



Future of Procurement

2021

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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.

Organizations are facing unprecedented change and disruptions that threaten their future viability. Consumerization, 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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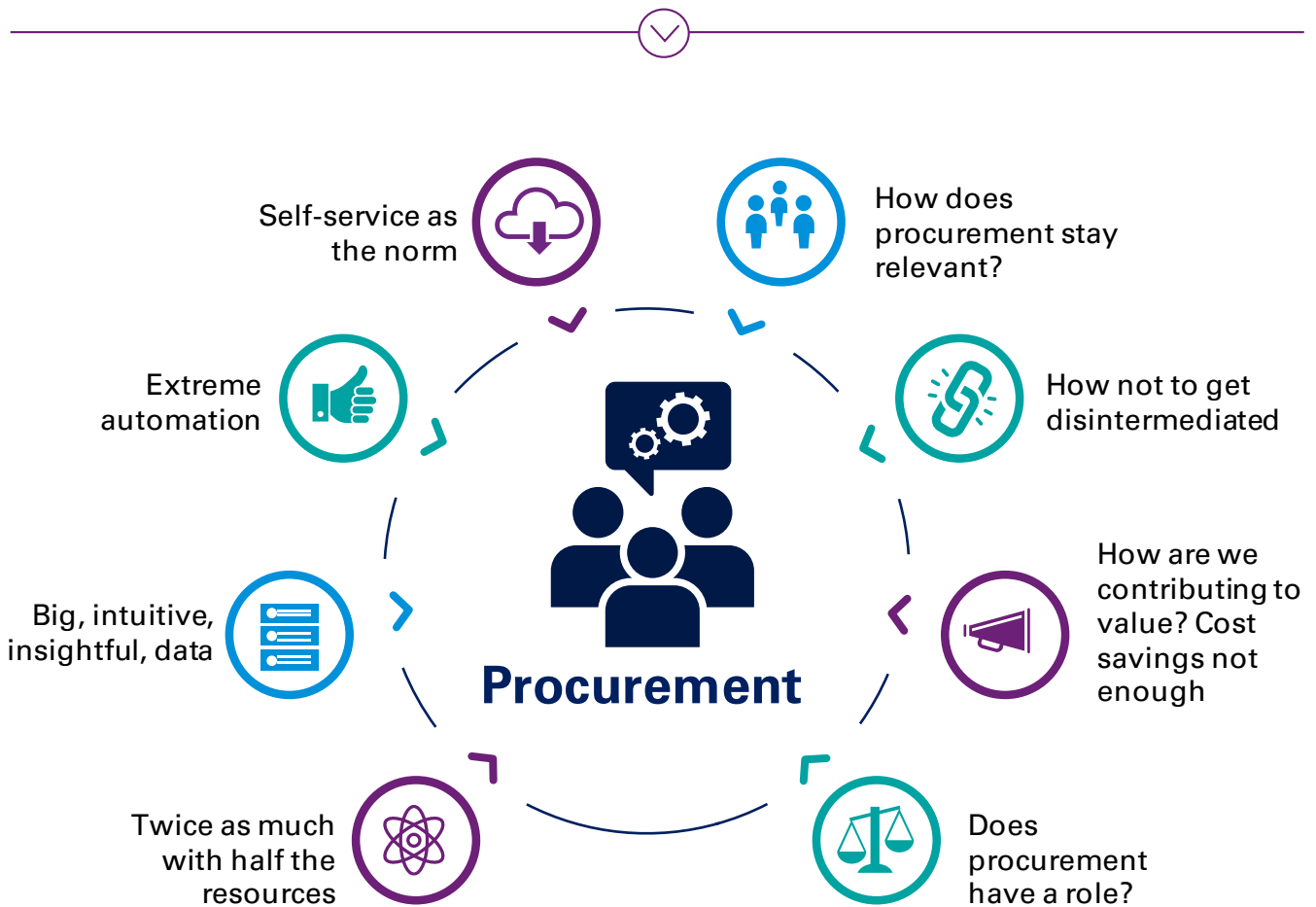
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Disruptors shaping the future

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

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 organization of tomorrow will likely need to evolve from purchasing and sourcing, to enabling a seamless digital experience.

