



cutting through complexity

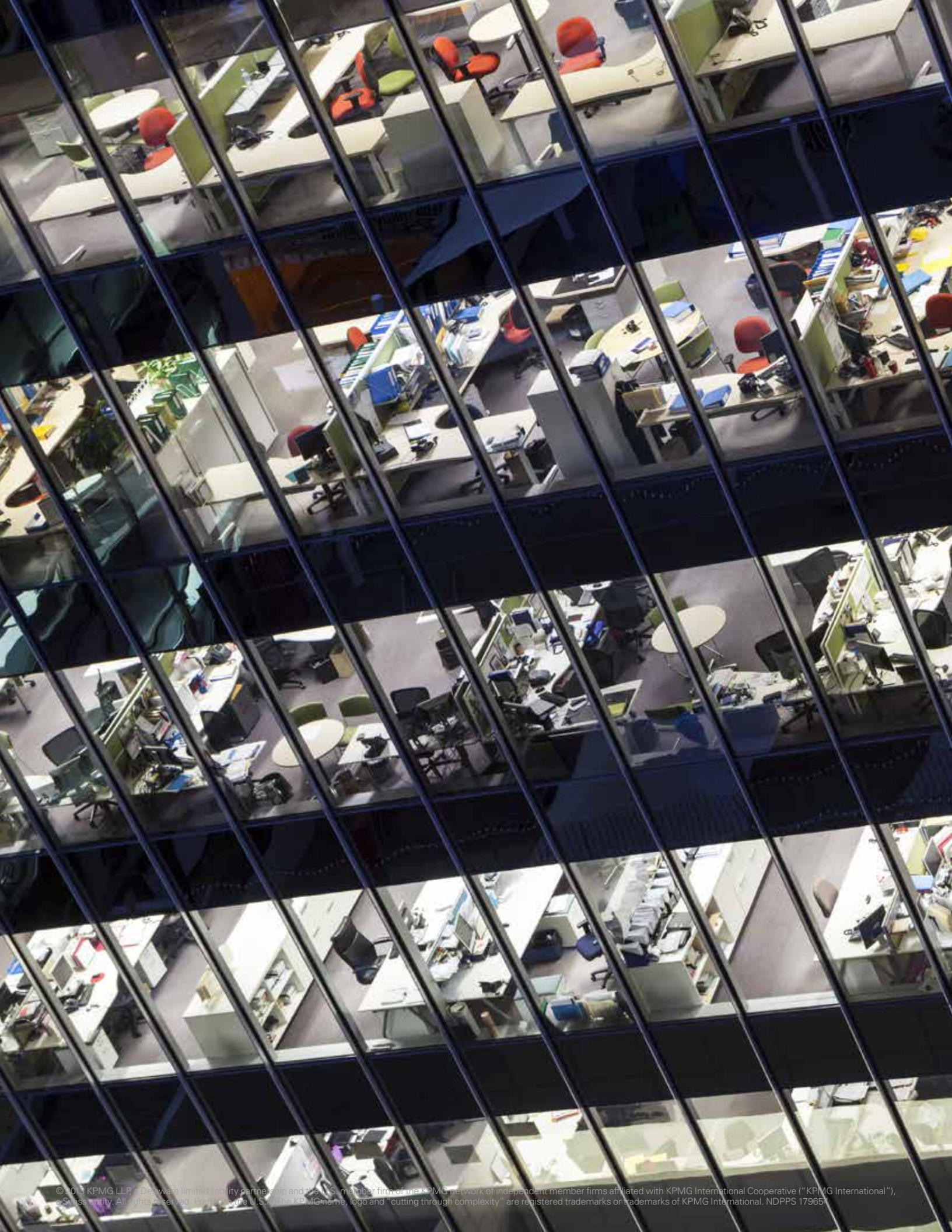
# FUTUREBUY: The Future of Procurement

25 in 25: Delivering procurement  
value in a complex world

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# Introduction

## The future of “materials man/woman”

Procurement history is rooted in the core concepts of centralization, volume leveraging, and cost reduction, with the earliest traces linked to materials management. A book on the economy of machinery and manufacturers, written in 1835 by Charles Babbage – an English mathematician, philosopher, inventor, and mechanical engineer who originated the concept of a programmable computer – referred to the importance of the purchasing function.

Babbage alluded to a central officer responsible for several different functions in the mining sector: “a materials man who selects, purchases, receives, and delivers all articles required.”<sup>1</sup> By 1866, the Pennsylvania Railroad had given the purchasing function departmental status, under the title of Supplying Department. The purchasing function was such a major contributor to the performance of the organization that the chief purchasing officer (CPO) had top managerial status.<sup>2</sup>

The Chicago and Northwestern Railroad’s comptroller wrote the first book exclusively about the purchasing function, *The Handling of Railway Supplies—Their Purchase and Disposition*, in 1887. He discussed purchasing issues that are still critical today, including purchasing agents’ need for technical expertise, and the necessity of centralizing the purchasing department under one individual. He also commented on the lack of attention given to the selection of personnel to fill the position of purchasing agent.

For the most part, these insights on procurement remain as prevalent today as they were well over a century ago.

Although procurement has certainly evolved from its early roots, it still faces challenges in terms of executive recognition, talent management, and organizational challenges. Modern enterprises face a massive new set of challenges, including the forces of globalization, increased risk, complex supply chains, the spread of government regulation on decision-making, and the tremendous strain of man’s presence on the earth’s natural resources.

Our premise going into this research was that those organizations that are better able to position procurement as a core business function will be able to drive a more

competitive lever for change, and adopt more readily to the rapid forces of change in the current global environment. This thesis was not only supported, but led to a number of fascinating insights into what is in store for procurement, and how this critical business function will continue to evolve as organizations move to increased outsourcing on a global basis. Those organizations that embrace the increasing complexity of the global sourcing landscape are managing this through improved market intelligence, greater flexibility in decision-making, and aligned planning capabilities.

A further insight was that collaboration will be the key to this, as organizations seek to coexist in a hostile environment to succeed against the odds. We characterize these capabilities to manage complexity and survive as the FUTUREBUY organization. This research-based paper summarizes the major capabilities identified as necessary for competitive adaptation and growth in the current business environment, and discusses how we expect the evolution to occur. Talent management will be a fundamental component of how this capability evolves, and the nature of the different types of skills became a focal point for discussion.

The research was conducted first through interviews with 25 Chief Procurement Officers from companies that represent a spectrum of maturity level. To explore how the future of procurement will evolve, we asked these executives 1) what they believed procurement would look like in the year 2025, 2) how this evolution will occur, and 3) the critical success factors that are required to achieve this vision. The industries represented in this research included consumer products, financial services, healthcare, industrials,



energy, and technology companies (see figure below). The list of organizations represented by these executives is shown in the figure below. Interviews were transcribed, coded, and analyzed, and the themes articulated in the sections that follow. The results show that leading companies are pushing

the boundaries of procurement to take on new evolving roles that haven't been traversed before, in a drive to be "all that it can be" to both internal stakeholders and the supplier community. The form of these roles will be shared here and key insights derived.

## FACES OF PROCUREMENT IN 2025

### SURVEY PARTICIPANTS

Consumer Products	Financial Services	Diversified Industries	Healthcare and Pharmaceutical	Energy, Natural Resources, and Chemical (ENRC)	Technology Media Telecommunications (TMT)
NIKE RALPH LAUREN	AMERICAN EXPRESS BANK OF AMERICA BARCLAYS HSBC SUNTRUST	ALCOA BAE CATERPILLAR DUPONT JOHN DEERE	BAXTER GSK MERCK NOVARTIS EXPRESS SCRIPTS	AES BP CHEVRON DUKE ENERGY EXXON SPECTRA ENERGY SHELL	FLEXTRONICS HEWLETT PACKARD LENOVO NOKIA TYCO

### WE ASKED...

1

WHAT WILL PROCUREMENT LOOK LIKE IN 2025?

2

HOW WILL THIS EVOLUTION OCCUR?

3

WHAT ARE THE CRITICAL SUCCESS FACTORS REQUIRED TO ACHIEVE THIS VISION?



# Executive summary

## “25 in 25”

Procurement executives today are being asked to bring more to the table in an era of globalization and outsourced capabilities. Many are being asked to push procurement in directions that represent new organizational models and approaches. In an effort to explore “the art of the possible,” we interviewed 25 senior chief procurement officers and executives, asking them what they believed procurement will look like in 2025 (“25 in 25”). Based on these insights, we discovered that top thinkers believe procurement can indeed provide a good deal more value to the business than they do today.

Many executives are torn today between meeting the current state demands being pushed on to procurement for supply assurance and cost reduction, all the while frustrated knowing what the full potential of a world-class supply management organization is capable of delivering.

Moreover, chief procurement officers (CPO) view procurement’s future role to be one that challenges many of the existing assumptions and perceptions of procurement as a “cost savings enabler,” evolving into a “trusted partner,” and finally moving into a future role as a “supply chain innovator.” In this context, we identified several new roles depicted as the “FUTUREBUY” organization that procurement executives aspire to create by 2025. These roles include some that extend current thinking, but also present some important new directions that will require investments in talent management, new paradigms for development of this talent, continues to shift organizationally toward procurement. The evolution of the function will progress in the following manner, as shown in Figure 2.

- **Financial Analyst** – Procurement has always been about cost savings, and to build credibility, cost will continue to be important. An important future role is the ability to effectively perform financial analysis and demonstrate financial expertise that enables effective communication with the chief financial officer (CFO). At the root of this capability is the need for a reliable procure to pay system that captures data in a robust manner for analysis and construction of a basis for analytics is a critical stepping stone. With access to reliable spend data, procurement leadership must be able to explore alternative approaches to savings that build on other

factors than strategic sourcing of leveraged buys. To do so, procurement must possess a working knowledge of currency trends, capital market events, discount rates, total cost of ownership (TCO) modeling capabilities, and global economic indicators. In addition, procurement must be able to relate the movement of these macroeconomic triggers to the impact of a third-party’s input on expenditures and the Profit and Loss (P&L) and Balance Sheet. This will change the nature of dialogue of procurement with other financial executives. Finance modeling capabilities will include the ability to develop logistics cost-to-serve models, understand the contribution of supply management to capitalization, rates of return, and other key metrics. Procurement will be able to develop creditable financial business cases and establish a baseline framework for what-if decision-making using capital asset valuation, compound annual growth rate (CAGR), and shareholder value metrics.

- **Internal Consultant** – As procurement builds credibility as a financial expert, stakeholders may turn to procurement for additional support. An important role here will be that of an internal consultant, who engages business units to explore actionable solutions to their business problems, including alternative delivery methods, performance issues, supply chain risks, and technology solutions. The procurement organization must become more aligned to internal business structures, and its roles will mirror organizational changes in the enterprise structure. Procurement managers will be dedicated to connect, listen, and deliver business value to internal stakeholders, from senior level executive forums to daily operational execution events. Accurate spend intelligence and business acumen becomes critical here





as a means to drive consultations on business-level needs through targeted category strategies. Cost-savings metrics will evolve to focus more on productivity, operational expenses, and project-focused metrics through alignment of the business with the realities of the supply market. Careful alignment of category strategies will leverage on a global scale, but may need to be operationalized at a local and regional level.

- **Intelligence Agent** – As any seasoned executive knows, intelligence is the foundation of a solid business strategy. Procurement will need to become an expert on all matters related to supply market intelligence, including cost trends, M&A activity, technology trends, market forces, and supply risks. To do so, procurement executives will need to establish new capabilities, developing centers of excellence that monitor and explore supply market intelligence. Just as government intelligence agencies rely on a network of agents, procurement will build a network of subject matter experts and sources of insight into supply markets globally as well as tapping into the power of crowd sourcing. Intelligence outputs will include market trends, emerging legal and regulatory factors, supplier capacity, mergers & acquisitions, commodity price forecasts, and other elements. Predictive modeling in the form of total cost-to-serve models will lead to greater transparency with suppliers, and eventually to a move to collaborative problem solving and integrated life cycle product planning. Centers of excellence will deliver real-time market triggers through multiple channels of data gathering, and also provide a multichannel form of knowledge dissemination into every function within the enterprise impacted by this

knowledge. Multiple forms of market intelligence will include integration of macroeconomic developments, regional regulatory changes, supply and demand impacts, multimarket attributes, technology forecasting and road map development, and supplier-specific issues that translate into competitive advantage or risk issues. Over time, intelligence capabilities will be improved to build predictive capabilities around business markets and forecasts for budgeting and strategic planning debates.

