



Procurement Advisory

Next generation procurement

Achieving growth and creating sustainable value





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The Future of Procurement

The role of Procurement is fast changing to keep pace with business demands. Best-in-class Procurement functions are evolving to become business partners, shifting their focus to strategic and sustainable value creation and preservation - to deliver bankable dollars.

EXECUTING THE FUNDAMENTALS

The cost of doing business is on the rise. With Procurement representing the largest share of a typical organization's overall costs, the function should be a priority area for businesses.

Considering that Procurement functions in The Association of Southeast Asian Nations (ASEAN) are often less developed than in other regions, it is crucial to get the fundamentals right through implementing effective procure-to-pay processes, executing strategic sourcing activities and enabling the right technology solutions.

Implementing the fundamentals presents an opportunity for organizations to significantly reduce costs, improve sourcing efficiency and positively impact their cost income ratio.

NEW WAVE OF PROCUREMENT

Driving collaboration

To be leading-edge, Procurement

functions must be bold, vigilant and collaborative. They must move beyond the traditional role of a buyer and deliver more strategic value. This new strategic role will require Procurement's increased collaboration with both business and suppliers.

...internally

Collaboration with internal business units alone is insufficient against the backdrop of a global drive for productivity and continuous savings. There is a need for organizations to take on a cross functional sourcing approach entailing close collaboration with key stakeholders across Business, Finance and other areas.

...externally

There is a pressing need for Procurement to strengthen supplier partnerships, reduce supply chain risk and embrace innovation and operational excellence.

Introducing and measuring the right levels of incentives and key performance indicators (KPIs) can help foster collaboration and deliver greater sustainable long term value.

Enabling Procurement

Having the right technology solution to support Procurement can provide organizations with reliable spend data. Automation can enhance business processes and provide greater spend and budgetary control, while strengthening the links between Procurement and the finance function. This will enable Procurement to evolve beyond its transactional role to a more strategic one, realizing greater value via sourcing, category management, and supplier relationship management.

The changing role of Procurement will see an increasing demand for employees with strong analytical and strategic thinking skills, able to more effectively manage business and vendor relationships against a backdrop of a limited talent pool.

To attract and retain talent, it is essential to develop a talent management plan. This should be implemented through ongoing investment in Procurement training academies and certification programs. Such initiatives should also articulate clear retention strategies and robust career pathways for both existing and new Procurement professionals.

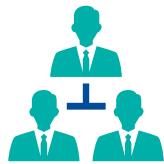


Tony Rawlinson

Partner, Head of Business Transformation
Management Consulting, ASEAN KPMG in Singapore

“ A next generation Procurement Organization is effective and efficient - streamlining processes, exploiting technology and enabling active collaboration with stakeholders to achieve strategic goals and create sustainable value. ”

Challenges faced by procurement leaders today



Organization

- Lack of skilled Procurement resources with a strategic view
- Limited partnership between Procurement and business
- Legacy structures



Systems & Technology

- Disparate technology provision
- Lack of analytics to understand addressable spend, controls and risks



Risks & Controls

- Off-contract 'maverick' spend
- Stricter regulatory and legal requirements
- Loosely delegated authorities
- Incidence of fraud



Processes & Metrics

- Lack of standardization of processes and inefficiency
- Lack of consistent measurement of procurement savings

Our View of ASEAN

What is the call to action for Procurement functions?

Focus on risk management and governance

With the increase in business activities across ASEAN, the adequacy of risk management and business continuity becomes more important. Procurement needs to take on a more proactive role in an organization's risk management strategy and work with the business to develop strategies to mitigate supply chain risks, while having in place a contracting and governance model that allows the business to stay agile.

Optimize and leverage technology

In promoting the use of technology for contract management and enhancing data analytics capabilities, Procurement functions can drive increased cost savings, improved cash flow, strategic management of supplier relationships and greater risk mitigation.

Establish an optimum operating model

While there is no one-size-fits all model, center-led models correlate most closely with procurement benefits realized. Reviews of Procurement operating models

have allowed organizations to identify potential improvements in value creation and operational performance, providing a robust framework to deliver efficiencies and sustainable savings.

Unlock value

ASEAN Procurement functions will need to move beyond the traditional role of cost management and prioritization of spending to deliver more strategic value to the organization. The development of stronger Procurement capability in category management, strategic sourcing, demand management and supplier relationship management is required to cash-in on the bankable dollars from superior Procurement management.

