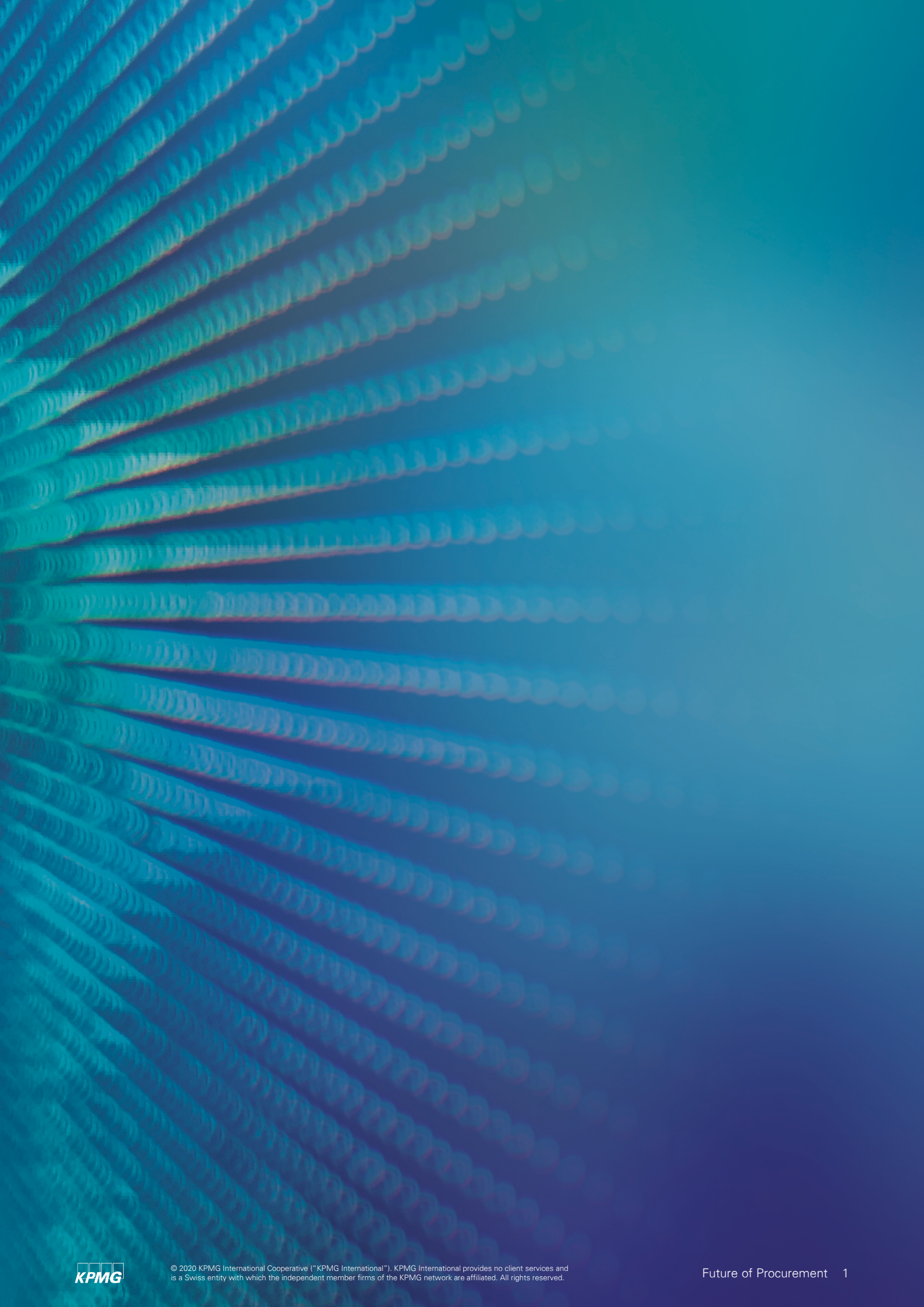




Future of Procurement

2020

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What is the future of procurement?