- **Relationship Broker** – Procurement teams are being asked to align their strategies directly with business unit requirements, and also to effectively link business unit managers to external suppliers for important dialogues. These introductions may serve to ensure alignment on technology platforms, increase understanding of performance gaps, drive root cause analysis for product issues, or other forms of problem-solving sessions. This requires increased contextual understating of business needs, and skill associated with managing relationships in multicultural environments, virtual teams, and various operating models. Important capabilities required for this include effective interpersonal skills, ability to influence, and listening.

Procurement will also draw on their market intelligence to better understand the supplier landscape, and will be able to marry this knowledge to global product design and Research and Development (R&D) team requirements for new technical capabilities and innovation. As the enterprise moves into new emerging countries, procurement will precede them to identify new suppliers as well as create joint

ventures in the supplier community to create capabilities that did not exist previously. As a relationship broker procurement will create vertical and horizontal linkages through introductions of people with similar objectives, leading to productive discussions and relationships that produce new forms of technology, value, and capability.

- Risk Advisor** – Procurement is increasingly being engaged on risk discussions, either in reaction to supply disruptions or proactively via involvement in enterprise risk projects. As a subject matter expert, procurement must be able to provide accurate and in-depth insights on a variety of supply market risks, as well as supplier-specific risks. Market metrics include elements that include operational, financial, reputational, and regulatory supply market risks, and supplier-specific risks include financial health, relationship, human resource, performance, and compliance risks. Procurement will need to invest in resources focused on discovering, identifying, measuring, monitoring, and predicting supply market and supplier risk. Supply side risks include supplier business risks, capacity constraints in the market, quality problems, changes in technology or product design, or major shifts in price (e.g., commodities or oil) that drive up raw material costs and impact margins. Because of the interdependencies of globally networked supply chains, any disruption at a node radiates throughout the network. Procurement will need to not only identify and measure these sources, but also need to establish close coordination with key suppliers as a means to reduce disruptions. This will also entail becoming increasingly aware of tier two suppliers, and building an understanding of not just who is in the supply chain, but gaining insight into their capacity, limitations, and paths through the network. As greater network understanding is established, procurement will become a source of recognized expertise on risk mitigation and scenario planning, and understanding how to manage disasters when they occur, as well as how to minimize the impact before they occur.
- Legal Expert** – Traditionally, many procurement organizations were viewed as virtual paralegal departments, and effectively charged with supplier contract compliance. In the new global market environment, there are many more complex factors that create significant impacts on contract management. Some of the many factors that require insight and management include intellectual property, country-specific issues, and other forms of complexity and exposure based on integrated operations across the globe. As a trusted advisor, business units will increasingly rely on procurement to minimize exposure to contractual risk in external relationships with third-party suppliers and joint venture partnerships. Procurement team leaders will need to be able to provide succinct answers to questions such as “what is possible?,” “how will we measure contractual risk?,” “how often will we measure performance?,” “how will we resolve gaps?,” and most importantly, “what will we do if things go wrong?” This will require an ability to build clear and unequivocal contracts using terms that are acceptable to suppliers in the global environment, and that provide mutual sharing of risks and rewards. Procurement will also need to build capabilities in ongoing contract management, and will also need to understand intellectual property law as supplier integration in new product development continues to progress.
- Supplier Coach** – As procurement becomes an active and trusted member of the enterprise strategy debate, they will be called on to deal more and more with creation of network innovation. To enable innovation, the role of a supplier coach is imperative to create the right type of relationship that drives innovation. A supplier coach will support supplier process improvement, explore and understand technological strengths and weaknesses, and create incentives for aligned technology development. In addition, procurement seeks to represent their supplier’s interests within the enterprise. An important capability here is the ability to “champion” suppliers within the organization, effectively representing their needs and capabilities to internal stakeholders, and when required, act as an ombudsman to resolve differences that arise. In doing so, procurement will play an active role in effectively linking customer market requirements to supplier solutions, a critical capability that relies on being able to drive mutual success strategies with key suppliers (but not all suppliers). Procurement will evolve from a place where “we know everything” to a higher order sort of relationship where there is clear insight into the suppliers’ strategic plans. This clarity will lead to discussions around long-term commitments, joint initiatives and codevelopment of new process innovations, and increased risk sharing and alignment of business objectives. This will require a massive shift in both internal alignment and supplier management culture, in order to create new opportunities for business initiatives to create value, innovation, and new business models. In some cases, procurement will need to invest in supplier capabilities to drive improvement in high-need categories or regions, especially in emerging countries where local content is required. This can also lead to improvement in the relationship, by which the company can become a customer of choice for the supplier, leading to new opportunities and competitive outcomes to the business.

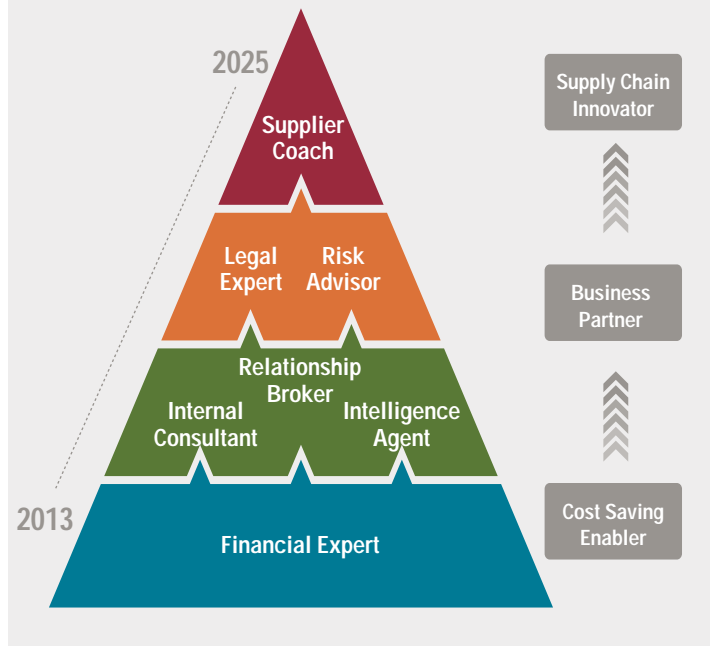
As shown in Figure 2 below, establishing a vision for procurement transformation occurs in stages, and requires successive levels of outcome-based trust development with stakeholders. The representation of a “pyramid of capabilities” suggests that these levels of trust are hierarchical in nature, and require time and effort to create. For many of the companies we interviewed, the focus begins with establishing foundational capabilities, establishing technology solutions for procure-to-pay (P2P), and optimization (“right sizing”) of the supply base. As they evolve, procurement leaders will need to focus on which capabilities are most important, and which should be emphasized as they build their strategy and present it to their leadership for approval. At the core of any



strategy, regardless of which path is chosen, is the need for a talent management program. An important step conducted by several companies we met involved educating stakeholders on the benefits of procurement involvement, and the benefits (increased cost savings, reduced supply risk, improved market intelligence, financial savings, etc.). Demonstrating tangible value that procurement can offer is a key message that allows executives to “pull up a seat at the table” in strategic planning meetings. Next, development of “high potentials” within the procurement organization will need to be complemented by targeted recruiting of individuals who align most with each face of procurement (legal experts, engineers, marketing, IT, chemists, etc.). These individuals must be first attracted to the possibility of a career in procurement, and then provided with the tools, support, and mentoring that allows them to connect to internal stakeholders and build strong relationships. Finally, investments in a pipeline of new talent from procurement-focused university programs will complete the full cycle of talent management strategies.

Our findings provide a fruitful backdrop for debate and discussion of new ideas on procurement evolution. The maturing of the function will not occur overnight, and we have identified a maturity model that provides milestones for what this journey may look like, please refer to Figure 2.

**As the Procurement professional dons multiple hats, his role and impact will become more strategic.**



**Figure 2 – Evolution of procurement capabilities in 2025**



## Research methodology

In the current global environment, procurement organizations are facing complexities that have not been encountered before. The push for procurement to provide additional value is coming on many fronts: in terms of shareholder returns, sustainability, compliance to industry regulation, quality performance, and of course, pressure to reduce cost.

The research was conducted through interviews with 25 Chief Procurement Officers. We then complement the interviews with surveys conducted at the Coupa Inspire Conference in April 2013. We found that executives believe the most important elements on the CPO's agenda in the evolution of procurement is optimizing supplier relationships, controlling and optimizing procurement analytics through centralized technology, and continuing to manage the complexities of a global landscape (see Figure 3).

This focus on relationship building and analytical capabilities is one that mirrors many of the comments we heard from CPOs. The poll also suggests that the landscape is creating increasing pressure on the organization that procurement is uniquely able to address. Unlike Finance, IT, HR, and executive management, procurement is uniquely positioned to understand the scope of the opportunity that presents itself by managing the end-to-end supply chain and driving relationships that create new forms of competitive advantage.

Procurement has traditionally been viewed as a source of cost savings, and this continues to be the case in our study. This is a highly limiting point of view, and often leads to the self-fulfilling cycle of being minimized by other functions for leaders who only view their task as one of reducing cost.

## Coupa Inspire Conference Survey Results

Which factor on the CPO's agenda will be important in evolution of Procurement in 2025? (Coupa, 2013, n=163)

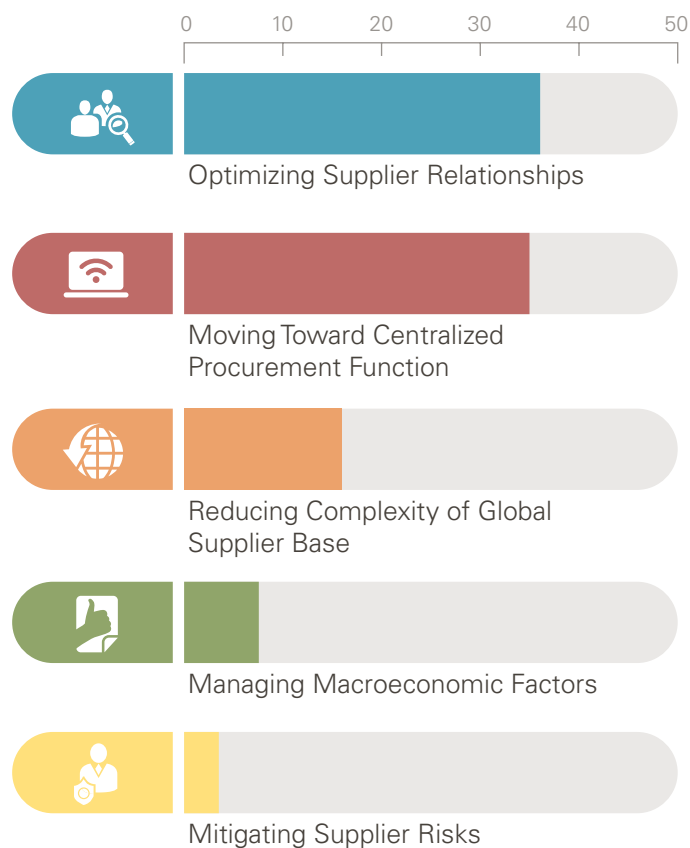


Figure 3 – Coupa Inspire Conference Survey Results

**As noted by one executive:** "Procurement doesn't have any incentive to go beyond and outside their boundaries. A total of 95 percent of FORTUNE 500 companies are asking their CPOs to just look at cost, according to a Procurement Leaders conference. This is a scandal! That tells me we aren't nominating the right people as leaders, if this is how we continue to be seen."



A CPO in the financial services industry also noted that a need to redefine procurement's role in the enterprise is happening, driven by the recognition that a new type of procurement capability is needed:

*"Prior to our transformation, the ONLY metric by which our performance was measured is how much money we saved for the organization. When people are compensated only on some of the money they save this drives some interesting behaviors. Despite hitting home runs on our savings targets, procurement had higher attrition and mixed customer feedback. We have since shifted our focus on returns on operating budget, taking operating cost out of the enterprise, and on becoming a TRUSTED ADVISOR to every part of the business. And we now have a balanced scorecard to measure performance against a myriad of attributes, including our operational processes, our people, and consistent surveys of our customers."*

The possible evolution of procurement into this role as a trusted advisor is the theme of the research. We began by reviewing many of the prior research papers on procurement evolution. These papers often described many of the traditional elements of procurement that are evolving in the near term, including category management, supply risk, low cost country (LCC) sourcing, cloud computing, organizational models, spend under management, procurement reporting levels in the organization, and other themes that have been echoed in the past.

