



CPO Outlook 2024

2024

KPMG Caucasus and Central Asia

Foreword

We are pleased to present the results of the CPO Outlook 2024 survey which is devoted to analysis of the state of the supply functions for 2023 in Kazakhstan and Uzbekistan and their readiness for future potential challenges.

Our first survey was conducted in 2022 and focused on the impact of crisis events on procurement and supply chains across the following key components: end-to-end procurement process, HR management, crisis response, ESG (Environmental, Social, Governance), and public procurement.

Some of the main findings of the last year survey are as follows:



Demand for digital transformation is growing;



Many companies still prefer traditional methods to cope with crisis events in supply chain such as increasing inventory levels and searching for alternative sources of supply;



Key areas for improvement being demand planning, transparency, logistics optimisation, and increasing efficiency in supplier management;



Looking for local suppliers and developing micro-supply chains.

We have singled out 7 key trends based on the 2023 survey results that contribute to the development of the procurement function:

01

Supply chain resilience. The current situation reveals that supply chains are exposed to a growing number of threats and risks, which can lead to unforeseen supply disruptions with negative impacts on business processes. The results of our research indicate the existence of a number of risks over the next 3-5 years. Among them are threats of supply disruptions, rising prices for goods and logistics, economic problems and a decrease in demand for goods. To meet these challenges, it is essential to transform the supply function so that to ensure its greater flexibility, adaptability, and sustainability.

02

Localisation and supply chains optimisation are becoming key trends driven by the current market situation. Many companies have been increasingly using these approaches as strategic measures to enhance resilience and reducing the risks associated with a supply chain disruption. Localisation allows to reduce time and cost of delivery and improve control over delivery time. Shorter supply chains ensure higher flexibility and adaptability, which is especially important in a rapidly changing environment.

03

Digitalisation of supply chain offers a wealth of possibilities to access a diverse range of supply chain capabilities. In volatile environment it can play a pivotal role in enhancing supply chain performance by enabling a swift and effective response to rapidly changing conditions. Automated systems and use of algorithms to accurately analyze data can also contribute to greater transparency throughout the end-to-end supply chain process.

04

Investment in people. Employees are the company's greatest asset in the digital age. Therefore, it is essential to develop their skills and professional competence to prepare them for effective performance of their tasks and adaptation to changing supply chain requirements. It is crucial to focus attention on continuous training and personnel growth through the adoption of contemporary educational programs and technologies.

05

Inventory planning and management: The key components of effective inventory management comprise demand planning, inventory classification and multi-stage inventory optimisation, material replenishment planning, supply planning and inventory consumption control. An optimal balance of service level and inventory level will allow the companies to ensure uninterrupted business operations, increase inventory turnover, thus optimizing the working capital, and respond promptly to any potential risks.

06

Procurement category management is one of the key trends that shapes the direction of the procurement function development in modern companies. This strategic approach enables businesses to manage procurement systematically and efficiently by categorizing them to optimize costs and improve operational performance. This trend is one of the leading trends in development of the supply function, which helps the companies achieve significant success in optimizing costs, improving the quality and reliability of supplies, as well as in adapting to changes in market conditions.

07

Green and circular supply chains. A long-term process that requires joint efforts from the government, businesses, investors and other stakeholders. System integration of ESG principles into the supply chain promotes environmental efficiency, social responsibility and ethical management, increasing the companies' capacity for sustainable development.

A dynamically changing business environment with its volatile demand, geopolitical instability, economic volatility and uncertain logistics routes presents new challenges for the supply chain function leaders. However, along with these challenges come new opportunities for achieving the company's strategic goals. Our survey provides guidance on digital transformation, modern supply chain management tools, operations, employee development and strengthening ESG initiatives.

We believe that this data will help you improve performance of your procurement team and be prepared for new challenges.



Participants



The objective of the research is to obtain a full picture of the supply function's state in 2023, due to participation of experts from different fields from Kazakhstan and Uzbekistan, and that allowed to collect diverse information and build up a comprehensive vision of supply functions.