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

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

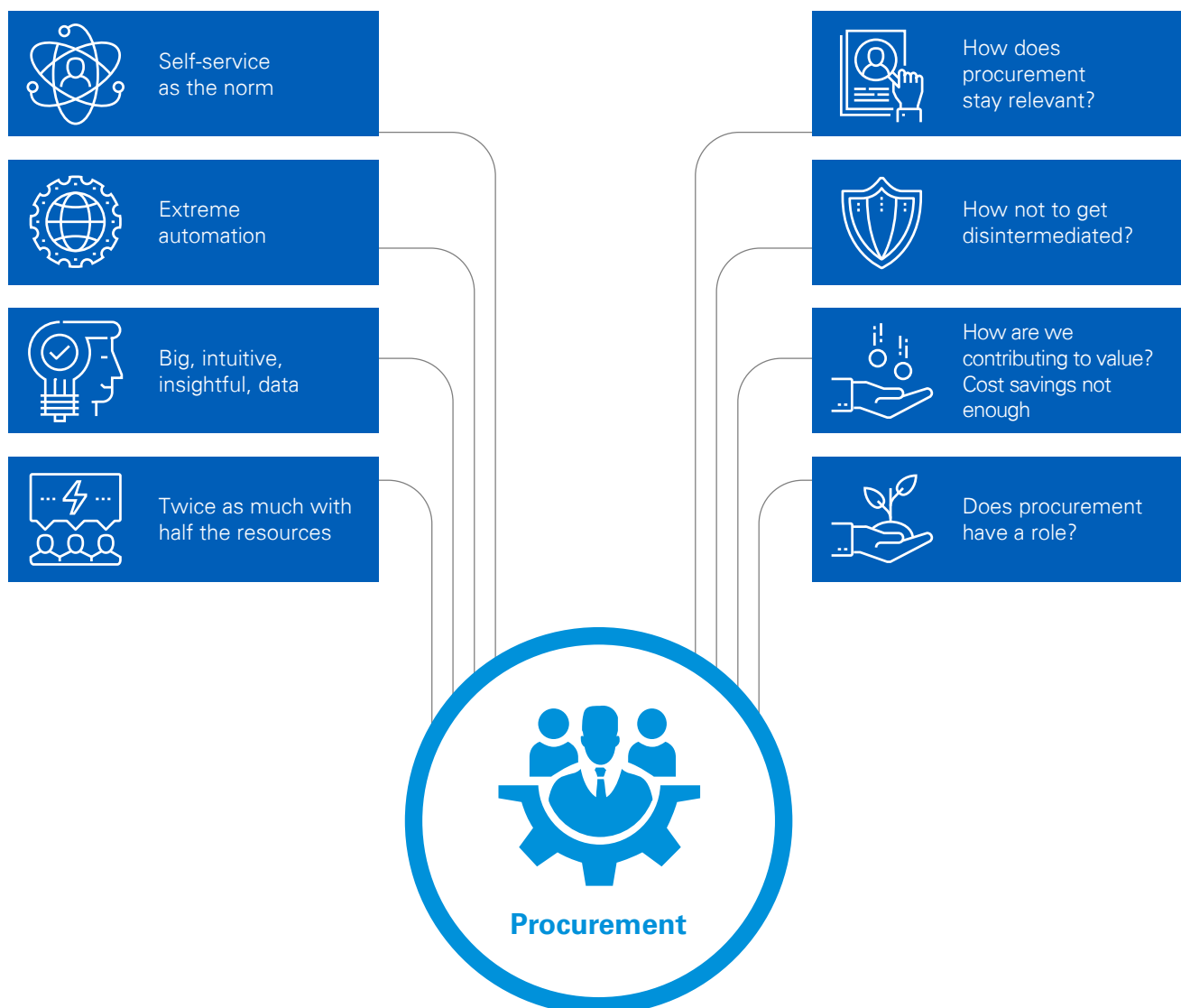
In the midst of continuous disruption, one thing is certain. Procurement must disrupt itself to grow and stay in front of change.

Disruptors shaping the future

What is driving this shift in procurement? One word—digitization.