# Executing the basics

## FUTUREBUY as a financial expert

Traditionally, there is creditability deficit in savings numbers reported by procurement. This collaboration necessitates and defines the cost baseline and savings calculations upfront with Finance and Business. We need to translate those benefits into the language of Finance.

A common theme among CPOs interviewed was the need for financial insight into key business decisions, and the ability of procurement to build financial models that can assist in these decisions. Examples of financial decisions requiring procurement input include:

- Analysis of demand patterns and supply market capacity to support demand
- Deal structuring from a cash flow perspective
- Make or buy decisions related to labor categories
- Total Cost of Ownership (TCO) in the cloud world, and the impact on capitalization
- Supplier risk to support regulatory oversight requirements
- Sarbanes-Oxley compliance for financial reporting
- Accounts payable standing and impact on working capital.

Supporting these decisions requires a reliable set of third-party spending data, which at its roots requires that procurement establish a robust procure-to-pay (P2P) system. A P2P system produces a reliable spend analysis, understanding of consumption patterns and forecasted needs, identification of aberrations in spending patterns, fundamental strategies such as demand management, and throttling of excessive overpayment for products and services.

A secondary but equally important function is the requirement for procurement to be able to translate concepts such as cost savings, purchase price variance, cost avoidance, and total cost into financial impact terms that can be understood and communicated to finance. This will become important to engage finance to validate procurement savings and also to ensure a common language for discussion of procurement strategies and business case development. This level of engagement can help to validate and develop the baseline spend and savings calculations upfront with Finance and the business unit.

In effect, we found that FUTUREBUY executives themselves must become financial experts. Said one of the interviewees,

*"If you take a macroeconomic view and look 10 years out, then project our current monetary policy forward and look at the increase in the money supply in the U.S., you can only come to one conclusion: interest rates are going to have to go up to reflect the value of money. So for procurement, the value of an off-balance float and the total cost of ownership given higher interest rates suddenly become more important. Procurement people don't currently think like financial people, but it seems to me that we will need to become financial experts before long."*

Indirect sourcing is a particular area in which procurement falls short of its financial charter, as many groups fail to apply rigorous management to tactical buying of indirect spend items.

All too often, organizations apply a rote model for leveraging volume and driving standardized solutions across the enterprise, overlooking the tremendous value to be gained by a strategic, well-executed procurement process for nonstrategic purchases. While FUTUREBUY procurement organizations will still utilize volume leverage as one of the tools in their arsenal, creative forms of how to achieve that leverage are emerging.





For example, one enterprise with which we spoke has recognized the financial movement of key commodity markets, and has developed a sourcing strategy that can exploit these movements. The organization has moved to a dynamic bidding process wherein contracts only go out 180 days, and multiple, highly vetted, competing suppliers are given the opportunity to bid, partner, and bundle groups of commodities among themselves to optimize costs through collaboration. In another case, an organization is using price indices to establish contractual renegotiation, based on a complicated set of formulas tied to future commodity markets. Movements in the markets trigger contractual incentives or take-backs within the supply base.

These types of innovative financial instruments will become more important as procurement becomes increasingly able to speak the language of profit and loss (P&L) and balance sheet impacts of their decisions on the bottom line.

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**Talent Imperative:** To build financial capability, organizations will need to recruit strong talent with analytical rigor and structure thinking from the financial community, and build solid P2P systems that constitute a robust and dependable source of analytical data that can be trusted. The ability to provide financial predictive modeling capabilities is built on a solid basis of reliable data.

#### **Case study: (Leading contract manufacturer)**

This multi-billion dollar contract manufacturer is the second largest manufacturer in the world. The senior management team recognizes the role of procurement as a primary driver for cost control, and as such, all customer quotes are directly aligned through procurement, with supply chain managers assigned to major customer accounts in software and hardware. They are tasked with quoting new product manufacturing costs and designing a new supply chain for every product. But the procurement organization also does sourcing on electrical components, direct, and indirect materials, as well as materials at each of the more than 100 manufacturing sites. Procurement thus directly controls multiple financial metrics, including Days Payable Outstanding (DPO), Days Sales Outstanding (DSO), and current inventory. When the CPO presents to the board, he is directly addressing elements such as balance sheet variables, income statement, and also the revenue. He notes that “the procurement organization is evolving into a revenue-generating and cost-enhancing/profit-enhancing structure. All of our profits are directly controlled by the procurement organization, and we have become an integrated force within the organization.”

# Focus internally first

## FUTUREBUY as an internal consultant

As an internal consultant, procurement can also help to drive new thinking in the customer organization. They can also help to predict customer needs based on historical spend patterns, challenge conventional thinking on supply sources and models, and provide external perspectives and insights into emerging trends of which the business decision-maker needs to be aware. This heightened role provides true value to decision-makers that they may not be aware existed in the supply market work.

When it comes to procurement's strategic contributions, we've been seeing a major shift away from the idea that "world-class procurement" is something that applies to every situation.

A new form of procurement is needed that doesn't just "check the boxes" but instead focuses on stakeholder value. Internal consulting implies the need to understand the business well enough to apply sourcing tools that will drive the most effective business outcome in each individual operating group and geography. As one executive noted, "We have many procurement tools and a strategy focused on ticking the box around completion of the tools. We are too focused on getting an answer, rather than focusing on an outcome. We want to create nice two-by-two's with a label for a supplier, rather than generating and delivering a coherent strategy."

The truth is, buying is no longer about just outward-facing capabilities. Rather, it begins with defining and fully understanding internal needs, and ends with knowing where to go outside to fulfill them. To succeed and be viewed as true value-add business partners, buyers must serve as internal consultants, using keen listening skills to determine not only the explicit needs of the organization for materials, information, services, knowledge, and capabilities, but also to intangible elements including service requirements, preferred supplier personnel characteristics, and supply chain systems capability. Indeed, in a sense, FUTUREBUY

involves predicting what internal users will need to operate their business, even before they themselves recognize that they need it.

One of the most prevalent examples in this category includes new supplier technology that will provide capabilities that stakeholders never even knew existed. For example, procurement was able to introduce a consumer marketing group to a packaging supplier that could design and develop an innovative packaging format that could drive revenue in target markets for the new product line. In another situation, the supplier was able to provide direct delivery to the user's location through on-site inventory management, an offering that manufacturing wasn't even aware was possible.

FUTUREBUY also focuses on driving consistency in the procurement process. There is a standardization of the interface with the business and level of support provided, i.e., what should the processes be regardless of geography and department. If the procurement function fails to provide the same level of quality and expertise inclusive of category management, decision support, and approaches to the marketplace across all sectors internally, as well as with its suppliers, remedial action is called for.

Building credibility with internal stakeholders by delivering an approach that takes into account not only cost savings, but also the ability to influence, determine the allocation of risk, and other elements associated with running the business







was another area emphasized by several of the CPOs we interviewed. One provided a very straightforward problem and solution explanation: "In the early days we had a number of good people, but they weren't well-connected into the business, and in some cases not at all connected. In fact, some thought they knew everything but had never talked to the business! So first and foremost, we had to get people into the operating groups, and only when they had spent time there for several years did we bring them back into the center."

**Case study:** A major oil and gas company recognized that to have an impact on the cost of their pressure vessels and holding tanks at refineries, they would need to engage design engineers early in the facility design process. A team of manufacturing and chemical engineers was assigned to a purchasing role that was on-site with the facility design team. Initially, the team hoped to drive down the cost of tanks through improved sourcing methodologies by 20 percent. However, by engaging with the design team and influencing the material and design specifications in conjunction with the preferred supplier's engineering team, the cost of the tanks was reduced instead by 40 percent!

**Talent Imperative:** Procurement will need to recruit and develop talent that looks like the people in the organizations they serve as internal stakeholders. They will also need to build core skills in communication, listening, and interpersonal skills that are the foundation of good consulting practices. These individuals will need to become very familiar with the communities they serve, whether aligned by business, by function, or by material/service category. The need for closer integration is built on an ability to listen and understand.

**Case study:** A CPO recognized that to influence IT hardware and software purchases, his procurement team would need to develop managers who knew how to "speak the language" of IT to understand their jargon and influence buying behavior. Because IT constitutes the majority of the organization's spend, he developed a procurement category organization composed of people recruited from IT backgrounds and from the IT function within the company itself. Category teams thus became much more able to understand technology roadmaps and provide market intelligence to IT decision-makers that would provide more cost-effective contracts. Procurement engagement with the IT team begins at the leadership level (working with the CIO and his or her team directly), down through platform teams, and down to the individual programmer and configuration team levels. Procurement has been able to significantly take out cost and improve its influence and leveraging capabilities to drive standard requirements.

# Connecting information into insights

## FUTUREBUY as an intelligence agent

The FUTUREBUY procurement professional will have the ability to consume large quantities of data, in multiple forms, and derive meaningful market insights as impetus to categories. This involves development of data collection mechanisms that pull multiple government, private, and public indicators of material and labor price movements, capacity, and supply, and convert these through translation and decision analysis algorithms into specific early warnings, and trend indicators. The emphasis will be on early directional detection, rather than on specific predictions on exact, perhaps rash and speculative, movements to be made.

Market intelligence forms the basis of not only category strategies, but supplier risk management, cost and demand forecasts, technology road maps, and predictive modeling. As such, the value of intelligence is becoming paramount as an instrument for creating competitive advantage.

Procurement's value to the business is increasingly driven by detailed knowledge of supply markets, and the ability to communicate nuggets of information based on deep intelligence and insight into the current and future state of these markets. This includes not only macro-level forces, but also specific movements in markets and individual suppliers that signify the tipping point of major shifts in market dynamics.

This idea of procurement acting as a supply side early warning system, as an enabler of decision-support, and as a market-facing forecaster is a new role for many companies. As such, the capability to gain, translate, and codify this type of intelligence into meaningful implications and actions does not inherently reside in many procurement groups. Thus, FUTUREBUY may build a network of external partners that create analytical insights, triggers, and event notices that are easily digestible, accessible, and communicated in a timely manner to the right decision-maker in the organization. In this environment, speed of analytics is critical to effective decision-making.

This ability involves being able to consume large quantities of data, in multiple forms, and derive meaningful and directionally correct signals for impetus that drive categories. This will involve development of data collection mechanisms

that pull multiple data streams from government sources, private sector databases, and public indices of material and labor price movements, capacity, demand, and supply. All of these data must then be converted through translation and decision analysis algorithms into specific early warnings, trend indicators, and actionable directives. The emphasis will be on early detection that is directionally correct, not on specific predictions on exact movements that should be used to make rash speculative behaviors.

To create internal market intelligence capabilities, rather than procure them externally, an increasing number of organizations are looking at alternative delivery models such as Centers of Excellence (COEs) designed to gather, collect, synthesize, and translate market data into meaningful implications for category managers and for the business. In some cases, the application of rich analytical methodologies and algorithms can be used to track market indices and build them into internal cost of goods sold (COGS) impact measures that provide early warning to sourcing managers and their internal stakeholders that prices shifts are occurring. Providing up-to-date and fresh insights for category management is a key capability that drives engagement and results.

Said one of the interviewed CPOs on procurement's role as an intelligence agent,

*"We did a category management process through cross-functional sourcing teams. But it was only a matter of time before the strategy we put in place got stale. How do we keep the strategies current, and the engagement and dialogue more dynamic. A sourcing event feeds a category plan, and there are some guidelines on how to update category plans*



*on an ongoing basis. But we need to have an ongoing refresh of that plan, and almost a second phase of category renewal after the initial strategy is put in place. ”*

*Where we need to spend time is on optimizing the capability to enable procurement to effectively influence the business, drive full integration, and harmonize capability with the supply base. One of the most important tasks is to have a structured supplier qualification process with effective due diligence. If we can ensure that we have the right suppliers with the right capabilities for the business, that is the single biggest contribution we can bring to the business.*

*My litmus test standard is whether we have a strategy that is written in such a way that it tells a story through the documentation. The story builds on itself, and at the end of the story, the actions and steps and approaches to deliver the requirements and the value will be rubberstamped ‘yes’ by anyone who sees it. A category council, a cross-functional team, or whoever is involved needs to be the jury, and the market intelligence is the lawyer convincing the jury with a case where the verdict delivered supports the strategy and the accompanying actions.”*

**Talent Imperative:** Procurement will need to establish COEs that focus on building analytical capabilities, drawing from multiple sources of primary and secondary data. These efforts will focus on developing statements of work for category teams, business groups, and other stakeholders, and developing regular reporting capabilities as well as ad hoc requests for information and knowledge.

