Navigating the next generation of procurement

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Executive Summary

Following the Global Procurement Survey, which surveyed 400 C-Suite and SVP/VP executives within the procurement and outsourcing space we look to analyses the findings with our Senior Associate, John Dickson.

Many procurement executives saw 2023 as a critical year for their function. On one hand, they saw a growing set of risks and challenges, many of which are unfamiliar. On the other hand, changes in the market and advances in technology promise a wide range of unprecedented opportunities.

On the risk side, concerns continued to grow and pain points intensify. Many executives complained that they must still cope with limited data and insights, outdated systems, weak stakeholder collaboration and lack of integration with the wider supply chain. Externally, they worried about inflation, rising commodity prices, disruption, and an uncertain demand. Taxes have been a major concern, as well, though executives are divided about which ones: 29 per cent focus on import duties and customers, 23 percent on value-added taxes and 19 percent on sales and use taxes.

Fortunately, not every aspect of procurement is a work in progress. Survey respondents generally agree that their teams have a good handle on regulatory compliance, operations, strategic sourcing and value generation. Executives rated regulatory capabilities as their most mature capability (95 percent), followed by procurement operations (93 percent), which reflects the years of work that most procurement teams have put in to improve their performance.

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John Dickson has had a 40 year career in Procurement and Supply chain. He has held senior and Chief Procurement Officer (CPO) roles at some of the UK's largest businesses including Astra Zeneca, GSK, Rolls Royce (Aerospace), Diageo, Heinz and BP. John is now a Senior Associate at KPMG bringing his insight and expertise to help KPMG clients transform their Procurement functions.

Navigating the next generation of procurement

In an uncertain global environment, how can procurement enhance its credibility and redefine the future of the function?

As the procurement function evolves and the management of third-party spend becomes ever more complex, the traditional C-suite perception that procurement exists only for cost reduction, cash generation through improved payment terms, and improving source-to-pay experiences for the business, is increasingly flawed.

New procurement technologies and systems are enabling the procurement function to become a more integrated, strategic influencer within an organisation. But truly optimising the potential of procurement to evolve beyond its current state will require a fundamental reset of the way the function sees and presents itself to the business, redefining its purpose and articulating a new, next generation design of procurement.

In today's environment of global geopolitical uncertainty, supply chain pressures, increasing ESG priorities and volatile costs, there is an unrivalled opportunity to position procurement as one of the key functional influencers on company performance; not only as a driver of revenues and profits, but as a key element of a successful growth strategy.

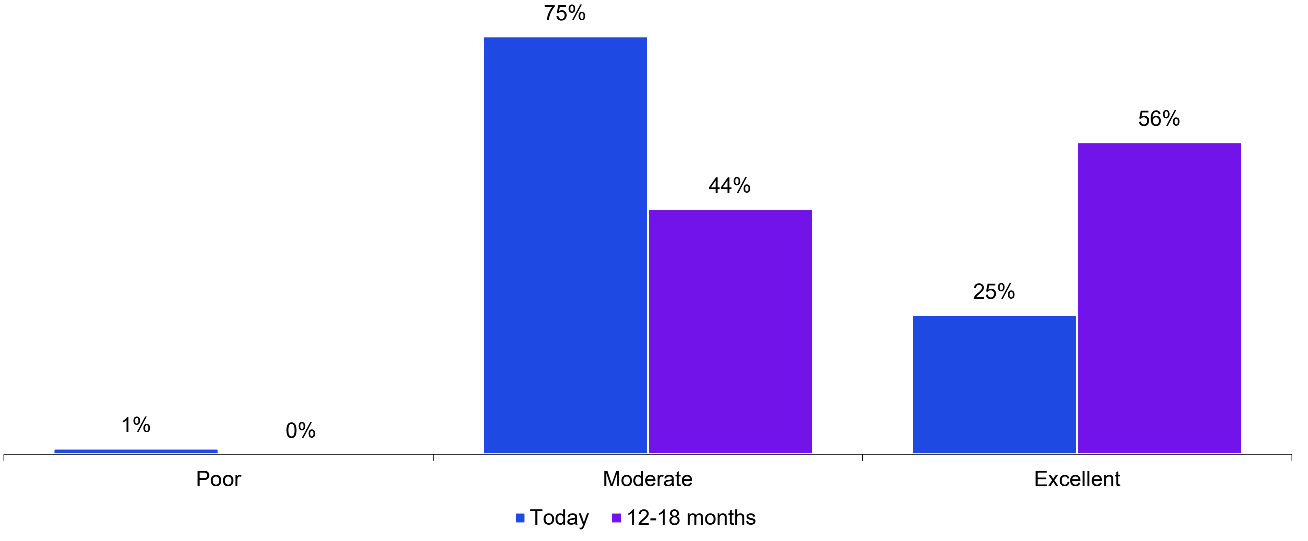
Very few organisations are capitalising on this opportunity to redefine procurement, however. Indeed, in KPMG's 2023 Global Procurement Survey, 75% of respondents believed the procurement function would only be rated 'moderate' by the stakeholders it serves within the business.