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

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

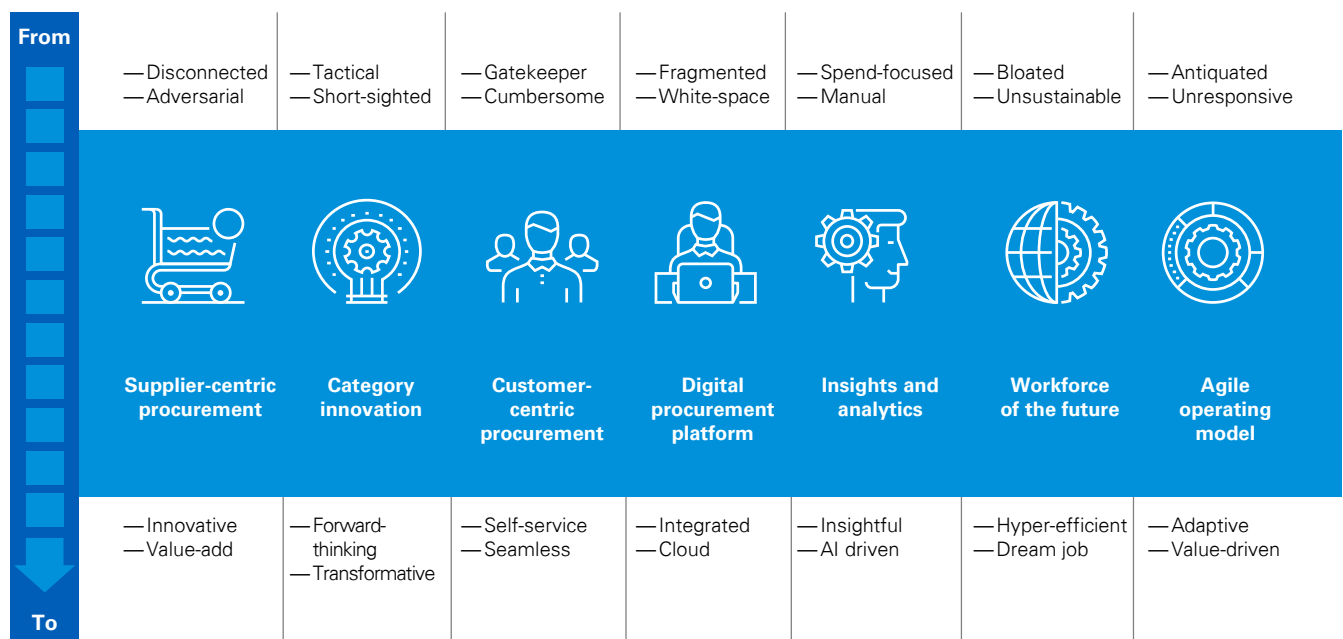


How should CPOs respond?

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

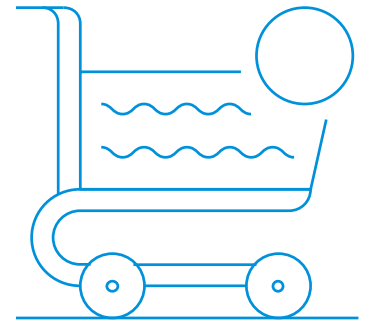
The CPO agenda for the future of procurement

Leading procurement organizations are developing an agenda to deal with disruption



Supplier-centric procurement

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



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

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

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

01

Extreme integration

- Visibility through deep interconnection of systems and data
 - Supplier-managed storefronts and content
-

02

Supplier innovation

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

03

Optimized performance

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

04

Perfect compliance

- Automation of transaction, contract, and regulatory compliance
- Predictive compliance management, leveraging community data