The respondents included the heads of procurement departments, procurement specialists, logisticians, economists and supply chain managers:



Mining and metallurgy;



Financial and insurance;



Pharmaceutical and chemicals;



Distributive industries;



Information and communication;



Oil and gas;



Transportation and warehousing;



Aviation;



Education and science;



Machinery manufacturing;



Construction;



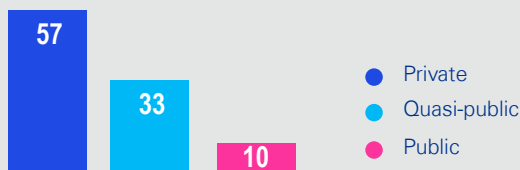
Railway;



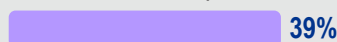
Other industries:
management and consulting, administrative
and support services, technologies.

49 RESPONDENTS
PARTICIPATED IN THE SURVEY

**Representatives from different sectors of the economy
and of different job levels participated in the survey**



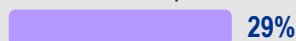
CPO, Director, Department head



Other



Procurement specialist



Supply Chain Resilience



Since 2019 the world has faced a series of crises that have destabilised supply chains across all business sectors. Now evermore crucial is to adapt to new conditions and minimize possible risks and losses.

The survey identified the following top-3 global threats:



GEOPOLITICAL
CONFLICTS



ECONOMIC
VOLATILITY



SUPPLY CHAIN
DISRUPTION

The top-5 measures to reduce the negative effect of crisis events highlighted by respondents based on the results of 2023 survey are:

Measure1 ▶ Identifying alternative suppliers

Measure4 ▶ Increasing investments in digitalisation

Measure2 ▶ Identifying local suppliers to shorten supply chains

Measure5 ▶ Staff reduction

Measure3 ▶ Increasing inventory level

The comparative analysis of 2022 and 2023 surveys showed that the priority measure for risk mitigation is still looking for alternative or backup suppliers. Though increasing of inventory level caption shifted to third position compared to the previous year, it remains one of the most significant tools to counteract geopolitical threats. Maintaining a sufficient level of safety stock is one of the key trends both in the short term and longer term and requires a competent approach enabling the effective inventory management.

Localisation is one of the key tools contributing to the supply chain resilience. In today's unstable and uncertain global market environment, localisation helps companies minimize risks and enhance reliability in supply.

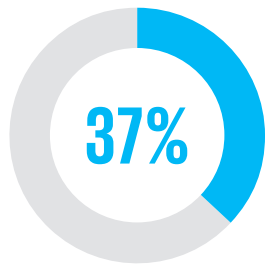
Key benefits of localisation for supply chain resilience are:

- ✂ Reduced dependence on external factors;
- ✓ Improved control and management;
- 📉 Reduced logistic costs;
- ♻ Decreased environmental footprint;
- 📈 Developing the local economy;
- 📦 Enhanced adaptability.

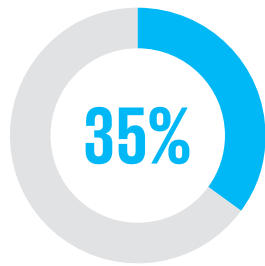
Overall, localisation is a powerful tool to improve supply chain resilience, which helps the companies not only to cope with current challenges but also to build a more sustainable and efficient supply chain for the future. This strategic direction allows the companies to remain competitive, mitigate risks and make a significant contribution to sustainable development.

Localisation and supply chains optimisation

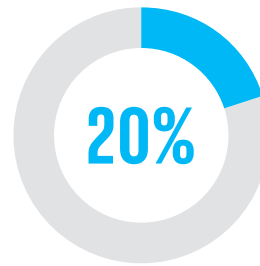
The deglobalisation of supply chains is driven by two main factors a greater focus on the local markets and the growing desire for independence from global suppliers. The global economic crisis has deeply affected supply chains and pushed many companies to explore new opportunities for cooperation with local suppliers; as a result, supply chain localisation focused on proximity and reliability has become a key priority for many businesses, with 65% of companies already using this approach, which is a four-fold increase from the number in 2022 (16.7%).



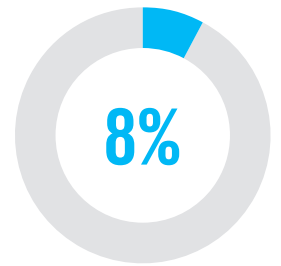
Supply chain localisation in used in specific areas or projects



Supply chain localisation is not used



Supply chain localisation is partially used (in experimental mode)



Supply chain localisation is widely used

Despite the potential advantages of supply chain localisation and local supplier engagement, there is a number of constraints that currently prevent from their widespread use in procurement procedures:

Reason#1 Insufficient level of quality of goods and services offered: many companies do not have the necessary certificates, which can lead to increasing in quality control costs and declining in confidence to suppliers.