Although survey respondents expect the 'moderate' rating to decline to 44% over the next 12-18 months, there needs to be a much greater sense of urgency to shift the perception of all stakeholders from 'moderate' to 'excellent'.

How procurement believes stakeholders would rate procurements services

How procurement believes stakeholders would rate procurement's service

Procurement optimisation initiatives



Understanding the central role of procurement will be important to achieve this shift in perception. It is accepted that many of the traditional building blocks of procurement strategy and operations will need to be reconsidered and repositioned in the context of the challenges facing the broader business. But our survey suggests that meaningful change is still not happening fast enough.

What got us here may not deliver our aspirations

Over the last four decades, the corporate procurement function has evolved enormously. The expansion of institutes and standards such as the Chartered Institute of Procurement and Supply (CIPS) and Certified Professional in Supply Management (CPSM) have helped move procurement from an expediting, firefighting process-focused function, to a more purpose driven, strategically-positioned function that provides meaningful career paths.

The evolution of the technology landscape has been equally significant, as companies seek to provide 'fit-for-purpose' solutions to further procurement's pursuit of recognition, credibility and value.

The shift now, though, is for solutions to move beyond fit-for-purpose to provide innovative, new answers to questions not yet asked. Again, the KPMG survey points to one of procurement's challenges internally, with half of respondents believing their systems are outdated and 54% believing the data and insights flowing from current systems are 'limited'.

This perceived weakness doesn't appear to be through a lack of investment. Asked the degree to which technology has been integrated into the sourcing process, respondents point to some powerful investment focus areas: spend analytics (90%), e-sourcing (83%), market intelligence (79%), and SRM software (76%).

Adapting to ESG

The rise of environment, social and governance (ESG) factors in analysing business performance adds a new layer of complexity to the procurement function, not least in the environmental space, because for many businesses, a large proportion of their greenhouse gas emissions sit in the external supply chain.

This additional dimension to supplier relationships is a huge challenge, particularly in the manufacturing sector. Relationships between suppliers and customers will need to be rebalanced in line with ESG priorities, while protecting margins and maintaining security of supply.

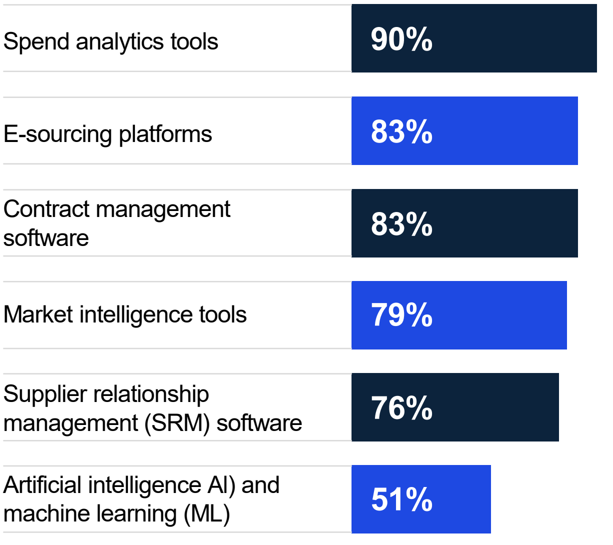
Given procurement's central role in managing the supply chain, it is surprising to see sustainable supply chain capability rated as mature by only 24% of respondents in the KPMG survey, while 23% rated third party risk management capability as mature.