Build competency across the organization

The complex Procurement environment in ASEAN demands that Procurement professionals possess a mix of soft and technical skills. The talent crunch experienced in this region suggests that organizations will need to strengthen training and coaching programs to build sustainable capabilities. Businesses should be equipped with skills to understand how to collaborate with Procurement and involve Procurement earlier in the process in order to increase overall shareholder value.

Engage suppliers

The supplier landscape in ASEAN poses challenges in delivering quality and service consistently across the region. The need for Procurement to become strategic thinkers to harness the value of operating in this region is critical. Engaging in advanced supplier relationship and performance management is paramount in order to add more value.



Gerard Seng

Director, Procurement Advisory
Management Consulting, ASEAN
KPMG in Singapore

Given the resistance to change, ASEAN Procurement organizations still face cultural challenges to transform into a more value-adding function. Procurement must invest in changing the existing mindset and empowering the organization to manage the entire Procurement transformation journey.

Case study 1:

Building regional Procurement capability for one of ASEAN's largest financial services organizations

A financial group needed to transform its Procurement function into a commercially-driven organization geared to deliver sustainable savings.

To achieve this, the client required a major Procurement transformation project designed to:

- define the transformational change needed to establish a leading regional Procurement organization within 3 years
- provide the technology enablers to achieve the necessary change
- enhance strategic sourcing and category management capabilities to achieve immediate and sustainable savings
- implement a new regional Procurement organization
- support in negotiation for a contract that represented the single highest contract across the bank (> US\$ 30 million per annum)

The KPMG team designed and implemented a holistic transformation program.

This includes:

- review of current Procurement operating model, processes, maturity and gap analysis
- deployment of a spend analysis tool to establish a baseline and identify savings opportunities
- design and implementation of Target Procurement Regional Operating Model, including organization structure and technology requirements
- competency and capability gap assessment and identification of up-skilling and training needs
- category pilots to develop category management skills and capabilities
- design of a robust strategy to renegotiate key contracts

Benefits to the client includes a potential first year savings exceeding US\$ 25 million with further material annual savings.

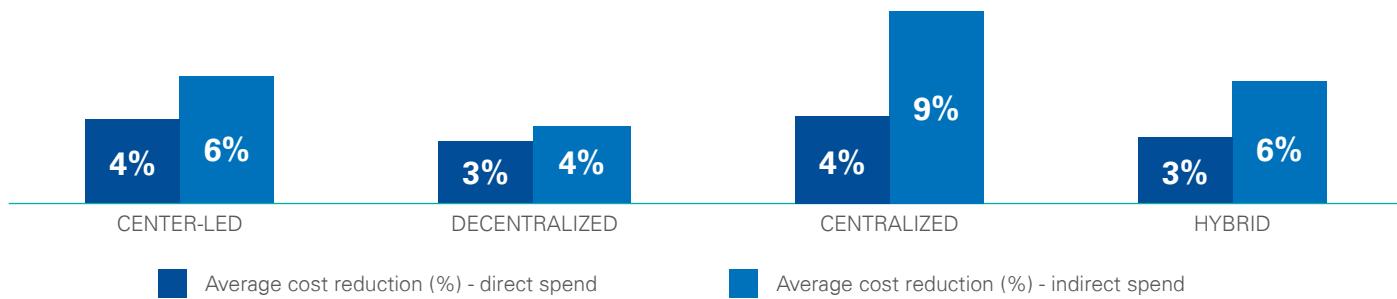
The client also achieved significant spend visibility through the adoption of a single technology interface across the region. This allowed the client to methodically reduce overall spend through a regional savings program.

Other outcomes and benefits include:

- a fully designed center-led regional Procurement operating model implemented
- an organization structure and FTE identification aligned to best practices
- procurement policy and process handbooks to institutionalize commercially-driven procurement principles and support Procurement processes
- KPI framework and savings handbook
- up-skilling and development of category management capability



Procurement operating models and sustainable cost reduction



Source: High Impact Procurement Operating Models, KPMG in the US

Driving Procurement Excellence

**Our philosophy:
Procurement
transformation is
a journey and this
underpins our approach
in helping clients
achieve their goals.**

**Our global reach,
insights and expertise
allows our approach to
be customized to meet
clients' unique needs.**

Member firms use a structured two-way approach – Performance Enhancement and Cost Optimization to achieve Procurement excellence.