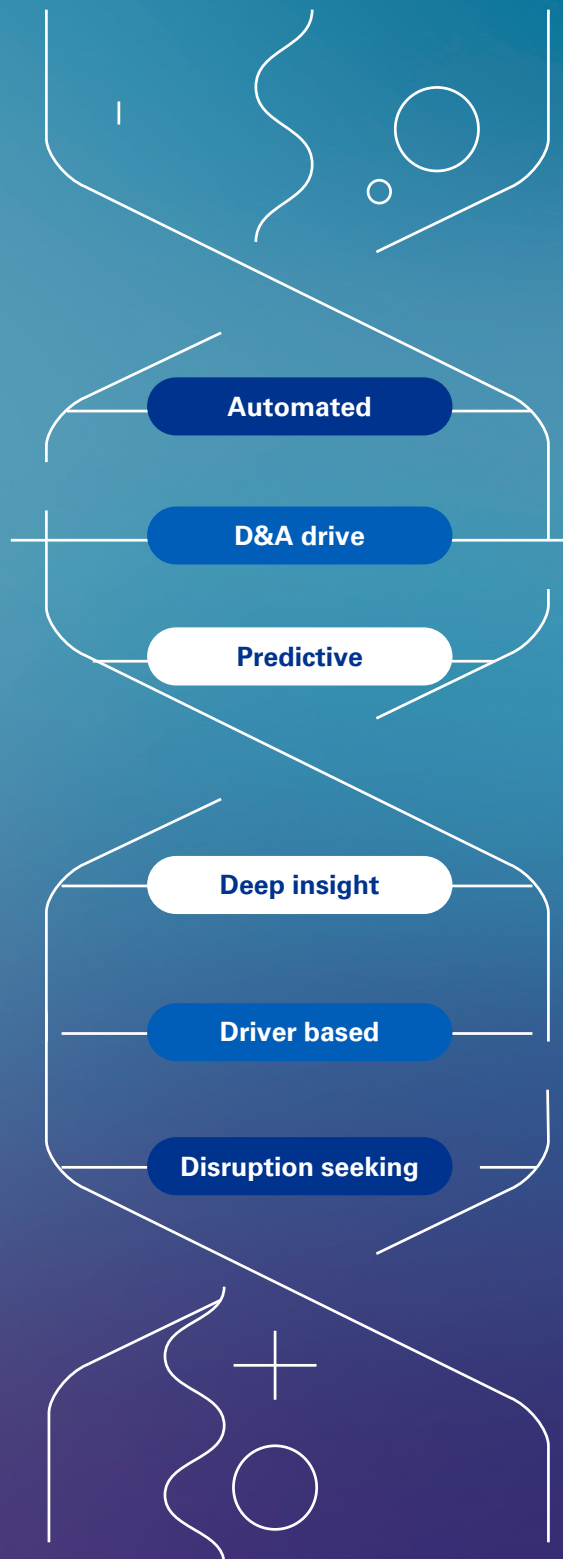
Category innovation

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

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

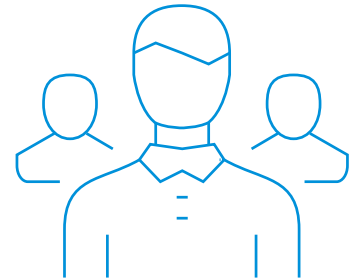
Category innovation is needed to unlock untapped value through:

- **Automation** of tactical activities
- **Data and analytics** to develop and support strategies, inform decisions, and drive action
- **Predictive AI** to forecast changes and monitor leading indicators
- **Deep insights** which provide supply market knowledge into business strategies
- **Driver-based** category demand and costs which link to business activities
- **Disruption-seeking** approach for step-change performance improvement and supplier engagement



Customer-centric procurement

How would your internal customers rate their experience with procurement? If yours is like most, it's not even a three star rating; procurement is blamed for having outdated non-integrated technology, hard to understand policies and procedures, limited insights on purchases being made, and overall contributing to frustration versus alleviating it.



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

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

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

- Being a key contributor in the business-planning process
- Driving spend behavior using key insights into spend data, supplier relationships, and risks
- Acting as a broker to products, skills, and sources of innovation to solve the business's problems
- Being responsible for long-term decisions that benefit the business, its customers, the environment, and society
- Instilling a human-centered approach to solving problems and measuring true customer satisfaction
- Focusing on reducing the cost of change and adapting more quickly—investing in digital technologies
- Monitoring market trends and assessing potential impacts to procurement in order to foster a culture of innovation
- Driving spend behavior proactively by making the right data available at the right time and investing in AI

Digital procurement platform

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



Technology will serve as the link between data and automation to enable integrated processes and create meaningful insights that will enable procurement to make better, well-informed decisions and guide the business.

In the procurement function of the future, intelligent assistants will support everyday activities, key data points will be used to enrich discussions and negotiations, and information will be available in real-time.

The digital procurement platform will enable modernization through:

Extreme automation

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

Extreme integration

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

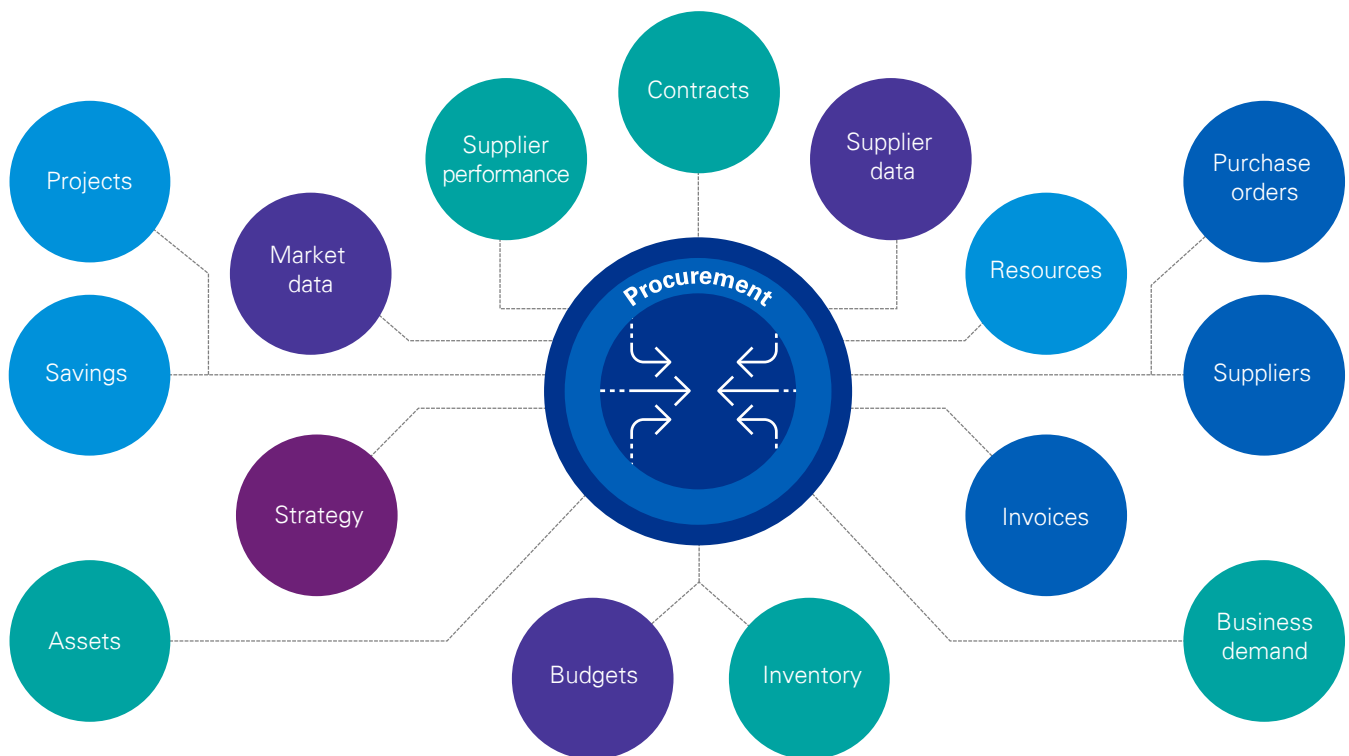
Value-added services

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

AI everywhere

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

Insights and analytics



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

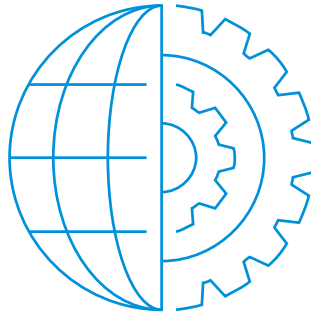
- Descriptive to predictive
- Did-cost to should-cost modeling
- Auditing to proactive compliance monitoring to mistake proofing
- Reactive sourcing to automated sourcing and bid evaluation

Category managers will utilize on-demand category insights and real-time supplier risk segmentation based on internal and external (social media, news feeds, etc.) intelligence will be employed. Further, embedding of subscription services will help drive data accuracy and richness.

Workforce of the future

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

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



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

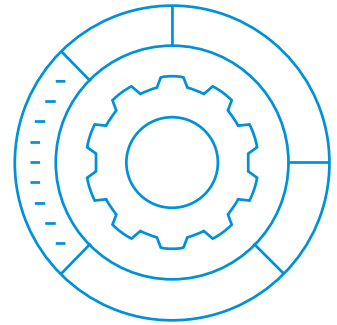
Procurement, like most other functions, is dealing with future workforce challenges and needs, including:

- Millennial workforce replacing the institutional knowledge of retirees and desiring a different “employee experience”
- Digital transformation eliminating the work of the transactional and tactical procurement workforce
- Contingent labor required to support highly skilled analytical positions
- Training programs to accommodate future skills and different learning environments
- Relationship management—both internal and external
- Analytical modeling capability and the need for the “citizen data scientist”
- Cross-functional expertise, improved business acumen, and negotiation readiness
- “Bot managers” who manage virtual AI teams

Agile operating model

Every organization and function knows that the future requires different and flexible operating models to keep pace with the Changing landscape.

Technology disruptors will naturally drive the automation of low-value tasks, moving the workforce to higher value activities such as category innovation. However, even these higher-value activities will require a high degree of cross-skilling to allow the workforce to flex based on current priorities. In other words, having category managers managing one category in an endless loop will become rare. Rather, implementing flexible models may include the ramp up and ramp down of specialist resources, who take advantage of external insights and will help to execute more with less.



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

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

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

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

Culture—behaviors within the organization; more proactive focus on defining the right culture needed to support the procurement strategy and sustain long term value

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

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

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

Where to go from here?

It's no longer business as usual for procurement. The scale and speed of transformation required to address the mix of disruptors impacting procurement is unprecedented. The key to success is to proactively develop a blueprint for how your procurement organization can turn these disruptors into opportunity for competitive advantage and growth. This is what the future requires of procurement, and this is where it starts. Contact us today to learn how we can help.

Questions to consider:

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

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