#### **Case study: Pharmaceutical company**

This biopharmaceutical company went through the procurement transformation [five years ago]. Management intelligence (MI) was considered part of every category manager’s job. There was an assigned category analyst who would do MI and other sourcing analytics. What the team found over two to three years is that sourcing analysts became inundated with work, and the first thing to fall off their radar was the MI piece, and this was beginning to show in the resulting strategies and sourcing initiatives.

The decision was to develop a centralized Center of Excellence, and to downsize the organization to outsource a lot of the external work. A large portion of the Management Intelligence (MI) work was outsourced to a specialized provider to make it cost effective, and even as we are doubling the size of global procurement, the MI team will not double, but more work will go externally. The COE is really tasked with integrating sourcing requests and ensuring that they are met. The provider essentially does transactional work, for things such as running financial health analyses, generating ratios, etc., and we review it and overlay our own opinions over the legwork. The information is translated and interpreted, put into templates and communicated to stakeholders. In the first year, the COE processes over 140 sourcing MI projects alone. Today they have developed a formalized statement of work to streamline the process, as well as established themselves as a core component of budgeting, strategic planning, and revenue at risk for the global corporate strategic and executive leadership team.



# Focusing effort

## FUTUREBUY as relationship brokers

Relationships in the extended FUTUREBUY supply network will connect much more with individual knowledge and capabilities, and organizational boundaries will disappear. Individuals in the FUTUREBUY environment may play different roles in different organizations across the supply network, such as a buyer to one organization, an advisor to another, a participant in an industry action group, a provider of input into industry standards, a cost analyst, and subject matter expert to an intelligence community.

Provision of such a high level of intelligence-based service requires appropriate organization within the procurement group. The most common organizational form is by category manager, which has traditionally meant dividing up spend and targeting higher levels first, based on common specifications or families of parts and services. However, category management may not be the only way to think about how to organize procurement effort.

Relationship brokers are able to connect people in different organizations, based on an understanding of their mutual and intersecting needs, that can create opportunities that weren't there before. An emerging capability for procurement is the need to develop both outward and inward facing relationships.

Recently, there has been a tendency for procurement to organize around internal categories based on characteristics defined by the needs of the organization. While this is, first and foremost, a hierarchy defined on product or service specifications, mature organizations are not limited to these defining characteristics. Rather, advanced category management consultants will be assigned roles that provide the most logical and simple interface between the external and internal worlds between which they must communicate. For example, a procurement manager may be first assigned to a larger supplier that provides multiple products and services to the entire organization. He or she may be assigned to an emerging technology group that is focused on tracking innovations that can align with the internal technology product road map. A team member may be relegated to a largely external role as a cost analyst, understanding the movement of key metals, commodities, and chemicals in supply markets, and translating and codifying this knowledge into specific impacts. He or she may serve as a government interface to influence legal standards,

tariffs, or environmental regulations that can dramatically influence procurement activities. In the future, we will likely see a diversity of procurement roles that are aligned more around internal or external business drivers, and less around category.

Numerous CPOs with whom we spoke echoed our concept of channeling procurement efforts appropriately. For instance, one said, "We need to think about whether our people are focused on areas where they can add the most value to optimize spend by channel. We want to limit their time on routine stuff, and get them working right away on the difficult stuff. For example, we have many major, individual buys at our large power plants. Each plant has innumerable unique characteristics, they are all geographically disparate, and all use complex technologies. This is difficult to manage, but is exactly where we should be spending our time. Can we get blanket agreements to leverage our relationship with the suppliers of these technologies, and outsource the work if we find others can do it better than us? Are we utilizing multiple suppliers for certain types of items? Even if they are not high-dollar items, we may be overlooking a big opportunity. We need to think differently about what we focus our attention on in procurement."

Think about hiring a supplier as similar to hiring an employee. Human resource departments spend an extraordinary amount of time conducting due diligence, checking references, qualifying individuals, and explaining the compensation methods when they hire a new employee. But how much due diligence is spent when a new supplier is contracted? In most organizations, it is not nearly enough. For that reason, procurement must be especially careful when they outsource part of their organizational capabilities to a third-party supplier, to conduct due diligence for that supplier early in the decision-making process.



When we outsource, we need to investigate whether suppliers can meet the same levels of standards, disciplined execution, and performance as the internal business unit. If the decision is made to outsource, we also need to understand the capability required to manage the sourcing, negotiation, contracting, and daily relationship management issues.”

Said one of our interviewees,

*“I used to work at a big company that outsourced everything, and then had to catch up and bring it back when they didn’t manage it well. Suppliers were arbitrarily increasing purchase price, adding extra fees, and doing things we weren’t prepared to deal with. And today, we’re discovering that outsourcing is*

*still bringing a lot of unexpected complexity, even though the expectation of solid performance hasn’t changed. This happens when you don’t articulate your expectations to the supplier when you contract with them.”*

**Talent Imperative:** Relationship management involves understanding both the supplier and customer perspective, and requires people who have a strong capability to listen and understand points of view. Conflict management, facilitation, and consultative behaviors become very important, as does the need for commercial acumen and strong negotiating skills that create mutually beneficial relationships.

### Case study: Energy company

This energy company created a program and process to build improved ongoing relationships with critical suppliers. It began first by segmenting its supply base to focus on those relationships that were critical to performance, and focus on suppliers with unique capabilities. A structure and process for managing key suppliers’ relationships was established around the following principles:

- Established a center-led supplier relationship management (SRM) approach: Separate from executive sponsorship and other aspects of governance, each SRM effort has direct management support for a central function that represents the interests of the enterprise and spans individual business units, functions, and geographies. A center-led approach emphasized the importance of the relationship over other local competing priorities.
- Each supplier relationship is developed and built at the outset with a specific business outcome in mind. Outcomes must have a specific measurable performance indicator that *is meaningful and important* to a business stakeholder. Business outcomes drive the relationship process, the course of action, and level of investment through initiation of projects focused on achieving the outcome.
- Benefits to both suppliers and buyers must be clearly stated; outlined clear criteria for success (including non-financial measures) must be established from the beginning.
- Internal alignment is established by identifying functional stakeholders impacted, and potential conflicts that may exist between each of their expectations from the relationship. All conflicts must be resolved prior to moving forward with the relationship.
- Individual SRM roles are matched to different skillsets, levels of investment, and requirements for attention throughout all stages of the relationship (create, nurture, sustain).
- Recruit from the business. Focus on identifying supplier relationship managers who have worked in the business, understand day-to-day pressures, and who speak the same technical language as stakeholders, and who are capable of building a higher order supplier relationship.

# Preserving shareholder wealth

## FUTUREBUY as a risk manager

Risk management will become an increasingly central and critical component of FUTUREBUY, encompassing not only specific suppliers but also entire territories, geographies, weather-related patterns, natural disasters, terrorist events, pandemics, geopolitical uprisings, currency movements, and multiple other possible disruptions. Rather than trying to predict these supply disrupting events, procurement organizations will begin to build organizational capabilities to derive meaningful possible case scenarios, impact analyses, vulnerability threat warnings, and mitigation strategies.

Risk management involves first identifying potential sources of risk, establishing mechanisms for appropriate disruption responses, and continuous redesign of networks to render the supply chain the robustness to withstand global shocks.

At leading organizations, procurement carries out fire drills and scenario analyses as part of internal strategy meetings, with war rooms established for the explicit purpose of developing “what if” strategic responses. Powerful supply chain simulations can be used to build important insights into how such elements will come together. As organizations begin to think about monitoring and mitigating network risk, the obvious question that arises is, “How can we understand risk when we don’t know from whom we are buying?” Consider the following anecdote from one of the CPOs we interviewed:

*“Our organization wanted to consolidate its supply base to focus on supplier relationship management, and went from 12,000 suppliers to 3,000. But, it failed to realize that it was never going to make the world small enough to have truly global contractors in every region in which it operates because the global suppliers would always end up subcontracting services – and they aren’t necessarily any good at it. In fact, the consolidations have resulted in three tiers of subcontracting instead of one, and now the real costs are hidden further down in the supply chain, and can’t be managed very effectively.”*

To manage risk and market intelligence, we are likely to see consolidation of intelligence gathering and risk management into COEs. Organizations will go through a transitional period of

first evolving into COEs with category managers, as COEs are used to consolidate and build out data and intelligence portals. Over time, these centers will evolve into supply chain teams that connect customers and suppliers seamlessly, increasingly organized across major customer supply chain groups, and interweaving only when technologies merge or overlap. FUTUREBUY will eventually see a breakdown of standard contracts, with simple requirements being communicated to all parties in the network, and individual roles defined and paid for by a simple value-added formula. Pricing as a science will be much more dynamic, will be contingent on availability and supply, will be driven by customer wants and needs, and the market will act as a natural reward for those most able to meet those needs in the shortest amount of time. Allocation will become a much more important component of decision-making, where profitability will be maximized through allocation of limited supply to the customer willing to pay the most at any given time.

There is already an evolution of organizations seeking to drive standardized platforms for managing risk across their extended supply chains. As risk is often a measure driven by street-level knowledge and observations, social media’s role will likely increase. Thus, individuals in the procurement organization may operate in triage mode to identify contractual issues, current events, and other factors that are relayed back into a COE, corroborated with other data, and then acted on. This bottom-up approach will likely be supported by a bottom-down approach that monitors macroeconomic data, trade patterns, pricing indices, accounts payable/receivable, and regulatory shifts







and notices that could trigger potentially disruptive events requiring further validation and follow-up by individual supplier relationship managers.

We are also likely to see greater collaboration around shared portals that extend horizontally across competitors and vertically into the supply base. For example, one manufacturer we spoke with is using a Web-based risk measurement tool to evaluate its tier 1 and tier 2 supply bases. Similarly, an apparel manufacturer has created a material sustainability index that is being openly shared via a “federated Wiki” and horizontally among competitors. The Wiki contains carbon footprint baseline information that is updated on a regular basis by others in the Sustainable Apparel Coalition, as well as by key suppliers.

**Talent Imperative:** Building supplier risk assessments and measurement systems requires a strong technical network, but also an ability to communicate and collect information and perceptions from multiple points in the network to create an articulated vision of the sources of possible disruption. This will require diverse forms of data analytics, social media, and regular communication. The need for continuous communication and sharing of information throughout the network is important. Working with key suppliers to drive insight into tier 2 supply risks is built on a basis of trust and collaborative history.

**Case study:** A global industrial manufacturer has established a COE to monitor potential supply disruptions throughout its global network. The system monitors daily deliveries at every facility, and on a set of overhead screens, displays late or missed quality deliveries for the worst performing suppliers at every facility. A team is positioned to “work an event,” involving following up with suppliers to identify the location of the delivery, and resolve the issue. A global map shows potential weather incidents, uprisings, strikes, or other incident, that are mapped to all supplying locations, allowing the team to quickly identify where issues are occurring.

# Improving corporate social responsibility

## FUTUREBUY as an environmental and community steward

Sustainable procurement will no longer be a buzzword, but will be a foundational component in every FUTUREBUY decision. Understanding resource impacts and tracking will be an explicit factor embedded into every sourcing decision through a simplified metric that represents a complex web of knowledge derived through collaboration with the entire global supply community.

Sustainable procurement involves not only creating codes of compliance for suppliers, but also finding ways to audit, measure, and proactively create incentives for sustainability in these suppliers. An evolving and shared web of knowledge through supply chain networks across industries will provide an integrated Wiki of material, labor, and sustainability data, fed through social networks, multiple data streams, and an evolving knowledge base that is self-governed and validated by the users within the network. Decision impacts will be felt throughout the network.

One of the challenges in this area is the need to build a global carbon footprint metric for products and services. Another is in establishing a rigorous approach for driving labor and human rights into the global supply chain. For example, one executive in the apparel industry noted that procurement can inadvertently cause problems when it places orders that exceed a supplier's capacity, and that a supplier subcontracts its work to a second tier supplier that is not compliant with the buying organization's procurement code of conduct. In such cases, disasters such as the November 2012 Bangladesh fire or the horsemeat scandal in Europe can result. Managing the second tier again becomes a critical component of sustainable network performance, and looking the other way is not an option when such issues catch the public eye.