However, the cutting edge technology of AI and machine learning (ML) was cited by only 51% of respondents. Does the relatively low score for AI and ML suggest a lack of understanding, skills or capability related to the use of AI and ML in procurement?

Part of the function's evolution has been establishing category management as the cornerstone of procurement's desire to be recognised as a credible, strategic function and provide a vehicle to engage with internal stakeholders. Having a consistent process of rational steps helped align procurement to the business and articulate the best commercial approach to meet stakeholder requirements.

Continuing to develop category management in procurement remains crucial to fulfilling the potential of procurement as a critical business function. But KPMG's survey illustrates there is still much work to do: only 41% of respondents believe they have a 'mature' category management capability, positioning it behind procurement operations (46%), regulatory compliance (49%) and strategic sourcing/value generation (51%).

Degree to which procurement organisations have integrated technologies into the sourcing process



These two elements are changing the landscape for organisations. Being predictive on risk while maintaining the agility to respond to unforeseen situations – and in the full glare of public scrutiny – must be a priority for the procurement function, and clearly articulated in a coherent organisational strategy. Plans need to be drawn up quickly and executed promptly to begin making a meaningful impact on the environment. Where specifications drive a sourcing decision to a sub-optimal choice of supplier, procurement must challenge to avoid exacerbating the environmental challenge faced by all.

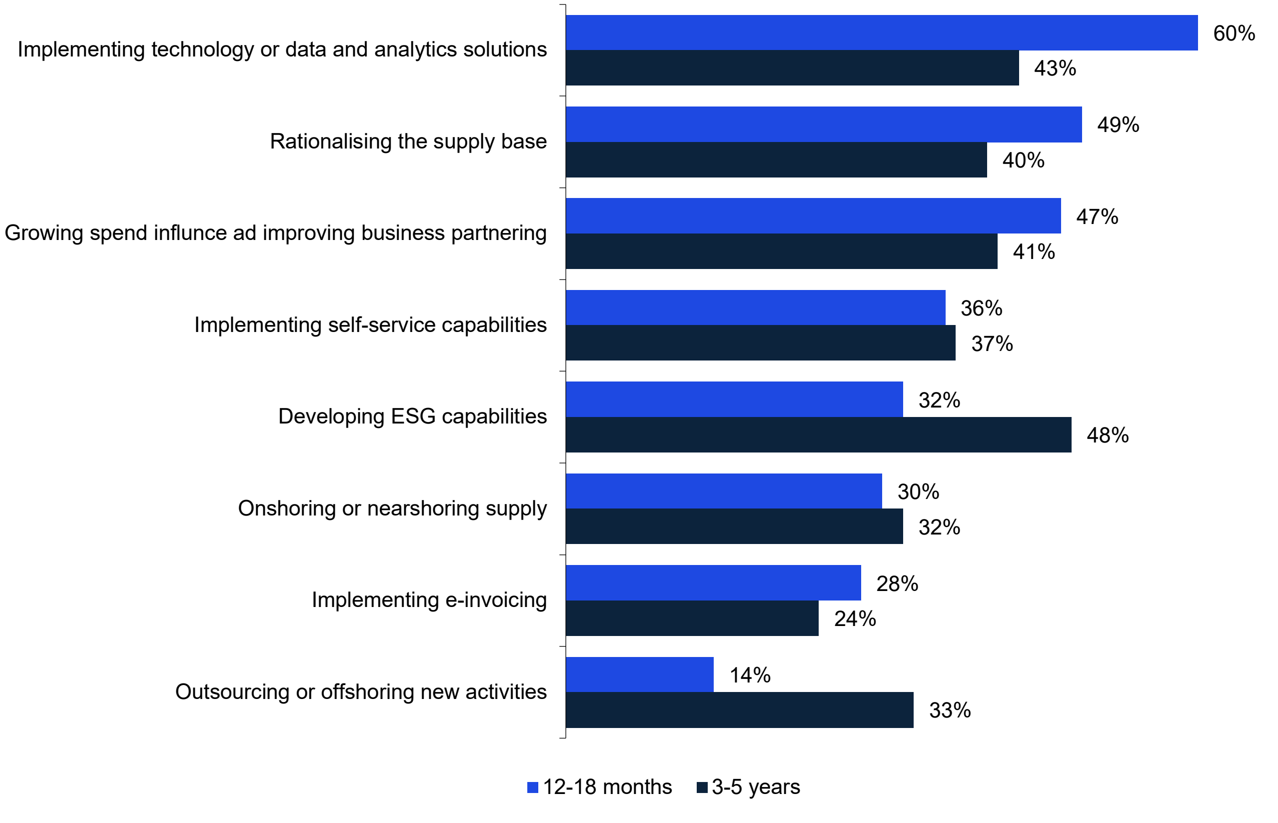
Unless the function seizes the opportunity to take a lead on ESG, solutions will be developed that take away any real accountability from procurement, and its opportunity to become a motivating influence behind the organisation's future direction will be severely diminished.