Suppliers, customers and your organization 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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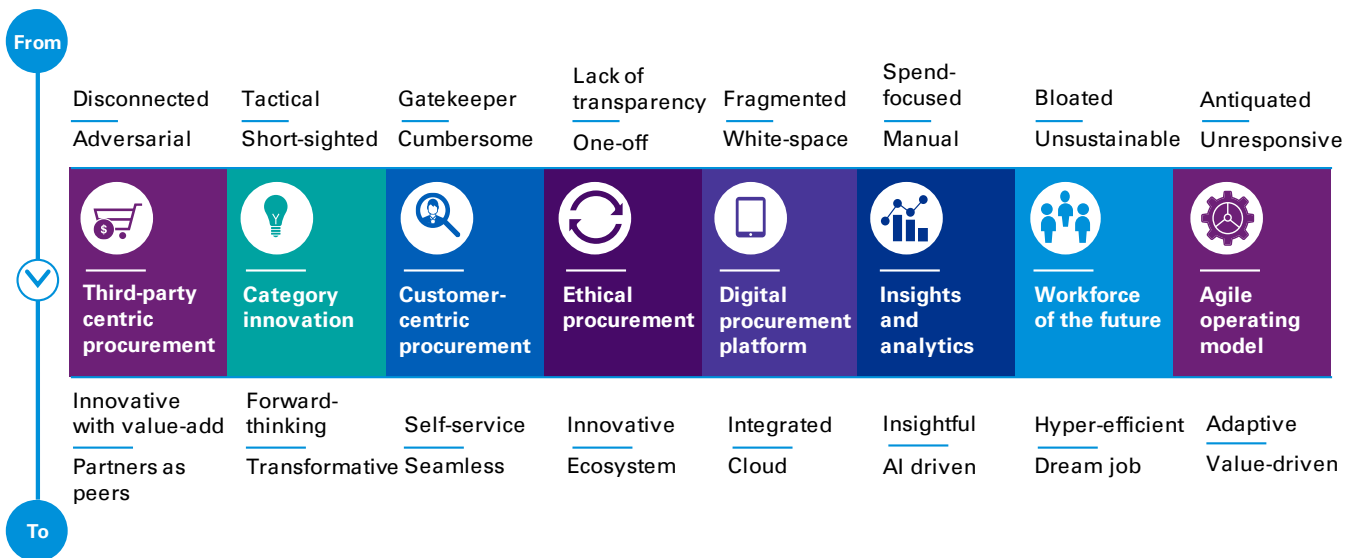
How should CPOs respond?

Leading procurement organizations 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 decentralized operating model to support the business.



The CPO agenda for the future of procurement

Leading procurement organizations 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 organization 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 organization 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

Optimized 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 organization to deliver the most optimal commercial model for the organization, and acting ahead of the market as opposed to reacting to the market.



In the procurement organization of the future, the emergence of big data and analytics should allow insights for category managers that have not been available before. The organization 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 modeling.

In a global and decentralized environment, category management organizations 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 globalized 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 jeopardizing 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 recognize the value added from procurement and want to work with them.

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

- being a key contributor in the business-planning process
- driving spend behavior 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 behavior proactively by making the right data available at the right time and investing in AI.

7 Ethical 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 labor or illegal chemicals that can damage the environment and peoples' health.



Commitment in sustainable procurement helps to ensure values which are core to the business are integrated through a company's supply chain into the life cycle of the company's products and services. Best practice would be to future-proof your company's sustainable procurement and investments with sustainable policies in order to increase the viability for the long-term.

Policies and strategies for sustainable procurement developed by companies are based on the need to future-proof themselves. This is primarily around scarcity in supply and ability to cope with the demand of emerging markets, pressures brought upon by cost and ability to reduce this through reductions in energy consumption and waste reduction. Also, the need to protect brand reputation and taking sustainability in procurement seriously demands risk management and addressing weaknesses that could bring about scandals and bad publicity. Lastly, differentiation of the company's brand with the view of procuring sustainably for creation of opportunities that entail developing services and products that are more innovative and sustainable, while also being relevant to their markets and customers.

Growth path to efficient and more sustainable procurement

- 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.
- Predictive analytics to identify risks — proactively mitigate risks using external data to enable predictive risk management and planning; influence suppliers by implementing a new compliance framework to plan, execute, monitor and assess shared strategic sustainability goals.
- Drive innovation and circular business models — focus on supplier relationship management to co-develop new approaches.
- Push ecosystem — engage in sector initiatives, best practices and certifications. Scale-up "buying groups" to amplify demand-side commitments.