Importantly, there is increasing recognition that corporate social responsibility and environmental issues in the supply base are shared community issues, and are not isolated to any particular company. As such, we are starting to see procurement organizations work horizontally within their industries to create

shared solutions that can drive a level playing field for all. One particular example has emerged in the apparel industry, as described to us by one of the CPO interviewees:

*"For a long time, we tried to drive environmental performance on our own. We quickly learned that life cycle analysis and other means of developing sustainable data required complicated chemical engineering capabilities and biomaterial science capabilities, which are not always easily found in an apparel company. Some companies seeking to build sustainability programs insist on measuring 'cradle to grave, end to end' carbon footprints. The problem is that you often don't know who your supplier's suppliers are, and tracking down this type of information is highly complex. So we took a different approach, and decided not to worry about getting the life cycle analysis numbers exactly correct, and instead starting by using the best publicly available information. Our team tried to model a supply chain that was the most representative of what we believed was in our supply base. If we were measuring a Taiwanese polypropylene producer, we didn't care whose process it was. There was a life cycle assessment built into the material sustainability index we created, which is a proxy for that material supply chain. We were looking for a measure that was directionally correct but open for refinement. If a supplier didn't like the number we came up with, we encouraged it to come up with a better one. To do so, it has the opportunity to open up its supply chain, show us the nodes and the six other suppliers that go into their finished product, and the environmental impact at each node. By opening it up to the apparel industry, the updates*





*from members of the community are part of continually and collaboratively improving the MSI. It also drives more visibility and transparency into those variations. Finally, we standardized all of the life cycle analysis and corporate social responsibility data into a single number on a scale from 1 to 10, which then became the proxy used by all of our product designers when they selected materials. This provided them with a simple method for making the decision on a material based on sustainable performance, as well as quality, cost, functionality, and other numerical factors."*

**Talent Imperative:** Sustainable supply management requires strong commitment and leadership from the top. This sets a precedent for driving not only a solid code of conduct, but the systems and performance metrics used to measure, audit, and enforce these codes of conduct throughout the supply base. Individuals who are able to work in emerging countries with suppliers to emphasize the importance of improving their performance to adhere to a code of conduct will become increasingly important.

**Case study:** A global apparel manufacturer has created a material sustainability index that is very unique. The team recognized from the outset that Life Cycle Analysis and other means of developing sustainable data required complicated chemical engineering capabilities and biomaterial science capabilities, which are not always easily found in an apparel company. Instead, the decision was to create an index that went off the best publicly available information. The team tried to model a supply chain that was the most representative of what they believed was in the supply base, and make it "directionally correct." However, suppliers were urged to update the index if new information became available, and they could document it. They also opened up the index through a federated Wiki, allowing other manufacturers to update the index through

collaborative information sharing. As such, the material index is not an absolute measurement, but rather "a thesis on the way we need to evaluate materials, and as such, is always open to debate." The index was constructed in a straight-forward manner. It begins with key materials, 50 percent of which are life cycle based. Of the remaining points, 25 percent are those that impact that base material, which is where biomass-derived materials can be used to improve the base material impact. The final 25 percent of points are based on supplier-driven activities in which they are engaged that act as a proxy for differentiation of the supply chain. If a material supplier is engaged in a biomass material program, has eliminated toxic materials, and has a zero-based energy program, they will receive extra points in this category.



# Reducing contractual risk exposure

## FUTUREBUY as a legal contracting expert

Legal expertise and knowledge is essential for contract creation, adaptation, and management, to ensure mutual value is created while global regulatory laws are complied with.

Global contracting is an area in which procurement can play an increasingly vital role, but it also an area fraught with challenges given the different cultures, rules, regulations, and terms. In such cases, effectively and appropriately managing the balance between a global and local supply base, and being fully cognizant and respectful of differences and requirements, are paramount to all parties' success.

To effectively navigate the landscape of legal requirements, the knowledge base will increasingly span a number of local, regional, and global regulatory requirements. Examples include the harmonized tariff structures that impose customs duties based on country of origin or value-added content, conflict minerals that are banned for use in certain products, companies in countries that are impacted by the Foreign Corrupt Practices Act, or other ad hoc tariffs or duties that are imposed in a punitive manner on certain industries for political impact.

In addition, the need to better understand the flow of goods and the economic issues associated with contractual terms and conditions is becoming more important. Many contracts contain clauses and issues related to terms and conditions that are often at odds with suppliers' expectations. In fact, the International Association of Commercial and Contract Management provides a list of the most negotiated terms and conditions below.

	The terms that are negotiated with greatest frequency	Terms that would be more productive in supporting successful relationships
1	Limitation of Liability	Change Management
2	Indemnification	Scope and Goals
3	Price/Charge/Price Changes	Responsibilities of the Parties
4	Intellectual Property	Communications and Reporting
5	Payment	Performance/Guarantees/Undertakings
6	Liquidated Damages	Limitation of Liability
7	Performance/Guarantees/Undertakings	Delivery/Acceptance
8	Delivery/Acceptance	Dispute Resolution
9	Applicable Law/Jurisdiction	Service Levels and Warranties
10	Confidential Information/Nondisclosure	Price/Charge/Price Changes



As shown in this list, many of the terms require specific legal knowledge. This is often difficult to find in a procurement group, as noted below.

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**“We don’t have a lot of people who think of contract terms and conditions as something that has a lot of glamour to adhering or following. We need more people who are possessed of a gene set that think there is a lot of value, risk, and exposure to be controlled and maintained by ensuring that both sides adhere to what is being written in the document. This means actually reading the document, becoming familiar with and applying and advising the line and operational staff to conform behavior to rules and processes, and having a keen eye to ensure that contractors adhere to the letter of the document, whether it be invoicing, reports, deliverables, activities, permits in place, and everything else. If we had people who were prepared to get stuck in and look into these documents, who say there are rules that have to be adhered to, and we are not going to make it up as we go along, we would have a lot fewer problems.”**

**– Energy Chief Legal Officer**

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Several of the organizations with which we interfaced described how they have had to become much more adept at managing global contracts, and have had to establish a detailed approach for managing internal relationships with the legal community in building global contract language that will enable value delivery.

Following is how one of our interviewees handles global contracting:

*“We have evolved to building out a more streamlined contracting process for global sourcing. We have an internal legal team that develops the templates, but it is not embedded in the groups, and it is not with us during negotiations. However, we are able to provide the supplier’s feedback on the contract to the internal legal team and elicit its input. To further streamline this, we have developed alternative wording options for the different clauses that are preapproved. We also have people on our team who, although they are not legal experts, can understand when and how to use this wording and are involved in negotiation. They are also able to go back to legal and get direct access if there are questions.”*

Yet, given the increasing complexity of global deals, and that procurement has often not been able to produce people with the end-to-end value and risk skill set required to effectively link them, some procurement groups have extended their sphere of influence to engage lawyers.

Said one of the CPOs with whom we spoke,

*"Legal has given us nine templates to use, a list of rules, and told us to go ahead. But the templates were continually being rejected by suppliers, and at one point we had 75 percent of deals on supplier paper. This created more risk for the bank. So we are currently in process of becoming a triage service for legal. When the deal comes in, we give suppliers the contract document as a starting point, as well as risk triggers that we see associated with the deal. But as procurement will always defer to the easiest clause, we have to be very clear on when to trigger a referral to legal, and establish the landscape early in the deal discussion."*

**Talent Imperative:** Legal expertise often means building a procurement organization that recruits lawyers into procurement. These individuals may not want to be part of procurement, unless it is perceived as a strong potential career path for a nontraditional career in law.

**Case study:** A large global financial services organization recognized that procurement needed to find a way to speed up legal approval of supplier contracts. Given that procurement people were not trained in international law, they found a way to establish a legal "triage service." When a new contract comes in, the procurement manager explores the contract and searches for "risk triggers." These are risk provisions that may be associated with each deal. These triggers are those that all commercial managers must be aware of, and would require a referral to legal. By identifying the risk triggers early in the deal, procurement can better understand the legal risk early on and engage legal experts in the process from the outset.





# Driving supplier innovation

## FUTUREBUY as supplier coach

As one of our interviewees noted, the term “Supplier Relationship Manager” automatically assumes that the relationship with the supplier must be managed by the buyer. This doesn’t leave room for what could be a more open interpretation of a relationship as a 50/50 approach, rather than a hierarchical relationship where the buyer manages the relationship. For this reason, we believe a supplier “coach” is a more appropriate term, as both parties are engaged in driving improvement for mutual benefit.

Supplier coaching is an important concept that suggests that procurement must not only select the best suppliers, but continue to oversee them, provide input for improvement, and promote their interests within the buying organization. Ensuring organizational commitment between the parties will become a foundation for supplier integration.

Depicting procurement in a supplier coach role has several implications associated with it. First, coaches are expected to act ethically in the best interest of their players. By improving the individual and helping them become the best, the entire team (e.g., the supply chain) benefits. Second, coaches must recruit and select the best players from a larger population. This means being able to winnow down suppliers to those that are the best. “Best” in this case means those that have strategic capabilities, a collaborative attitude, and act with passion and trust. Third, coaches must often dedicate their time to those players on the “first string.” Organizations may have thousands of suppliers, but only a handful of these are strategic and merit attention. There will always be suppliers that are “carry-overs” from prior product histories, or were included at one time when the competitive environment was different. Supplier management involves knowing which suppliers to keep and which to develop. And finally, coaches must understand the competition and help their players understand what they must do to win. As such, organizations need to continually push their suppliers to improve, hone their skills, influence technology road maps, and drive operational excellence in every dimension of their performance.

*One of these performance dimensions is on driving innovation. Driving new ideas from suppliers into the business is an area where there is a lot of dialogue, but only a few companies are really achieving and making headway. As procurement matures, sources of supplier-led innovation will become more of a value driver than it is today. With that, the need for bringing stronger relationships tie procurement and R&D together, they can align activities. Procurement is now part of every business unit to drive more end-to-end ownership of the process.*

*Supplier relationship management is like a zipper. It begins by having CEOs and EVPs from the buyer and seller know one another, then down to the director level, and finally down to the operational level. When there is complete openness and understanding at all levels, you have achieved a virtual company. Pricing negotiation is no longer needed, as costing is based on should-costs driving the competitive position, understanding what profit margins are needed, and working together to achieve these goals. But before you can get to should costing, you need to build trust first!*

Term relationships with construction suppliers were able to drive innovative technologies that reduced delays and improved safety on pipeline projects. Such forms of innovation that improve compliance and safety requirements, yet drive cost out of the relationship, are a win-win for both parties, but require a higher level of relational investment.







**Talent Imperative:** Building strong supplier coaches means having people who can work with suppliers to drive continuous improvements and efforts directed at process thinking, cost management, and quality improvement. Having people who can truly lead improvement projects without negatively impacting the relationship is a delicate balance and a difficult skill to nurture, but one that will become increasingly important.

**Case study:** A large global telecom company faced a situation where they were in a lawsuit, and couldn't purchase a major component from the dominant industry supplier of technology. The VP of procurement approached two sub-component suppliers, and asked them if they would collaborate to produce a similar technology that could compete with the dominant player. The two suppliers could not collaborate at first. They stated that they were "at war" with one another over market share. The VP told them that yes, he understood this, but that if they could work together to create a technology, they might surpass the dominant industry player at the time. Working with the two teams of suppliers, he first got them to develop respect for one another, and they learned that their values and behaviors were compatible. By the end of the relationship, senior leaders from each team had tears in their eyes, and understood and respected one another. Needless to say, the technology was extremely successful.



# Developing procurement talent

## Develop a different type of “materials man/woman”

The need to build strong managers who possess both strong analytical skills, and also the “soft” skills, is fundamental to the evolution of procurement, and to FUTUREBUY. Not surprisingly, every one of our interviewees mentioned talent as a shortfall facing their organization. Indeed, every CPO should focus on prioritizing and assessing the skills within the department globally, evaluating people to role fits, and ensuring that there is a plan to build talent within the function, as these are all critical contributors to procurement’s ability to move from an enabler of cost savings to a strategic partner to the business.

Proactive organizations are taking deliberate steps to upgrade talent, and are increasingly recognizing that the most effective procurement managers first gain strong business line context understanding and then bring knowledge of the stakeholders’ challenges into their procurement roles. By leveraging line of business proficiency that enables true consultative capabilities, procurement can derive real value for the business.