What should the next generation of procurement look like?

Procurement is like the proverbial iceberg: the 10% the business sees above the waterline is cost savings and cash generation (working capital). The 90% below the waterline is where all those elements sit that support assurance of supply, quality, innovation and cost management.

Much of the KPMG survey points to a future focus on business-as-usual. There appeared to be a lack of clear strategies among respondents for moving the procurement function forward. Looking at activities over the next 12-18 months, implementing technology or data and analytics solutions (60%) and rationalizing the supply base (49%) were the highest ranked initiatives. When focussing on the greatest impact to procurement over the same period, generative AI (60%) and predictive analytics (70%) stood out, which suggests there is at least a realisation that these technologies will materially shift the operating landscape and need to be matured drastically if the function is to define its own destiny.

Activities that procurement is planning or likely to initiate



Of those surveyed, 81% of procurement leadership have a roadmap for the next 12 18 months, with 51% having a roadmap for a 3 5 year timeframe. The majority intend to focus on SRM capability, strategic sourcing/value generation, and improving analytics capability in the short term, with an increased focus on sustainability being an additional focus for the longer term. But in the context of the strategic concerns currently facing the C suite, will this shift the perception of the procurement function in the eyes of the business?

The need for significant investment into the procurement function is unquestionable, but it will be even harder to secure management buy in if the perception of credibility and value delivery is limited.

Eight strategies for next generation procurement

Based on KPMG's insights from the procurement survey, and its deep expertise and long experience in the sector, we have identified **eight key strategies** that could help procurement leaders craft a business case which provides a strong economic return, enhances credibility within the business and helps to position procurement as a critical driver of future business success.

01

Be truly business centric: Putting the customer at the heart of everything you do is a tried and tested business strategy. Procurement needs to do the same with their customer – the internal stakeholder. Construct your organisations around people who are highly proficient at engaging with the stakeholder to talk their language and establish a relationship that is mutually respectful and beneficial. Go beyond platitudes of "we partner with our business"; demonstrate it through the way you engage with the business. Employ people from within the business so they can talk the language of the internal customer. Convert chemists to procurement professionals, not the other way round. Build a structured approach to ensure the right blend exists in the function.

02

Develop a strong value proposition: If your value proposition is over 18 months old, rip it up and start again. The world is a very different place now than it was even a year-and-a-half ago. If the procurement function is to shake off its perception of being limited in its delivery and credibility, it needs a refresh of its strategy to reflect the complexity of the challenges the business faces, while raising awareness of the value that a high performing procurement function can add. This should include sustainability and risk management across the value chain. Sustainability should not be seen as a short-term competitive advantage as there is much more collaborative work required with peers as well as suppliers, but it will be a competitive disadvantage if progress is not made with a sense of urgency and purpose. Customers and employees are becoming much more discerning in their preferences and are increasingly influenced by an organisation's approach to sustainability. Managing risk to protect assurance of supply is likely to remain an ongoing challenge. Contract clauses will not always protect a company from supply disruption, especially with the rise of *force majeure* defences. The enhanced value of procurement will be measured through predictive techniques in supply assurance, with a premium on risk identification, anticipation, mitigation and preparedness, as well as strength of response.

03

Build the right organisational structure. Construct the procurement function around a centre-led, wholly-owned model focused on four key elements:

Customer intimacy

Assign capable resources to engage, collaborate and identify customer needs, with an emphasis on differentiating between business as usual sourcing requirements, critical/strategically complex sourcing, and innovative scouting for future solutions.