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Digital procurement platform

Today's leading procurement organizations recognize 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 scrutinize its own strategy, but also play a proactive role in shaping the company's digital strategy.

Companies that opt for digitized 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 organizations, 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 modernization 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 maximize procurement ROI
- External insights available seamlessly, on-demand

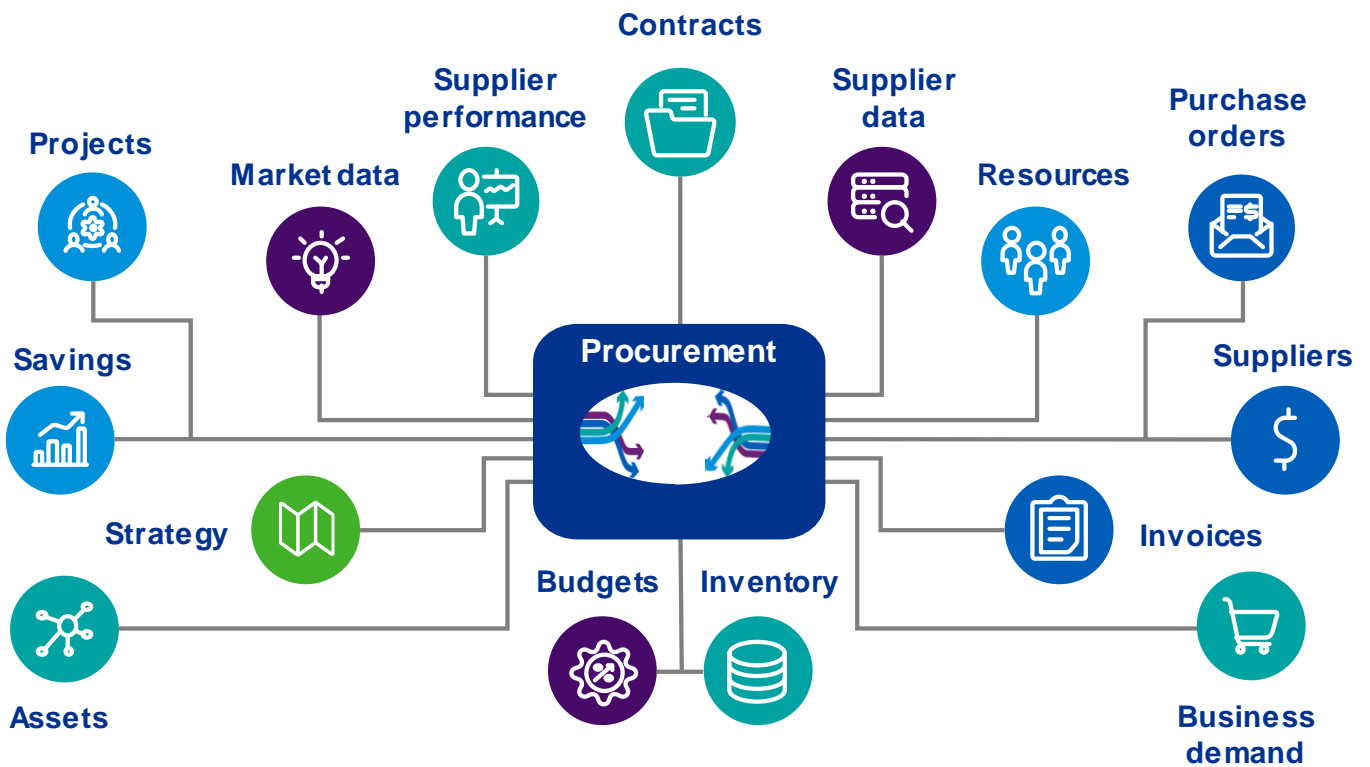
AI everywhere

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



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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 organization 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 organization to shift from:

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

It is anticipated that category managers will utilize 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.



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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 labor required to support highly skilled analytical positions
- training programs to accommodate future skills and different learning environments
- relationship management, both internal and external
- analytical modeling 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 organizations 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 organization 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 — behaviors within the organization; 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 organizational 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 organization.

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.



12 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 organization 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 your local KPMG firm 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 optimize procurement?

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