Reason#2 High prices and long delivery periods as a result of the "ship-shop-ship" scheme, where resellers and distributors have a greater influence than manufacturers.

Reason#3 Limited production potential: the production capacity is insufficient to create the desired volumes.



Digitalisation of Supply Chain

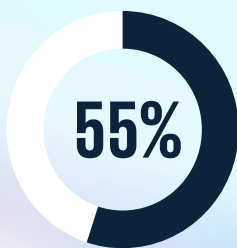
Digitalisation is a significant trend in transformation and optimisation of business processes, which provide access to a wide range of state-of-the-art technologies. Digital platforms (DPs) facilitate data exchange between all supply chain participants by providing necessary tools to monitor and track goods, works and services at all stages of their movement, thereby achieving the desired level of transparency.

The following technologies and tools are widely used as part of supply chain digitalisation:

- **Implementation Supply Chain Management (SCM) systems** : Integrated software solutions that automate and optimise all stages of the supply chain, including planning, procurement, manufacturing, logistics and distribution;
- **Predictive Analytics**: Implementation of machine learning (ML) methods enables the analysis of large amounts of data to predict requirements and reduce staff workload, thus improving the efficiency of supply chain functions;
- **Robotic Process Automation (RPA)**: RPA systems can automate a range of routine tasks typically performed by the procurement staff, including inventory management, record keeping, order processing, purchase requisition monitoring, etc.;
- **Big Data Analytics**: Analysis of large volumes of data enables to identify trends, optimise processes and make data-driven informed decisions;
- **E-procurement Management**: Electronic trading platforms and procurement management platforms streamline the process of searching and selecting suppliers, tendering and concluding contracts.

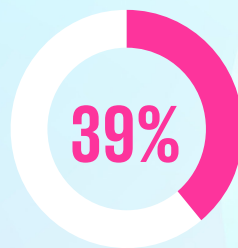
The accuracy and quality of information used by the procurement function are critical for implementation of any system. Master Data (MD), which provides unification and standardisation of data used in supply chain activities, serves as a foundation for the system's functionality. MD represents the core of the unified information space of an entity encompassing a set of directories, dictionaries, classifiers, standards and regulations used in the company's activities. MD application contributes to higher planning accuracy, optimisation of procurement processes and inventory management, and facilitates generation of high-quality output reports.

During the survey, respondents evaluated the quality of data within their Companies:



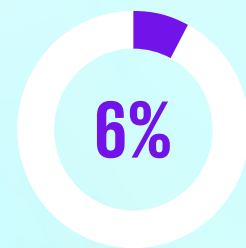
TRANSITIONAL

MD maintenance process is partially automated; responsible staff for records maintaining and modifying have been assigned. At the same time, the maintenance process has not been fully formalised yet, and currently there is no methodological documentation in place.



LOW

There is no unified data management process or formalised approach to data entry and modification. There are numerous instances of duplicate and erroneous data in the records. MD dealing process is not automated.



ADVANCED

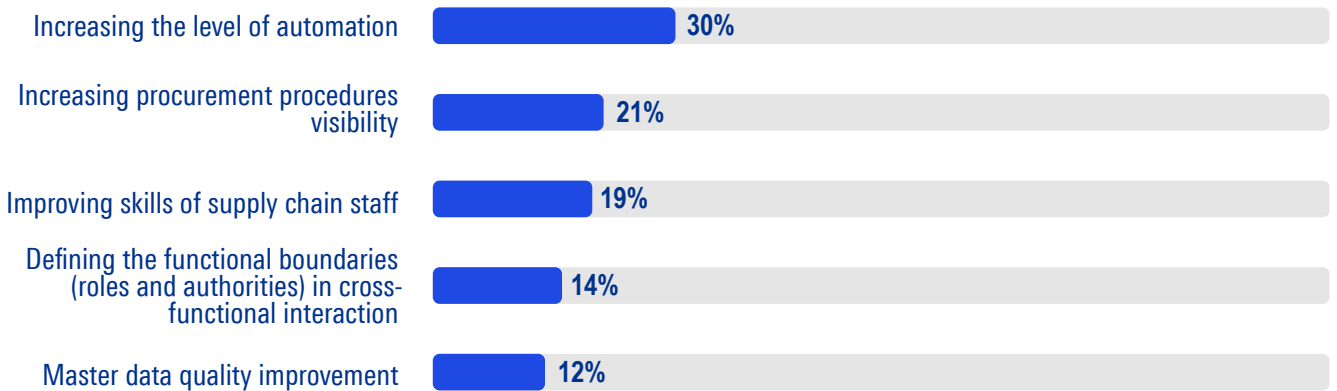
MD maintenance process is fully automated, and a dedicated team is responsible for data management. Data maintenance process is formalised, and the company has developed and implemented methodological documentation to deal with data.