*“We are leading our organization through a general and individualized self-assessment, and moving toward a model that provides more consultancy types of skills. We are emphasizing a higher level of accountability as we work that into a fabric of consistency and cross-pollination around the business. This is also being emphasized through comprehensiveness in decision processes. When we approach the market or any internal stakeholder, there needs to be a consistent and methodical experience. To ensure this, we engage in sourcing review committees, and any project goes before that committee at least twice before it goes before our stakeholders.”*

Given today’s need for more consultative form of engagement with internal stakeholders, an increasing number of procurement organizations is reaching out to nontraditional sources of talent to recruit the right people. In fact, procurement executives may be pulled from multiple other groups in the business, based on needs. One area of recruitment that represents a huge opportunity is marketing/business development/sales. While in most organizations,



and in those we interviewed, the level of collaboration between procurement and the sell-side is minimal, they can learn skills from one another that are highly valuable when applied to their respective areas. Indeed several of the executives we spoke with explained the approach they used to create the right type of “blended skills” needed to drive better internal alignment of procurement with the functional roles in the organization.

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**“Prior to the change, we were more focused on business knowledge and less on sourcing expertise. Now we are driving towards a balance between sourcing expertise and business knowledge. We brought in someone with previous treasury and finance experience to work with the global finance team, an IT person to work with our new technology platform teams. We hired advertising agency people and taught them procurement. That has its challenges, but the benefit we got from that ability to build a *trusted advisor* function was invaluable.”**

– Financial Services CPO

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**“It is always hard to get people to come in to procurement if they are a technologist or a marketer. But we have had a good track record of moving people through here to other roles. For instance, I did an external hire who was a partner at a law firm doing M&A transaction law. He now runs the bulk of my operations, and does major deals. Similarly, I am not a traditional procurement person, but am much more business and strategy oriented. This organization had already gone through strategic sourcing, so I wasn’t going to add a lot on that front. But we have moved the organization a lot on supply chain inclusion in the business.”**

– Financial Services CPO

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It should also be noted that this change is not an easy one. Getting people to understand procurement is a big barrier to overcome, because it is such a big shift in people’s thinking and paradigms. As noted by one IT manager assigned to lead change in the technology category with a \$2B in spend:

*“I underestimated how big a change this was going to be, and it was a shock. I am sitting in at very senior levels on budget planning and technology planning meetings, and people are asking ‘Where did you come from?’ ‘How do you provide services?’ ‘How do we work together?’ ‘And what will the outcome be from working together?’ Sometimes it feels like building an organization from scratch, but it is exciting, because I can tell people I am here to help. You aren’t doing anything wrong. I am a professional, and I can bring a point of view that is more cost effective and efficient, and I am a member of your extended team.”*

To some extent, the merging of sales and procurement roles harkens back to the growth of the textile industry in North America. During that period, responsibility for the output, quality, and style of the cloth produced by the mills was usually the duty of the selling agent. These individuals were

also responsible for all purchasing decisions, since the grade of cotton purchased was a factor in determining the quality of cloth produced. These selling agents represented a simple and direct interface between market demand and production scheduling. Customer orders were directly transformed into purchase orders for cotton and subsequently into planned production. The types of cloth produced were somewhat limited, however, by the processes available to manufacture them. This degree of standardization within the domestic and international market made the job of the selling agent much easier, as the majority of cloth could be produced on a “make-to-stock” basis.<sup>3</sup>

Today, the merging of buy-side and sell-side capabilities provides a natural basis for integration, and was adopted by the International Association of Commercial and Contract Management (IACCM) given its solution strength.







## Final thoughts

Several CPOs with whom we spoke acknowledged that the vision of procurement as a fully integrated and developed mature business function with representation at senior levels in the organization is the ultimate goal. It is a journey, and it is long and hard. The road map to achieve this may be hindered by the technical capabilities of the team, immediate business priorities, or the limitations of the foundational elements including tools and operating models.

The evolution of procurement is one that involves managing change. As we move through transformation of supply management, the ability to drive recognition of the function is similar to the discovery of truth. All truth goes through an echelon of being criticized, then opposed, and finally becomes self-evident. By 2025, the transformation of what the entire supply management profession may move to a point where it becomes a recognized business partner, alongside HR, IT, and Finance. Certainly, universities will play a role in helping organizations to be able to respond by developing technical management expertise in the next generation of procurement professionals. Increasingly, organizations will need to have talent ready to meet these challenges, and that will be instrumental in helping us reach the point where it becomes self-evident.

The framework shown in Figure 2 provides a road map for thinking about how to build and develop capabilities with the future faces of procurement, and also what this evolution might look like. Our interviews suggest that the new capabilities will need to be developed as procurement moves its agenda into the future. These capabilities are depicted in the maturity model shown in Figure 4. To our knowledge, no organizations have effectively mastered these capabilities fully, as they represent a state of what might come in the future.

In terms of the road map to building these capabilities, our research also suggests the pyramid model is one possible path to evolution. However, CPOs understand the importance of executing on what is needed today for the enterprise, even while a vision is kept in mind for

building capabilities in the future. Today, procurement is inundated by requests from multiple stakeholders, and in some cases, may be pulled in different directions. The roles that procurement is being asked to play may also present competing priorities for attention, so that an organization may need to focus on a “higher-order” role prior to a foundational role (a difficult proposition at best). At any rate, this means establishing and communicating a strategy for capability development that must be supported at senior levels in the enterprise.

As the evolution to the future state unfolds, there is no doubt that the structure of procurement organizations will change in response to broader business imperatives that are shaking organizations globally. For example, one executive noted that procurement may look more like an R&D organization, where there is a separation between a limited number of resources working on the program side, and supporting business leaders on turning concepts into innovation plans and research. We may also see procurement’s involvement in P2P significantly decrease as organizations exploit technology to automate much of their transactional procurement, and focus mainly on exceptions. This state will be facilitated by “Amazon-like” user interfaces in eProcurement applications that will enhance the user experience and foster user adoption of the tools. Procurement will then free up resources to be primarily focused on relationship management and analytical insight and support. This may evolve into a project-based structure, where program managers work directly with the business on different product/service cycles, and become an integrated team member dedicated to the product.



Whatever shape it may take, we expect to see the pace of change in procurement function continues and increases and enhance. The insights contained in this paper are intended as a focal point for managers to begin thinking through and developing them.

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***“I believe there is an essential and critical requirement that procurement and supply chain organizations have an alignment that is correct. Leaders must understand the corporate strategy aligns with the procurement strategies you try to create. You influence corporate strategy, but they also influence your organization and approach.”***

***– Contract Manufacturer***

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It is also true that a single conceptualization of world-class procurement is not applicable in considering this landscape. The new challenge for procurement leadership is to be able to first recognize what the opportunity is on this landscape, and then seize the initiative through leadership and drive it to fruition. As noted by many of our executives, this is not so much about evolving, but recognizing the opportunity that exists if one manages the end-to-end supply chain.

Purchasing is in a unique position in the organization; no other function has the opportunity to impact the horizontal set of relationships from suppliers through customers, other than marketing. So stating the procurement must “evolve” is not a correct connotation, but it is more about exercising leadership to see the opportunity, influencing others to engage in the opportunities, and driving beyond the obvious in creating innovative collaborative relationships in the supply chain. Collaborative relationships are the singularly most difficult thing to replicate in the global economy, particularly when they provide incremental value and lead to significant improvements in technology, innovation, supply assurance, reliability, and predictable customer outcomes.

Do you choose to lead procurement into this landscape of opportunity?

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<sup>1</sup> Charles Babbage, *On the Economy of Machinery and Manufacturers*, 2nd ed. (London: Charles Knight Publishing 1832–1835), 202, as reported by H. Fearon, “History of Purchasing,” *Journal of Purchasing* (February 1968): p 44.

<sup>2</sup> H. Fearon, “History of Purchasing,” *Journal of Purchasing* (February 1968): p 44–50.

<sup>3</sup> A.D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA, 1977), p.58.



## Research methodology

In conducting this study, we first carried out an extensive literature review of consulting studies, academic research, and published analyses identifying key themes in procurement. We identified a number of themes that emerged from this literature, and conducted a content analysis identifying the important themes discussed in the research.

Next, we developed a targeted set of interview questions that further explored these issues, but also allowed executives the opportunity to discuss their insights and views on the evolving role of procurement. Key questions used in the invitation letter to executives included the following:

- What do you envision will be the sources of value delivered by Procurement in 2025?
- What are the key forces that will shape this requirement?
- How do you believe this evolution will occur? In other words, is there a hierarchy of strategies and change that organizations must begin this journey with that will lead to this end state?
- What factors will be critical for organizations to complete this journey? Senior leadership is key of course, but what other factors are important (organizational structure, culture, people, process, and technology)?
- What are the key skills and capabilities that will be required for supply management talent in the future? How should organizations begin to meet with the talent challenge?

We next sought to identify a targeted sample of procurement executives who would participate in these interviews. We sought to interview individuals from a diversity of backgrounds that would be representative of different phases of procurement maturity, including those in a nascent stage, as well as those in more advanced industries. Using this criteria, we identified executives in the following industries: oil and gas, pharmaceutical, manufacturing, financial services, and apparel.

These individuals were contacted through personal relationships developed through Dr. Robert Handfield, based on his 25 years of research and consulting in procurement, as well as clients from the KPMG Procurement Advisory group.

Individuals were contacted through a letter of introduction, and interviews were conducted via phone. Interviews typically lasted 45 minutes, and included individuals with the following titles: Chief Procurement Officer, Senior Vices President, Chief Supply Chain Officer, Executive Vice President, Managing Director, and Senior Director. Transcripts of all interviews were collected, and using content analysis of responses, key insights were coded and quantified. The seven faces of Procurement were thus produced through aggregation of responses, and commonality of themes discussed in the interviews. The maturity model was also constructed based on prior research from Dr. Handfield, KPMG knowledge, as well as insights gleaned from executives discussing their current and desired future state of maturity as it related to procurement transformation.



# Appendix I

This project was conducted through a joint partnership between KPMG Procurement Advisory and the Supply Chain Resource Cooperative (SCRC) in the Poole College of Management at North Carolina State University.

KPMG's Procurement Advisory practice has a global footprint comprised of over 700 seasoned supply chain specialists located in all major geographic markets. Our professionals come from a rich background of industry, technology and advisory experiences which combine to deliver practical fit-for-purpose designs. We help drive sustainable improvements to make Procurement a source of value and innovation. Leveraging our financial heritage and strength in managing risk, we help achieve balanced business performance through better spend management, productivity gains, and improved internal controls. We serve as business partners providing tailored insight to our clients through their transformation journey.

Founded in 2000, the SCRC is an academic-university partnership to drive thought leadership, education, and practical application of research to tackle real-world supply chain problems. We have conducted over 500 projects with more than 40 partner companies including current partners such as Bank of America, Lenovo, GSK, Duke Energy, BP, Bayer, BiogenIdec, Novozymes, Caterpillar, and John Deere. Projects typically involve supply market intelligence research that forms the basis for category strategies. Although many different industries are represented, many of the common approaches have evolved based on application of best-in-class supply management approaches driven in the classroom. The Web portal is a source of supply chain research, learning modules, and other features that form a center for thought leadership in supply chain management education and research.

This project combines the intellectual insights, industry reach, and innovation of these two unique groups to produce an important set of insights for future procurement leaders. We look forward to hearing your comments and feedback, and would be pleased to discuss these further.

