement operating model, helping to drive efficiency and effectiveness. Manually intensive and administrative tasks should be replaced by new technology which enables self-service, allowing procurement professionals to focus on higher value activities that focus on suppliers and customers.

In order to independently shape its position as a key function in any company, procurement should not only scrutinise its own strategy, but also play a proactive role in shaping the company's digital strategy.

Companies that opt for digitised procurement can gain a competitive edge through a stronger customer focus and the necessary agility to satisfy ever more rapidly changing customer requirements. Outdated procurement organisations, meanwhile, can find it difficult to identify innovative suppliers early on and integrate them into their value chain in order to establish transparent and efficient end-to-end supply chain management. The gap between the company and its competitors will likely increase as it is forced to cling to veteran suppliers that have also missed the boat to innovate. Thus, the market is expected to split into innovative and outdated supply chains. Companies wanting to be among the group of innovators need to set out on the digital transformation journey sooner rather than later.

The digital procurement platform can help enable modernisation through:

Extreme automation

- Robust technology enablement across an end-to-end procurement cycle
- Continuous pursuit of process automation

Extreme integration

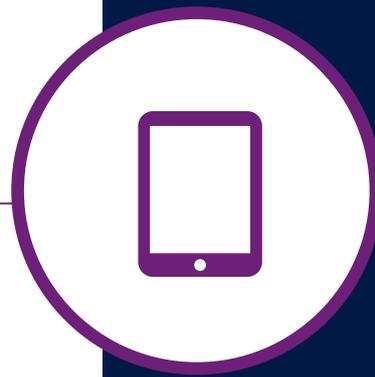
- End-to-end integration beyond procurement
- Simple and adaptive integration (Cloud integration, Blockchain)

Value-added services

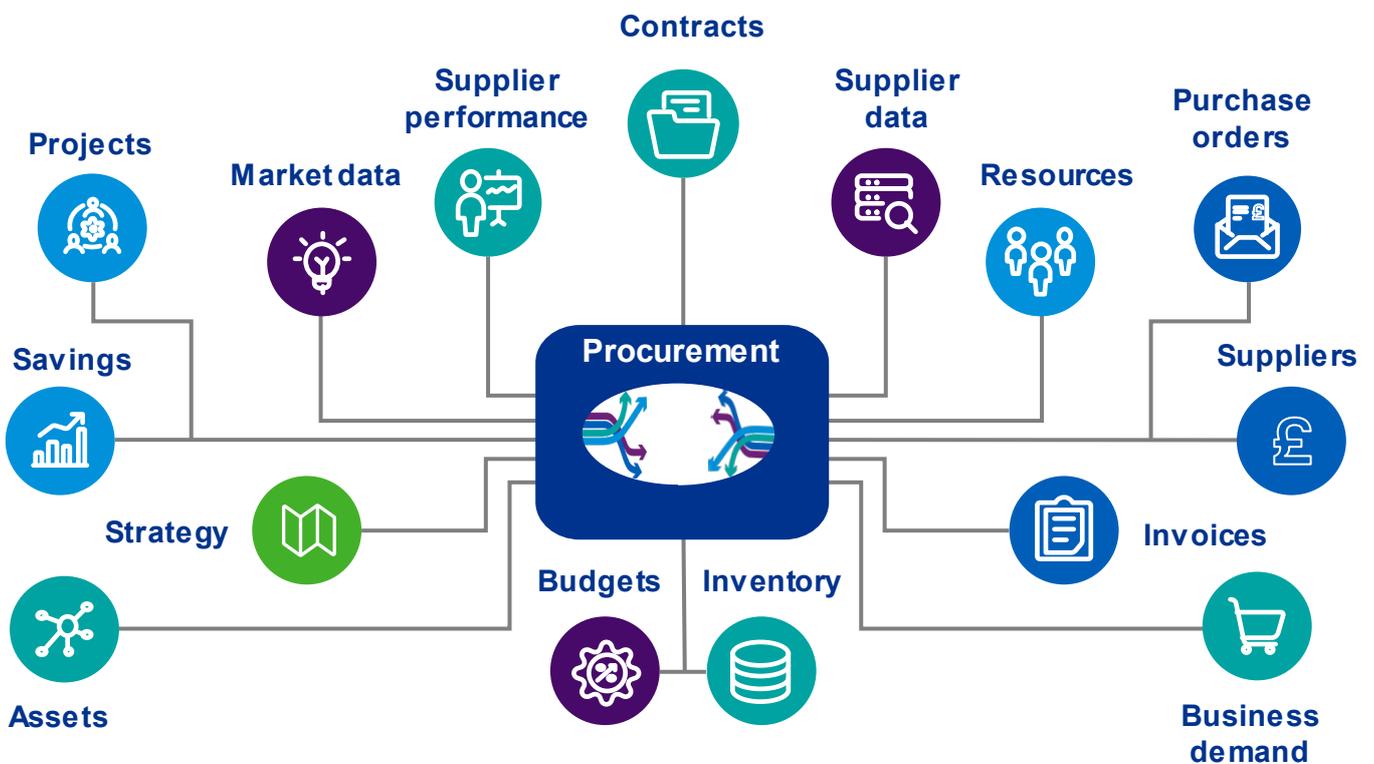
- Managed services used to help maximise procurement ROI
- External insights available seamlessly, on-demand

AI everywhere

- AI and machine learning deployed to be seamless and invisible
- Automation of decisions and decision implementation



10 Insights and analytics



Data and analytics are one of the cornerstones of the future of procurement and a key foundation for enabling supplier-centricity, customer-centricity, and category innovation. In the procurement organisation of the future, previously disparate and fragmented data sources are expected to be seamlessly integrated to deliver easily digestible and accurate data points. Procurement professionals will likely be the resident data scientists, delivering powerful, real-time, and accurate insights. Integration among functional silos should pave the way toward rich analytics, allowing the organisation to shift from:

- descriptive to predictive
- did-cost to should-cost modelling
- auditing to proactive compliance monitoring to mistake proofing
- reactive sourcing to automated sourcing and bid evaluation.