According to the respondents, there are the TOP-3 processes that need to be automated to improve the overall operating efficiency of the supply chain processes.



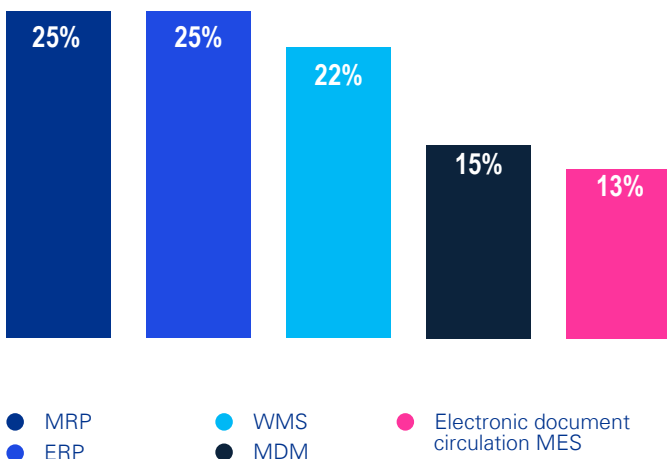
To implement successfully digitalisation of supply chain processes, a comprehensive preparation of the company's internal data is required that includes the development of a detailed digitalisation plan (design and engineering), creation and standardisation of a reference and data model, and development of report templates and report.

The survey results showed that 96% of the respondents believed it necessary to make changes to the company's current supply chain to achieve enhanced performance. The respondents identified the following as the most important initiatives:



Implementation or improvement of the automated systems in supply chains is a complex process that requires careful planning, preparation and implementation to increase productivity and meet the changing needs of both the market and the companies as a whole. Application of such systems as ERP (Enterprise Resource Planning), MRP (Material Requirements Planning), WMS (Warehouse Management System) and MDM (Master Data Management System) eliminate routine work, allow focusing on analytical work and reducing a risk of errors, thereby improving the overall operational efficiency.

According to the survey results, the interest to enhance the following systems and modules through automation has been allocated as follows:



Investment in people

As a result of the implementation of digital technologies into supply chain processes, companies are adjusting their requirements for new employees and develop individual training programmes for current employees with focus on enhancing their digital and analytical skills. This is due to the growing qualification requirements for the staff, as the qualifications of many employees no longer meet the modern standards. The company places particular emphasis on the IT competencies that facilitate reduction of operational burdens on employees by automating routine tasks, optimising internal communication and enabling employees to concentrate on the company's strategic goals.



Only 14% of the respondents rated the qualifications of their employees as "High", indicating an urgent need to develop additional skills and competencies of the procurement function staff.