Sincerely,

**Samir Khushalani**

US Practice Leader, Procurement Advisory  
Strategy and Operations  
KPMG LLP

**Rob Handfield, PhD**

Bank of America Distinguished University Professor  
North Carolina State University



FIGURE 4 – Evolution of Procurement Capability Maturity Model

## Future roles of procurement

### Which ones are important?

	1 Ad Hoc	2 Defined	3 Managed	4 Leveraged	5 Optimized
<b>Internal Consultant</b>	Small team handles ad hoc requests for transaction work	Quarterly reports generated and reviewed with stakeholders and follow-up	Global team coordinates with stakeholders via defined SOW's defined templates	Global team + site representation provides local and engagement	Global team + co-located teams participate in team meetings and able to anticipate requirements
<b>Market Intelligence &amp; Cost Modeling</b>	Low level of common tools, processes, and methodologies	Cost models apply publicly traded financial information to create high-level product models	Dedicated cost model and supplier intelligence databases established with MI portals, feeds, and updates	Dedicated cost modeling, MI analyst, and ground level roles established. All major categories have updated MI feeds.	Cost models, Market Intelligence, and global event management is leveraged across the business for application in design, production, and marketing decision.
<b>Financial Expertise</b>	Secondary data dumps pulled into ppt and shipped to users	Secondary data complements internal SME interviews on as-needed basis	Multiple insights pulled utilizing triangulated results, SME insights, ongoing database updates and market reports	Co-located teams collect local supplier Insights and complement global team updates and reporting on real indicator time basis.	Co-located teams plus network of SME's identified within supply base and other outsourced providers updates market conditions and deep future state insights
<b>Risk Mitigator</b>	Financial health measured annually using D&B sources annually	Multiple indicators of financial health and operational risk established quarterly	Risk profiles include multiple measures of primary/secondary operational and financial health risk.	Risk profiles Include primary and secondary measures of Tier 1 and 2 supplier risk.	Global risk event triggers are monitored in real-time with impacts and mitigation plans in place.
<b>Supplier Coach</b>	Supplier scorecards adopted for measurement	Scorecards complemented by regular reviews, improvement discussions, and ongoing project goals	Reactive approach to reducing issues across the supply base through supplier development engagements	Suppliers are actively solicited for cost savings ideas, and opportunities to collaborate on cost and innovation identified	Virtual integration: Suppliers and buying enterprise regularly work and collaborate on-site and as strategic partners.
<b>Relationship Broker</b>	Supply market intelligence reports and debriefs are presented to stakeholders	Quarterly market reports and inflation/deflation trends with ad hoc MI category & cost model reports	Systematic process defined for engaging stakeholders, aligning supplier scorecards to stakeholder postreport metrics to assess satisfaction	Forecasting of stakeholder demands and technology road maps linked to supplier strategies to drive alignment	Suppliers actively engaged with stakeholders through face to face sessions, supplier integration on product design, and on-going virtual extended team meetings
<b>Legal Expert</b>	All contracts written on standard legal templates with no variation permitted	Contract templates approved by legal and some variations allowed	Legal is consulted on all major global category contracts, on an exception basis.	Legal expert employed full-time in procurement as part of all category management contract discussions and negotiations	Contracts are transparent and visible to all parties, tied to supplier scorecards and P2P process, and linked to incentives and mutual regard/risk clauses.
<b>Sustainable Steward</b>	Supplier code of conduct exists	Supplier code of conduct compliance is measured as part of supplier performance scorecard.	Supplier compliance is measured, audited, and if required, actions taken.	Supplier compliance to code of conduct is audited by independent third parties and NGOs.	Sub-tier supplier code of conduct performance is measured, monitored, and linked to tier 1 supplier performance reviews.

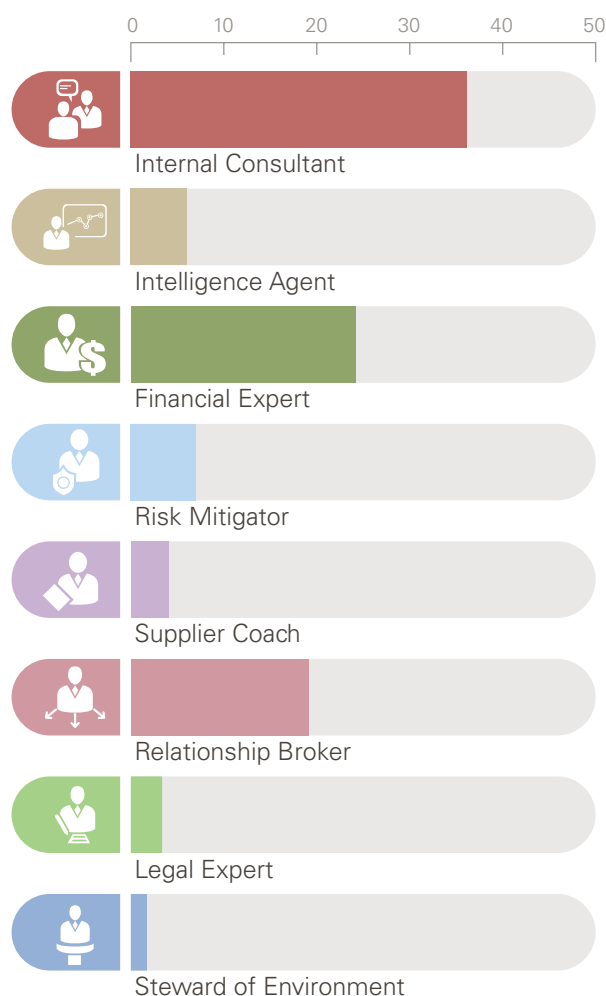
# Appendix II

## DISCUSSION: Which faces will be the most important?

The two charts below provide insights into the rating of which faces of procurement will be the most important in the years to come. The first chart shows the ratings by procurement executives at the Coupa Inspire Conference who note that the role of internal consultant and financial expert will be the most critical in the near future, as organizations seek to build internal bridges with their stakeholders, and derive a more meaningful relationship to speak the language of finance and derive strategies that have a meaningful impact on shareholder value.

### Which Face Is the Most Important to the Success of Your Procurement Organization?

(Coupa attendees, 2013, n=163)



CPOs provided an alternative view of what they believe to be the most critical elements in the years ahead. They first rated financial expertise and knowledge as being one of the most critical roles for the year 2025, and foresee an evolutionary state where procurement plays an active role in the determination of financial outcomes, profit and loss, shareholder earnings impacts, and other income-related discussions. Similar to our polled respondents at Coupa, they also perceive the role of supplier relationships and coaching as a critical role. The need to exploit supplier ideas is predicated on the ability to form meaningful relationships, and to be able to connect suppliers to internal stakeholders through relationship brokering. The final piece viewed as critical by a majority of CPOs involves building higher market intelligence, to better understand the movement of markets as they relate to impacts on the enterprise.

### Which role is most important to the success of your organization?



## Industry trends

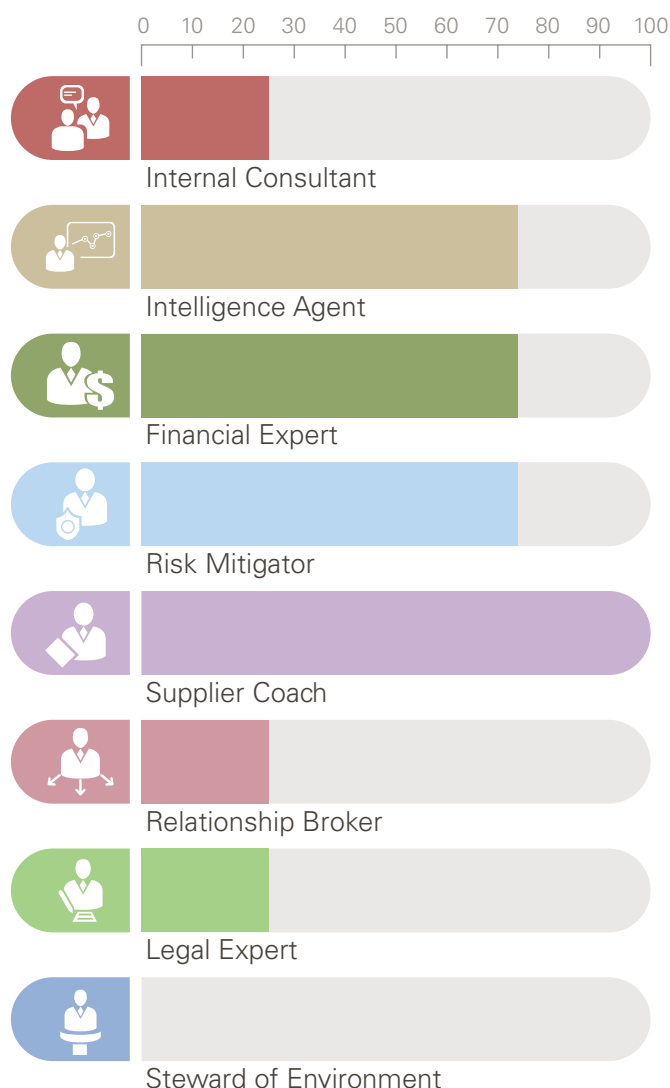
Analysis of the “future roles of procurement” by industry provides another set of meaningful insights. These role assessments are discussed in more detail below.

### Diversified industrials

Industrial manufacturers typically already recognize the critical contribution of procurement to the bottom line, yet often struggle with finance to establish buy-in required to drive investments in procurement. In a few leading organizations, we find that CPOs who can effectively express their needs in the form of direct financial contributions find a ready and willing CFO to invest in procurement talent.

Perhaps because of the relative maturity of manufacturing industries in procurement, CPOs here emphasized the role of supplier coach as a core element for procurement capability. Many industrials are entering new markets for growth, and

### Diversified Industrials



are having to develop local supplier content to support market entry. This requires building capabilities with new suppliers and coaching them to be able to support local market requirements, as well as development of people in these regions.

Diversified industrials also recognize the critical importance of supply market intelligence and risk mitigation strategies. This is primarily due to the high exposure of industrial manufacturers to shifts in commodity pricing, capacity shortfalls, and supplier disruption, and the devastating effect of supply disruptions on plant operations and customer deliveries, thereby directly impacting revenues. Industrial CPOs also emphasized the increasingly important role of driving relationships between internal stakeholders and suppliers as key to future growth. Several executives discussed the important role of supplier innovation, and the importance of harnessing supplier ideas for driving cost savings and insights for future new product development efforts. The role of supplier integration is the one that crosses multiple boundaries, and requires not only an ability to identify the best in class suppliers, but also the ability to harness their technology, in some cases influence that technology, and integrate them effectively into new product design and engineering teams. These types of engagements require a significant degree of trust, and procurement plays a critical role in gradually overcoming engineering's fear of the “not invented here” syndrome.

Finally, diversified industrials are also cognizant of the importance of financial expertise, and the need to understand cost impacts. This is particularly true for manufacturers exposed to high commodity volatility, and the understanding needed to manage this volatility will require greater financial market knowledge and capability.

### Healthcare and pharmaceuticals

With the increasing pressure of healthcare reform, organizations in life sciences are looking to procurement to provide more leadership in managing the complex set of relationships that are evolving here. The industry is at a real tipping point. Large companies are often in the middle of massive mergers and mega patent-expiries. Between now and the end of 2015, most of the major top 10 drugs have a patent expiry. Combined with increased austerity measures in Europe and the Affordable Care Act in the United States, executives for the first time in 15–20 years are seeing that the spend on pharmaceuticals did not rise last year, because of the number of generic drugs, in a market that was previously seeing 4–6 percent growth annually.

Given this environment, healthcare and pharmaceuticals companies are relying on procurement to take greater control than in the past. Procurement often was seen as a lower value function for many years. Many CPOs expressed their frustration with the fact that the perceived cost savings their team could provide was often superseded by a rush to drive revenues during patent life. Today, procurement is being asked to be a much more important part of the discussion around cost savings, and the impact on the bottom line.



## Healthcare and pharmaceuticals



An important role is also emerging around building relationships with key parties in the supply chain. For instance, a large European pharmaceutical manufacturer noted the extent of their supply chain network, and the need to drive tight relationships with third-party logistics suppliers in the local markets they are entering.

*"Our global pharmaceutical business today is 30–40 percent in emerging markets, and is the highest revenue pharmaceutical segment. We will see 75 percent of revenue move to emerging markets, which means we need to intensify our business footprint in each of these regions. We are in more than 165 countries, and work with some of the largest global retailers in the world, including Wal-Mart, Metro, Carrefour, and others. With this diversity, we have been faced with multiple logistics platforms, and our logistics networks have been very diverse. In our company, logistics resides under the global procurement function. With logistics, we are applying the procurement concept of supplier consolidation to drive*

*toward a standard global architecture, which converges to a single platform, a single third-party legislation (3PL) in each region, and the same metrics for assessing logistics efficiency. But this is challenging, as we are now moving away from the small players, and will rely more on the big third-party network providers to step in and manage a greater proportion of our total spend in logistics."*

Another CPO mentioned the importance of building financial capabilities and the requirements to better understand financial metrics in discussions with key decision-makers:

*"One of the areas we check for improvement is the inconsistency we see with the level of understanding of the financials of their process. Procurement managers have difficulty creating baselines, and an apples-to-apples comparison to cost. They have trouble distinguishing between capital versus expense, and don't understand how variable cost models are beneficial. The financials in general are struggling."*

Along with the financial capability, pharmaceutical companies are seeking to build the professional image of category managers, and enable them to provide a consistent decision-making process throughout all business dealings with groups throughout the company. An important element in establishing procurement as a legitimate function is to establish a standard of conduct, a standard process, and a standard set of tool sets and communication platforms on which to engage stakeholders.