It is anticipated that category managers will utilise on-demand category insights and real-time supplier risk segmentation based on internal and external (social media, news feeds, etc.) intelligence will likely be employed. Further, embedding of subscription services should help drive data accuracy and richness of decisions and decision implementation.



Global events have again thrown the spotlight on supply chain risk. Customers increasingly expect businesses to manage both internal risk and risks in tier 2 and 3 in the supply chain. With increasingly complex global supply chains the task of managing those risks is increasingly challenging. Insights and analytics play a key role in identifying risks and focusing scarce internal resources where it really matters.



Businesses work with a wide variety of third parties worldwide, and each third party manages a subset of risks on the business' behalf. As companies outsource more aspects of their operation to globally distributed supplier networks, the ability to anticipate and address these risks effectively can be compromised by speed to market demands. The risks arising from a supplier relationship can be broadly categorised as financial risk, operational risk, reputational risk and regulatory risk.

Third party risk management is important to ensure business continuity, reduce operating cost and maintaining regulatory compliance. However, managing third party risk in today's business environment can be challenging due to multiple delivery locations, diverse terms and conditions, increased regulation and compliance requirements, lack of the capacity to deal with complexity and volume of relationships, inconsistent third party governance and limited understanding of risk exposure through third party relationships. COVID-19 has further challenged the ability of global organisations to plan and execute key third party risk management components. Gaining holistic visibility of the risks emerging from a new or existing business partner can be complex and data intensive, requiring strong process management and real time action.

Procurement functions need to focus on integrated supplier risk management through:

- 

Clear understanding of **business risk appetite** and third party's ability to manage risks inline with expectation
- 

Risk-based prioritisation to focus resources on products, services and suppliers that present the greatest risk
- 

AI and analytics driven risk identification to extend the coverage and accelerate the speed of risk identification
- 

Consistent risk outcomes stemming from a clear purpose, scope and expectations of supplier assessments
- 

Continuous risk monitoring by orchestrating ongoing data collection across the supply base, understanding risk and prioritising appropriate response
- 

Dedicated experienced professionals focussed on supplier risk management, providing clear expertise, advice and oversight
- 

Integrated view of enterprise relationships with tier 2 and 3 suppliers to analyse their spend on an ongoing basis, identify active suppliers, and cleanse data

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Workforce of the future

What is procurement's role in the future and how are workforce dynamics going to shape that?

An augmented set of skills is needed for the future of procurement. Commercial acumen will likely always be a staple, but being empathetic, technology conversant, and analytically fluent will become minimum requirements.

The next generation of procurement is expected to engage in category strategy, category innovation, and top of the value chain activities that allow the employee to see the results of their work — well beyond the cost savings metrics.

Procurement, like most other functions, is dealing with future workforce challenges and needs, including:

- a millennial workforce replacing the institutional knowledge of retirees and desiring a different “employee experience”
- digital transformation eliminating the work of the transactional and tactical procurement workforce
- contingent labour required to support highly skilled analytical positions
- training programs to accommodate future skills and different learning environments
- relationship management, both internal and external
- analytical modelling capability and the need for the “citizen data scientist”
- cross-functional expertise, improved business acumen, and negotiation readiness
- “bot managers” who manage virtual AI teams.



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Agile operating model

The majority of organisations and functions are aware that the future can require different and flexible operating models to keep pace with the changing landscape. Technology disruptors should naturally drive the automation of low-value tasks, moving the workforce to higher value activities such as category innovation. However, even these higher-value activities will likely require a high degree of cross-skilling to allow the workforce to flex based on current priorities. In other words, having category managers managing one category in an endless loop is expected to become rare.

For procurement, it is anticipated that the effectiveness and measurement of the operating model value will no longer only be linked to “how much have you saved” feedback from suppliers, customers, and other stakeholders, but rather, how they “feel” about procurement will likely be a key measurement.

An agile operating model ties it all together, and includes:

Structure — procurement’s role, size, shape, automation, and delivery model; the procurement organisation structure should be lean, right-sized, and focused on higher-value services.

Decisions — methods, decision making, and governance; strong continued importance on simplifying the governance and decision authority frameworks with cross-functional alignment.

Culture — behaviours within the organisation; more proactive focus on defining the right culture needed to support the procurement strategy and sustain long-term value.

Capacity for change — ability to undertake and manage changes; continuous improvement, Kaizen, innovation, and future-proofing to be agile and continuously improve.

Performance management — process and measurement of organisational performance; procurement effectiveness at the enterprise level should be a key indicator for success along with a clear line of sight into what drives value for the organisation.

Leadership — strategy, direction, support, and communication; cross-functional and cross-business-unit leadership involvement should be more prominent; procurement leadership sets the stage and drives accountability.



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Where to go from here?

We believe it's no longer business as usual for procurement. The scale and speed of transformation required to address the mix of disruptors impacting procurement is unprecedented. One of the keys to success is to proactively develop a blueprint for how your procurement organisation can turn these disruptors into opportunities for competitive advantage and growth. We believe this is what the future requires of procurement, and this is where should start. Contact us today to learn how we can help.

Questions to consider:

- What business disruptors are affecting you most?
- What business questions and decisions should be anticipated to address these disruptors?
- How are you enabling your customers to more easily do business with procurement?
- How do you engage suppliers to move beyond a sole focus on cost and quality?
- How is procurement using external insights, tools, and technologies to drive better outcomes?
- How quickly can you leverage automation to help optimise procurement?



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