80% Satisfactory

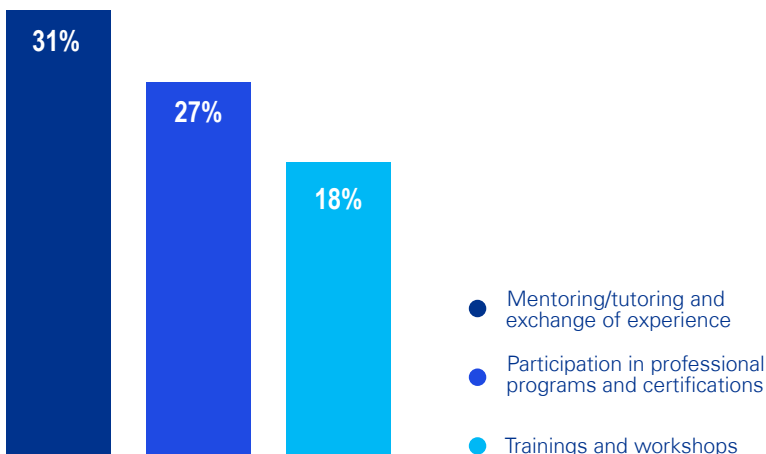
14% High

6% Low

To facilitate the strategic development of human resources, especially in procurement field, it is supposed to implement a comprehensive training and professional development programme. Mentoring programs promote accelerated development and acquisition of new knowledge, thus enabling employees to adapt rapidly to dynamic changes in the business environment.

Investing in staff development, including providing access to extensive educational materials and participation in professional societies, significantly improves the staff skills. Ongoing update of the resources such as online courses, webinars, e-books, video tutorials and other educational materials will help employees to keep their knowledge current and meet professional standards in a digitally transformed environment.

According to the responses received, the managers think that the most interesting staff development initiatives are:



For reference, the 2022 survey showed the following TOP-3 staff development activities: junior talent development (38.1%), mentoring (42.9%) and external education sponsorship (61.9%). Therefore, mentoring proved to be one of the most effective learning tools in the 2023 survey.

Inventory Planning and Management



Inventory planning and management is a structured supply chain process that is focused on inventory optimisation with a view to ensure the company's uninterrupted business operations.

This process covers all stages - from demand forecasting to goods write-off, and helps minimising the risks of excess inventory, improve procurement management, reduce costs, optimize working capital and achieve the company's uninterrupted business operations.

The 2023 survey showed that 82% of the companies failed to achieve the optimal inventory levels.

According to the survey results, the respondents singled out the following supply chain processes as those that require automation:

25% Demand planning

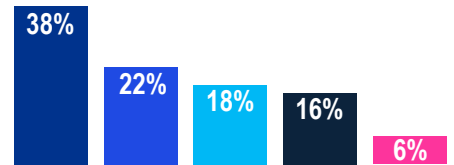
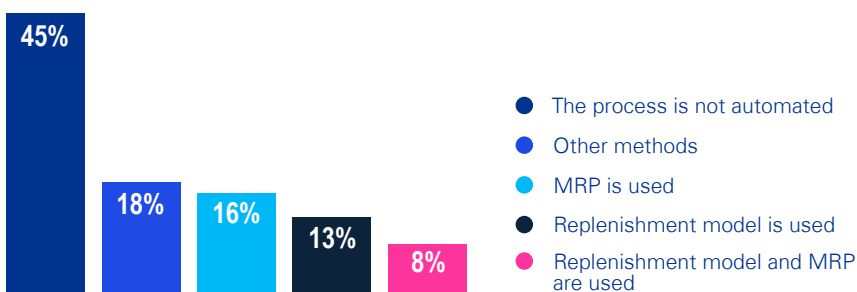
18% Management reporting

22% Inventory management

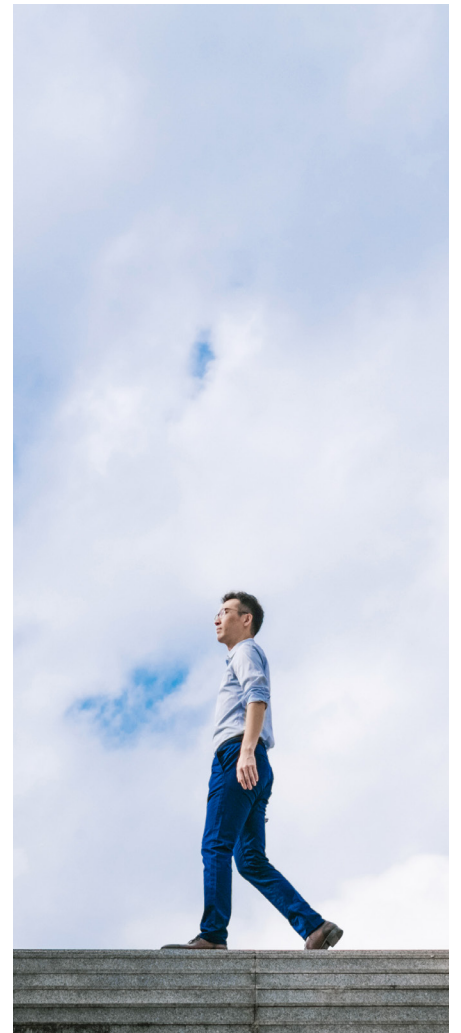
15% Supplier performance management

The survey showed that in 45% of the companies, the inventory planning process is not automated and requires significant changes. However, answering the question about the companies' inventory planning methods, 18% of the respondents gave the following responses:

- Their companies have no inventory stock;
- Stock is replenished as needed;
- The process is carried out beyond procurement department competence.