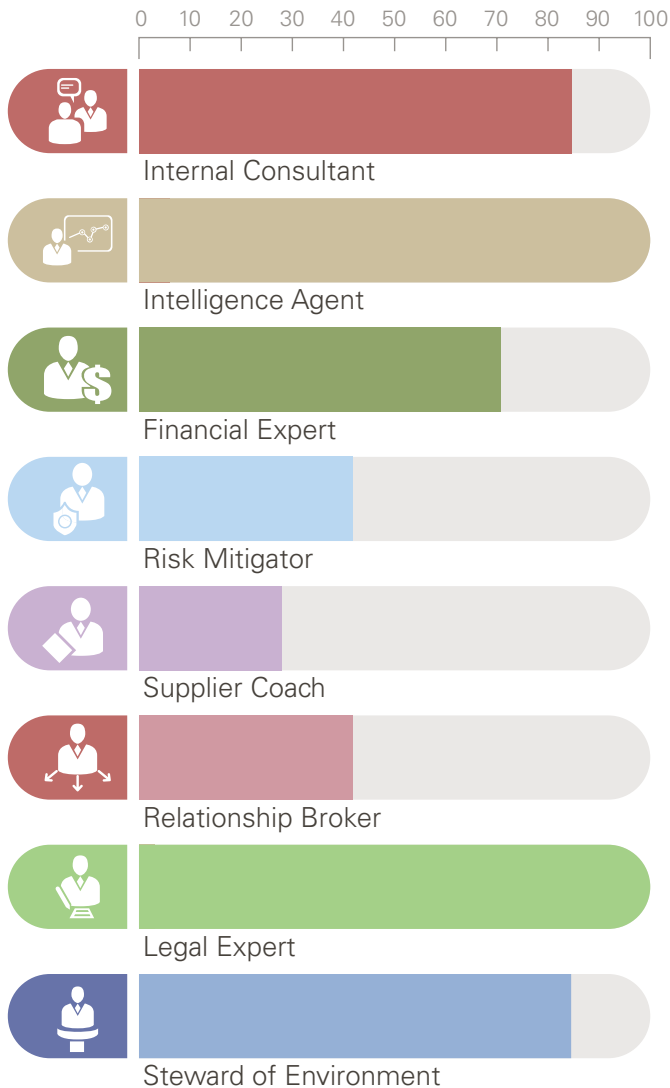
An important internal stakeholder is clinical trials, and we see that procurement will also be involved more in clinical trials as an internal consultant to support clinical trials teams. In effect, there exists no formal mechanism to pull together critical insights that can impact trial feasibility and cost, and procurement will play a much more important role in this area to assess supplier capabilities and flexibility. Patient enrollment success rate is certainly the most important element in the context of planning clinical trials, but the ability of the clinical supply chain organization to deliver product into these countries in a timely manner and avoid major delays in clinical trial roll-outs is a secondary issue that could be improved in the clinical operations process. While it is being done in some parts of the business, a consistent application of this methodology would require a dedicated COE.

### Energy, natural resources, and chemical (ENRC)

ENRC firms have a strong push toward even further building their platform on a strong financial acumen agenda, but are also pushing toward a stronger basis of market intelligence, sustainable procurement, and most importantly, expertise in contract management as a core capability of the organization. In addition, oil and gas companies face a dual challenge; on the one hand, they must work with only a handful of global players in exploration services and need to forge relationships and control cost in a concentrated supply market. On the other hand, they face a very diversified supply base in emerging markets, and are required to work with local content

suppliers who often hand them hefty surcharges given their place in the market. There is thus a need to establish regional alternatives who are qualified in the overall supply base mix.

## ENRC



Oil and gas procurement organizations have been handed an opportunity to deliver a more business-driven set of values, beyond traditional cost savings. Procurement is no longer about just outward-facing capabilities, but about first understanding internal needs and knowing where to go outside to get them met. The need for developing capabilities that connect these thoughts has been echoed by several leading supply management CPOs at major oil and gas companies interviewed in 2013:

*"Procurement is very well leveraged across the organization based on the recognition from our senior leadership, who recognizes the value of procurement from a total cost perspective. For example, we are given 90 contracts for 22 refineries that equal \$400B of spend a year, which is already very well leveraged in terms of cost. But the question now becomes – "how do we become more efficient in consuming the energy we are buying?" This might be capital investment, specs, commercial terms on take or pay. There is a broader array of menus to look at. And we are being told to take some capital money to invest in something that will allow you to consume less. Or we are being told in our retail business – can you co-brand things with other companies, or credit cards – to generate revenue. We are being asked to find ways to generate more revenue for our business vs. savings or cost reductions.*

*We sign major agreements to transfer to new plants and new facilities. As we move to upstream production, a big component of our projects is to manage the logistics of that project and control it indirectly as a client of the logistics supply chain process managed by an EPC. We need to understand much better those logistics elements that we pay for but do not control. When appropriate, we need to be able to improve them in terms of process, service, and cost.*

*We have 3,500 people working across the world in supply chain, and we are seeing an evolution as we speak that is happening faster than in other fields. Finance and accounting have been around hundreds of years, and for years have struggled with getting people to follow their rules. And the rules were allowed to lapse because they initially trusted everybody – and it caused problems. We are now seeing an evolution in supply chain where people with a specialized education are being brought in, and there is an emerging cadre of people who see supply chain as their future. I foresee oil and gas having to continue that journey in the next decade. We need to put people first, and developing market intelligence is key, and in the long run we need to try to balance the tension between the local and the global talent pool.*

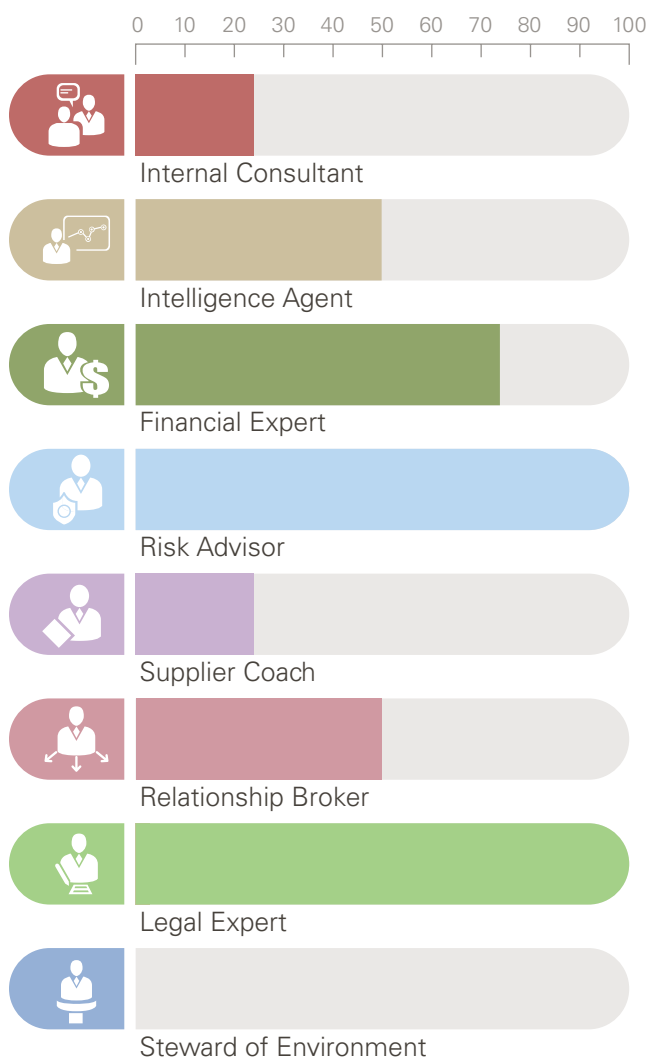
*As we move through transformation of our supply chain, we are managing change. All truth goes through an echelon of being criticized, then opposed, and finally becomes self-evident. By 2025, the transformation of what the entire supply management profession may move to a point where it becomes self-evident. Your external educational institution will play a role in helping organizations to be able to respond by having the technical and management expertise procurement is being asked to provide by stakeholders. Increasingly, we will need to have talent ready to hit the ground running, and that will be instrumental in helping us reach the point where it becomes self-evident. Procurement talent is crucial to manufacturing, and also to engineering. The industry will get there."*

Energy companies particularly suffer when it comes to recruiting talent in many of the “hard to source” areas of the world, including Indonesia, Russia, Western Africa, the Middle East, and other remote areas of the world where oil and minerals are located.

### Financial services

The financial services sector is feeling the full impact of regulatory forces after the disastrous overleveraging impacts of the global economic recession in 2008. These forces are occurring in every global region with the exception of China. The increased scrutiny of regulators and the low level of perceived trust by banking customers are driving risk management issues that are directly impacting the procurement function in several important ways. As shown in the graph below, risk and legal issues dominate all other forms of value identified by other industries. Legal advisory expertise and risk mitigation is a primary capability that procurement is being asked to support, according to the CPOs we interviewed.

### Financial Services



Several executives emphasized how regulation has driven the procurement agenda toward risk and contractual issues.

*“We are on the lower end of the scale of what I would call securing value. Today our view is on risk mitigation, and we are not going up to higher levels of creating new value holistically. The focus in banking has always been on price, not total cost. Coupled with the regulatory constraints, the ability of procurement to move up this scale will be severely limited for some time to come.”*

There is a renewed interest in seeking to identify a common set of metrics and approaches that cross regulatory boundaries. In the United States, the passage of Federal Communication Commission (FCC) regulation has already led to major supplier risk measures; similarly in the United Kingdom and Europe, the same issue has occurred. There is an awakening of the regulators in Asia Pacific, as the monetary authorities in Singapore are more restrictive in the financial regulatory environment. This is effectively creating a very high barrier to entry for new players to enter the global banking space. Very simply, it appears as if regulators are concerned that banks have overleveraged outsourcing to the point where they no longer have control over the activities of offshore entities. They fear that there is no longer enough intellectual property left to understand the processes that have been outsourced or offshored. There is a concern that the onshore entities no longer have the management sophistication to manage the product set and the outsourced process, and with the dependence on a third party, there is no expertise embedded in the organization that can manage this risk.

On top of this, a second trend, whether politically driven or risk motivated, is that various jurisdictions (such as Germany) are asking large banks to look at simulated breakups. A draft law has been passed in Germany, and banks in the United Kingdom have also started to explore this possibility. This will lead to a reexamination of offshoring in general, and also an increased focus on supplier risk.

One of the major results of this environment is that every global bank has established supplier risk assessment frameworks and tools in response to regulatory authorities. These are not only cumbersome for suppliers, but when multiple banks are asking suppliers to complete multiple risk assessment audits and requirements, the transaction costs of doing business is escalating significantly for the supply base. This is driving some of the procurement executives we met with to express their concern on how to manage this emerging landscape.



*"We are really a consumer goods firm, and are very marketing-oriented. We have young aspiring marketers creating financial products for customers, and they are trying to drive the brand. But then we have to tell them that they have to do all of these things around compliance and about saving money – and talking about risk is really no fun. There needs to be a more efficient way to embed risk assessment into the business process, and deal with third parties that are more operational in nature, and have more accountability upfront on who we are doing business with to manage reputational risk."*

*I think sourcing teams will have more risk culture embedded in them than they do today. It will be a primary lens for work and more of a control function, to do what is right for the company, not just for the entity you are trying to do the deal for. There should be more ownership of the deal once it is signed. The sourcing executive should also manage the deal, not just move on to the next deal, and there needs to be a connection between the front end and the back end. At the moment, we are getting a lot of pushback from suppliers because we are demanding more from them, but not around cost. It is about holding firm on limited liability, and the execution of the penalty that will be withheld. We have negotiated that away in the past, but are not doing that now, and are monitoring the exceptions."*



For more information on KPMG's procurement maturity model, please visit: [www.kpmg.com/us/procurement](http://www.kpmg.com/us/procurement)

For more information on NC State's Supply Chain Resource Cooperative, visit <http://scm.ncsu.edu>.

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