This includes a clear roadmap to deliver savings and organizational optimization opportunities for the Procurement function. Our approach is designed to achieve Procurement maturity enhancement, spend transparency and category optimization. We drive procurement excellence through realistic and sustainable actions which are prioritized and timelined according to the maturity of the Procurement function.

Both top-down and bottom-up analysis are carried out to ensure that the procurement strategy is supported by tactical deployment

to bring about tangible value. In addition, supporting our approach is a baseline analysis of the organization spend to identify opportunities.

Procurement maturity enhancement

We conduct an in-depth understanding of the Procurement organization where practices, processes and performance are compared against the relevant peer group and best-in-class benchmarks. A roadmap is designed to create clarity and visibility over how the organization can design a procurement strategy, operating model and associated competencies to achieve the organization's vision.

Spend transparency

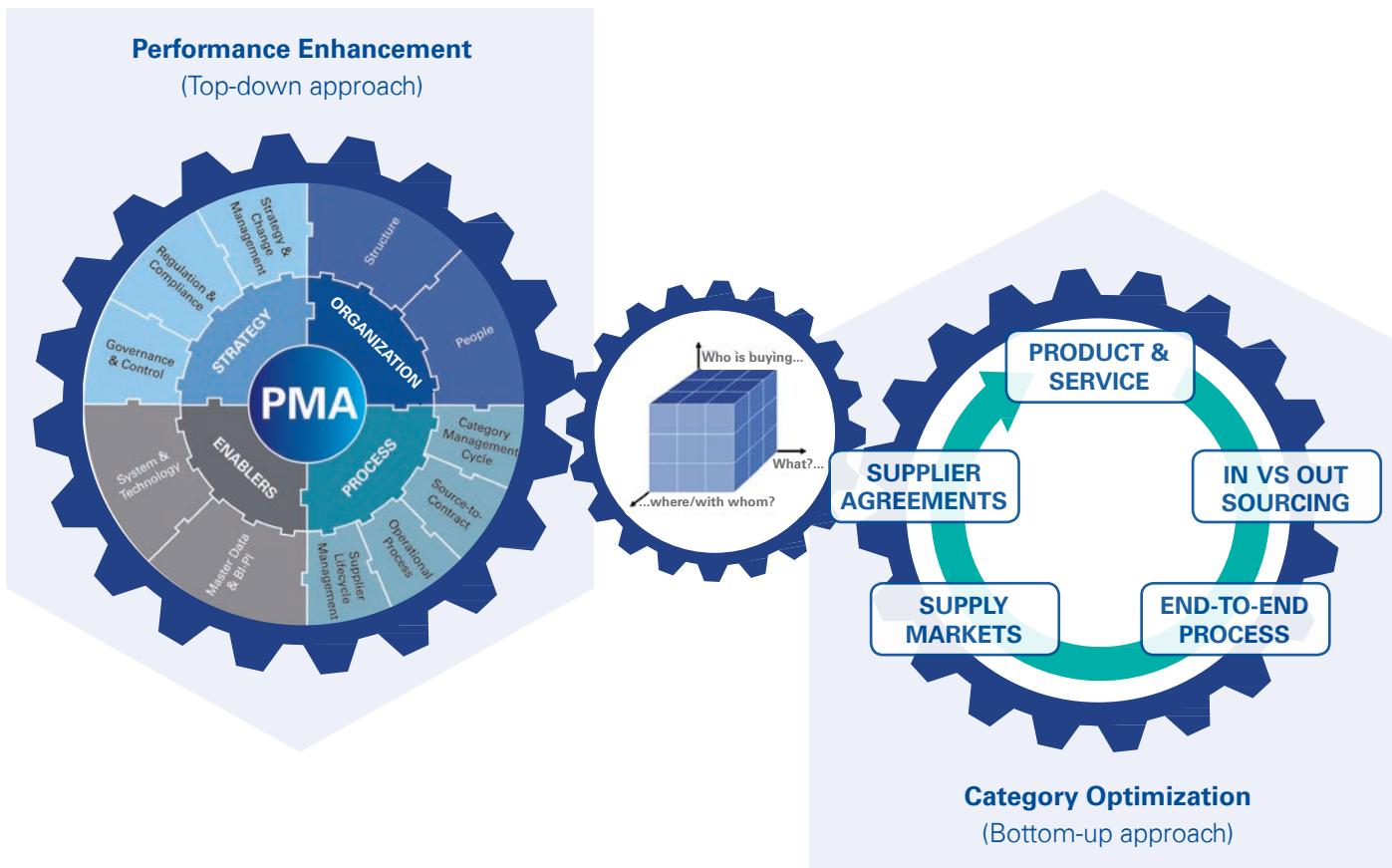
KPMG's proprietary spend tools provide detailed analysis of the