- Stock level varies (overstock - deficit)
- Optimisation of extra inventory requiring
- Optimal inventory level
- Constant shortage of planned items
- Other responses



Procurement Category Management



Category Management (CM) is a strategic approach that helps the companies optimize procurement process by focusing on the management of categories of goods and services.

The main components of CM are:



Categorisation: creating a structured classification of all purchases for effective management and analysis;



Cross functional team building and collaboration: ensuring effective communication and collaboration between different departments;



Developing category strategies: defining management strategies for each selected category to optimise costs and improve efficiency;



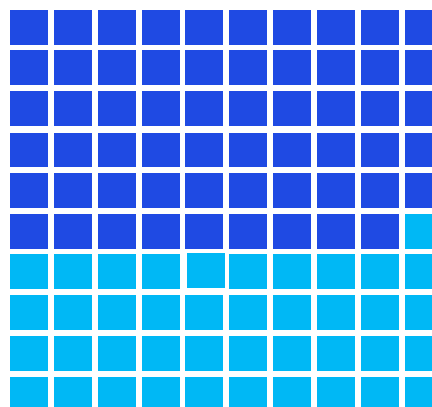
Applying supplier performance management practices: ensuring high level of quality and reliability of delivery by systematically managing and evaluating suppliers;



Applying Total Cost of Ownership (TCO): assessing all costs associated with owning and using a product or service to make better-informed decisions.

CM enables the companies to approach the procurement process systematically, ensuring maximum efficiency, cost reduction and improved interaction with suppliers. This is achieved through clear procurement categorisation, cross-functional teams, strategy development, supplier performance management and application of the TCO concept.

These practices help to optimize the procurement process, increase its efficiency and transparency, and also achieve significant cost savings. Thus, referring to the data received, 59% of the respondents have implemented the CM.



59%

of the respondents use CM

41%

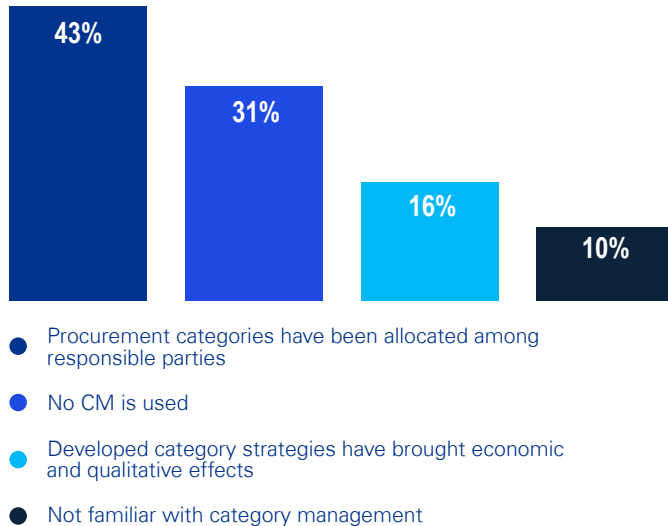
of the respondents do not use CM

Considering all the components and processes described above, the development of the CM philosophy is a key trend today. Those companies that are implementing this strategic approach gain significant benefits, such as **cost reduction, increased efficiency and improved quality of supplier interactions**. CM helps better understanding of business needs, optimisation of procurement processes and ensures sustainable development through proactive management of goods and services categories. The CM

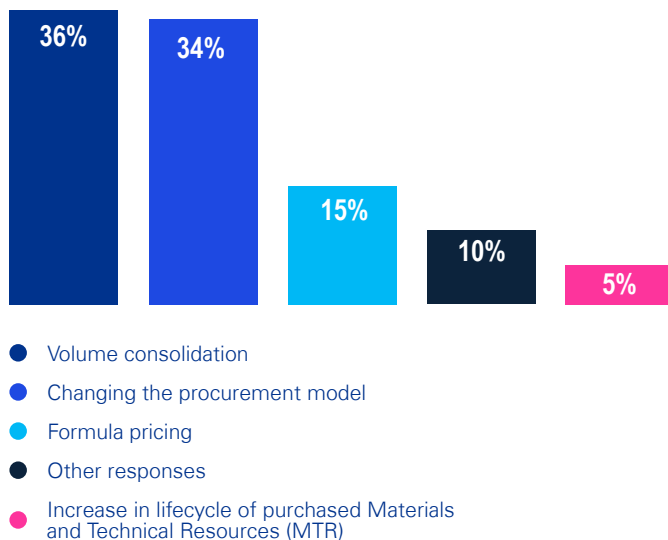
philosophy not only addresses the today's problems, but also leads the way to a better business future.

Implementation of the developed category strategies allowed to achieve economic and qualitative effects for 16% of the respondents; 43% of the respondents use CM in terms of distributing procurement categories among responsible buyers, while the remaining share of the respondents currently either does not use CM or is not familiar with this practice.

59% of the companies that used CM in their operations have implemented the following initiatives



Implementation of CM in the companies has shown the following results



Green and Circular Supply Chains

Business environment in Central Asia is on its initial stage of implementing ESG principles into the business environment. The issue of integration of these principles is currently an important aspect for the development and improvement of environmental, social and corporate responsibility of the companies in the region. Thus, this year the number of respondents applying ESG principles in the procurement strategies of their companies has increased from 51% to 59%. In general, the trend shows that the ESG agenda is gaining popularity and becoming one of the hot topics at the regional level, which fact is confirmed by the growing number of the respondents compared to the previous year.



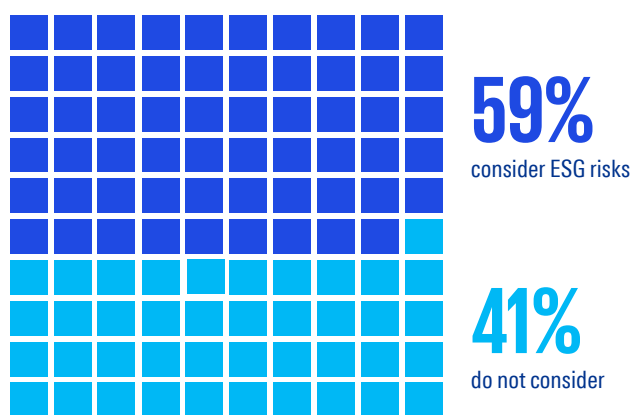
The respondents prioritised the ESG elements as follows (it is important to emphasize that all three categories are interrelated), in terms of the application of these elements in their companies:

The diagram features three circular icons arranged horizontally, each with a dotted border. The first icon on the left is labeled 'GOVERNANCE' and contains a gear and a person. The middle icon is labeled 'ENVIRONMENT' and contains a globe with a leaf. The third icon on the right is labeled 'SOCIAL' and contains three stylized human figures. The icons are interconnected by lines, suggesting they are interrelated.

According to the 2023 survey results, 53% of the respondents regularly conduct ESG audits of their suppliers. This reflects a positive trend, which demonstrates the CA companies' strategic focus on ESG standards in their interactions with business partners and suppliers.



ESG risks in supplier selection:



Recent crisis events and supply chain disruptions have forced to reconsider approaches to selecting suppliers and assessing risks. Only 49% of the respondents consider ESG risks, which is significantly lower compared to last year's results (65%).

Conclusion – Recommendations

Our research has demonstrated that supply chain leaders are confronted with a multitude of unprecedented challenges, including pandemics, geopolitical tensions, economic volatility and supply chain disruptions. These challenges have created a new reality that necessitates adaptation. On the other hand, new opportunities are

opening up for executives, the success of which will depend on the ability of the leaders to adapt to changing conditions, explore new technologies and methods of work, as well as on enhancing the role of strategic procurement.