organization's spend data, providing an enterprise-wide view of third-party expenditure. It visualizes spend by category, supplier, business unit, buying channel etc, to unveil important insights regarding buying patterns to enable prioritization of focus areas.

Category optimization

Member firms help organizations develop their category playbook to build robust category strategies. The levers and opportunities considered include managing end user demand, standardizing specifications, reducing acquisition costs, evaluating in-sourcing/outsourcing decisions and leveraging market and commercial opportunities to deliver service reliability and increased commercial leverage.





Procurement Maturity Enhancement

- Clear insight into the maturity level of Procurement
- Comparison to peer groups to identify gaps
- Roadmap for performance enhancement
- Measurable increase in maturity via implementing the roadmap



Spend Transparency

- Spend transparency and classification
- Action prioritization
- Sourcing activity support with data analysis



Category Optimization

- Clear category strategy
- Cross functional commitment
- Identification and execution of optimization initiatives

Bringing Benefits to You



Business partnering

An enhanced target operating model increases engagement between procurement and the business, allowing Procurement to interact with the C-Suite. This helps ensure that Procurement is constantly kept abreast of the strategic needs and demands of the business.



Resilient supply chain

With growing complexity in organizations' supply chains, a proactive and integrated approach to managing the entire sourcing/supplier value chain allows risks to be identified early and mitigating actions to be taken.



Faster speed to market

A Procurement function that is interacting with business at a strategic level shortens the time-to-market. It is also able to introduce new products and services to the market more quickly.



Unlocking value

With 40 to 80 percent of spend typically managed by Procurement, optimization of the strategic sourcing and procurement function can generate and unlock business value and bring about material improvements in cost income ratio.



Spend transparency

Procurement transparency is the baseline for the identification of savings potential and the definition of a clear road map towards Procurement excellence. It is also a basis for supplier segmentation critical for developing robust supplier relationships.



Cost aware culture

An operating model that dynamically engages the business to drive value and develop a cost-conscious culture across the organization. This provides opportunities for structured cost improvement.



Case study 2:

Procurement enhancement for a major international airport

A leading international airport was keen to identify and realize operational efficiencies in the sourcing management process.

Key challenges faced by the client were:

- limited ability to generate value from Procurement as procurement is only involved on a project-by-project basis
- lack of Procurement skills across the organization resulting in 'money left on the table'

- inconsistent sourcing and contract management (e.g. market analysis, negotiation and vendor management) practices across organizational silos

KPMG in Singapore performed a procurement maturity assessment of the organization and conducted a spend analysis and detailed category analysis to establish the baseline. We eventually recommended and re-designed a category-led Procurement operating model

and a transformation plan.

The result was identified savings of 5 to 10 percent in operating expenses. The team also analyzed the levers and identified opportunities to enhance the performance of the categories. An enterprise-wide Procurement training program was rolled out to both Procurement and business users to equip them with the new skills and tools to improve their game.

Offerings that can Promote Excellence and Innovation

Leveraging a global network of practitioners and KPMG methodologies, our member firm's services are tailored and scalable.

Category	Service Description	Category	Service Description
Category sourcing and management	<ul style="list-style-type: none"> • Spend analytics* • Opportunity assessment • Supply base optimization/rationalization • Best value/low cost country sourcing • Direct/indirect sourcing 	Tax efficient procurement	<ul style="list-style-type: none"> • Captive purchasing company design and implementation
Process optimization	<ul style="list-style-type: none"> • Source-to-contract • Contract lifecycle management • Purchase-to-pay 	Risk and governance	<ul style="list-style-type: none"> • Supplier/vendor risk management • Risk program assessment • Contract risk management
Procurement transformation	<ul style="list-style-type: none"> • Transformation business case • Organizational/Target Operating Model design 	Technology enablement	<ul style="list-style-type: none"> • e-Procurement Request For Proposal development • Technology and vendor selection • Procurement master data management
Organizational effectiveness	<ul style="list-style-type: none"> • Procurement maturity diagnostics and benchmarking • Performance management • Talent management/procurement academy 	Sustainable procurement	<ul style="list-style-type: none"> • Procurement waste assessment • Procurement requirements
Supplier relationship management (SRM)	<ul style="list-style-type: none"> • SRM approach/strategy • Value for performance 		

* Powered by our in-house KPMG Spend Cube

Why KPMG: A leader in procurement advisory services

A leader in procurement advisory services	Sector leading procurement capabilities	Global footprint	Strong focus on execution	Specialist for people development
3,000 KPMG member firms have a track record of working on more than 3,000 procurement projects	 Sound knowledge, trusted by many big players across industries	 Over 900 procurement consultants globally	 Combine technical, commercial category knowledge with tax and IT know-how	 Especially in up-skilling management and staff and delivery of procurement academies

Source: KPMG Global Procurement Advisory Center of Excellence, 2016



Case study 3:

Procurement transformation for an ASEAN integrated health provider

An integrated healthcare provider with third-party spend in excess of US\$ 490 million annually across the group wanted to perform an independent current state assessment and discovery of the efficiency and effectiveness of its Procurement activities.

The tailored program included:

- a review of the client's existing Procurement strategy, organization structure, processes and use of enabling technologies

- an assessment of the organization's Procurement maturity based on leading practices and industry benchmarks
- defining the core design principles of recommended Target Operating Model (TOM)

Key challenges faced by the client included:

- lack of Procurement integration across the healthcare group
- fragmented technology systems and databases

- lack of mandate to challenge demand and enforce Group-wide policies and processes

The outcomes included an assessment of the overall maturity of procurement, the identification of a fit for purpose high level target operating model with the initial identification of priorities and recommendations of activities required to bridge the gap between current practices and leading practices. The team also conducted a category pilot to demonstrate benefits of new ways of working.



Case study 4:

Power and utilities company implements a procurement SRM system

An Asian power and utilities company undertook a series of initiatives to transform the procurement function to become a strategic partner of the business. One of the key initiatives was to drive cost savings and organization productivity using a technology platform to standardize the company's Procurement process and monitor service level and contract compliance.

KPMG in Singapore assisted the client in reviewing the business requirements, developed the tender documents and evaluated the vendor proposal submissions against both commercial and technical requirements.

The key outcome was the implementation of a Procurement SRM system that enables the company to:

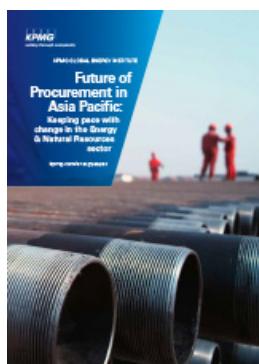
- centralize sourcing and RFQ collaboration whilst reducing cost and optimizing the process cycle time
- systematically execute effective sourcing strategies
- monitor compliance to contracts and policies
- improve transactional efficiency through supplier connectivity
- enterprise-wide insight via spend category reporting

Our recent thought leadership publications

The Power of Procurement



Future of Procurement in Asia-Pacific



Implementing the Future of Procurement



FUTUREBUY: The Future of Procurement



High Impact Procurement Operating Models



The first of an annual series of global reports to compile data from Procurement organizations and across sectors to provide an ongoing and consistent benchmark for Procurement functions to measure their progress against that of their peers.

This paper aims to convey to ENR stakeholders how the Procurement function can help organizations enhance their competitive-advantage. Using a variety of region-wide case studies, it demonstrates how strategic Procurement can help companies: capitalize on emerging trends, enhance processes and technologies, rethink their organizational structures and deliver tangible value to the bottom line.

This paper illustrates how Procurement teams of healthcare and life sciences organizations can position their Procurement organizations to capitalize on current trends, enhance their processes and technologies, rethink their organizational structures, and deliver tangible value to the bottom line.

KPMG interviews 25 Chief Procurement Officers from global organizations across a spectrum of industries and summarizes the major capabilities identified as necessary for competitive adaptation and growth in the current business environment.

Procurement's journey from a back-office tactical function to a key lever of competitive differentiation is a story that has been receiving greater attention globally. This survey seeks to understand the different Procurement operating models and governance structures in various organizations.

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