Digital transformation



In a fast-paced world, where success is increasingly defined by speed and efficiency, digital transformation and automation in supply chains are becoming essential elements in functioning of any business. The effective use of digital tools allows organisations to achieve significant competitive advantages, which are demonstrated in automation of routine tasks, increased efficiency, centralisation of procurement data, reduction of time spent on procurement processes and resource planning, minimising the risks of errors and inconsistencies.



Advanced SCM tools



The contemporary approach to supply chain management is undergoing a transformation, moving away from the use of disparate systems towards creation of a unified platform that integrates people, processes and technologies. This integration presents new opportunities for business growth and improvement, facilitating the expeditious, precise and efficacious delivery of goods and services. Digital platforms provide real-time access to a range of information, including stock, orders and supply chain data, and resource planning, warehouse and transport management.



Supply chains and operating activity



In the context of global economic turbulence, the ability of supply chain functions to maintain resilience in the face of supply chain disruptions has become a crucial factor. Effective communication with suppliers is a key factor in maintaining stability in the procurement process. In other words, from 2019 onwards, collaboration and communication with suppliers have been identified as the optimal approach to cope with the crisis situations.



Talent development



Supply chain management employees are the greatest asset of the company. Professionalism and qualifications of the staff play a significant role in all processes of the supply function. Top management of the companies should develop a strategy to improve further the key skills of their employees and draft a plan for professional development, considering the rapid pace of technological change and supply chain developments.



ESG initiative strengthening



ESG principles should be integrated into the company development strategies and incorporated into all aspects of the operations, including, in our case, the sourcing strategy, supplier management and supply transparency. The companies that prioritize ESG considerations tend to attract greater investments, more customers and highly qualified staff. The strategic planning of widening investments and ESG initiatives over a three-to-five-year period represents a pivotal aspect of the company's sustainable development.

How can KPMG help?

Transformation of the supply function

Transformation of the supply function plays a key role in increasing the company's competitiveness and ensuring its sustainable development. The following key components of the procurement function should be updated / developed as part of the transformation-related work: target organizational structure, matrix

of distribution of roles and powers, regulations on the supply unit, procurement regulations, key performance indicators, top-level IT application architecture, album of management reporting forms, templates for contracts for procurement of goods and services.

Optimisation and further automation of procurement processes

Quick growth of digitalisation requires improvement of the procurement and supply functions, focusing on optimisation and further automation of the processes. We will assist in all stages - from design to implementation, providing consultations and assistance to form an end-to-end process and implement sustainable methods in crisis situations.

A detailed diagnostics of your current procurement processes will identify "bottlenecks" and ineffective steps to discover the potential areas for optimisation. Our experts will help design the targeted business processes and draft the regulatory and methodological documentation.

Procurement category management

Implementation of category management practices has successfully proved its effectiveness; it help reducing the total cost of ownership, increasing sustainability and optimising procurement activities, especially during crisis events. We offer expert

assistance in the development and implementation of a procurement category management strategy based on the best practices, and a differentiated approach to procurement processes in the current reality.

Master Data improvement and formation of management reporting

Master Data is the foundation of any company's unified information space, which includes a set of directories, classifiers, standards and regulations used in its operations. With a competent approach, improvement of Master Data becomes a powerful tool that helps the companies adapt successfully to

modern conditions, enhances supply chain efficiency and improves data quality for reporting purposes. We offer a comprehensive service to improve data quality and develop management reporting for the company's procurement function.

Inventory planning and management

Increasing geopolitical and economic instability triggered unpredictability and significant extension in delivery times, and optimising inventory management strategy becomes a critically important task to ensure uninterrupted business operations. Our team has extensive experience in developing and implementing effective inventory management strategies with a

focus on inventory optimisation, effective inventory planning, maintaining a high service level and managing unclaimed and illiquid inventory that will make possible to optimize the company's resources and ensure that internal demand is met in a timely and comprehensive manner.

Our Team



Timur Akhmetov

Director

T: +7 777 078 65 70

E: takhmetov@kpmg.kz



Nuriden Mukashev

Manager

T: +7 701 065 88 77

E: nmukashev@kpmg.kz



Pulat Mirzaev

Manager

T: +998909770685

E: pmirzaev@kpmg.co.uz



Anissa Turanova

Manager

T: +7 778 330 07 73

E: aturanova@kpmg.kz

kpmg.kz

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 Tax and Advisory LLC, a company incorporated under the Laws of the Republic of Kazakhstan and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.