Knowledge laboratory

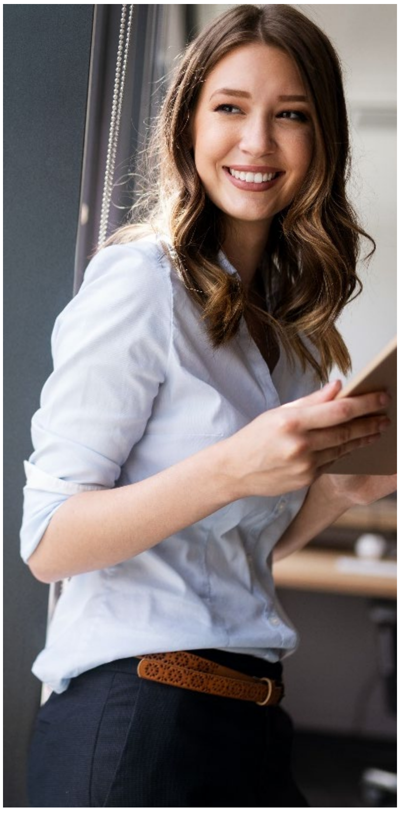
This should be the think tank of the team, focussed on those categories that have a material impact on the business now and into the future. It is the backbone of solution identification for more complex and critical requirements or for solutions yet to be identified, based on deep forensic insights into complex spend areas. It includes the category management strategy for select spend groups, market intelligence, predictive spend analytics, commodity spend tracking, and cost modelling.

Execution engine

This is the delivery vehicle for engaging with the external market. Responsible for all source to contract lifecycles generated from the customer intimacy team (straightforward sourcing) or the knowledge laboratory (more complex requirements).

04

Operational excellence: responsible for oversight of procurement strategy, prioritisation and performance monitoring, as well as governance and compliance reporting, resource management and budgetary management of the procurement function.



05

Understand the technology landscape: Be bold and visionary on things that will truly move the function forward, driving both functionality and business need. Understanding what you are trying to solve is vital, although a strong business case will be needed to secure investment from the business, as multiple departments navigate their own digital transformations. Assess the full portfolio of technology across the procurement landscape and prioritise those areas that will make the biggest impact on the business. These may include areas like spend cube analytics, source-to-contract, purchase-to-pay and vendor master data, but the ability to identify innovative uses of technology to meet stakeholder needs will be a differentiator. Market intelligence, true should-cost modelling, commodity market analysis tools, predictive (not static) analytics, supplier risk management tools with adaptive scenario planning should all be under consideration. Given the scale and complexity of the procurement technology market, it is important to select the right solution, especially in justifying the case for investment.

06

Invest in the right people: Broad business acumen and technologically savvy should be key characteristics of next generation procurement professionals; people who understand and talk the language of the business and can add value beyond the narrow confines of historic perceptions of procurement. The blend of experience and capability required is unlikely to be found in people who have worked only in procurement throughout their career. Recruiting people into the function from other areas of the business will be key, including people with the technological insights to understand and articulate what new technology can bring to procurement. Proficiency and literacy in this space will be critical if the function is to survive the digital revolution.

07

Dive into the data and analytics: The quality of your data will be a true differentiator. Whether it is supplier insights, spend analytics, sourcing strategies, or market assessments, the time is fast approaching where the excuse of poor data quality restricting procurement's ability to be quick, agile and predictive in its analysis will no longer be valid. There are major advances in solutions that leverage AI and ML across all aspects of procurement data, along with external data management specialists who can help to verify, standardise and centralise data. Driving consistent insights based on proprietary data, and leveraging the right technology, will be crucial.

08

Enhance category management: Although no longer the cornerstone of the function it once was, a focused and transformative approach to category management is still important if procurement is to build a strategic and critically important role in an organisation. With more resources being deployed to business interaction, the use of category management to craft strategies needs to become more selective. Total coverage of the Kraljic Matrix is no longer a priority and developing one is usually an inefficient use of resources. Instead, target strategy creation towards those categories that define the future of the company, either through driving value or protecting corporate assets and brands. Straight through sourcing, outsourcing lesser important categories of spend should be considered. Limiting the volume of strategies enables deeper engagement with internal stakeholders and paves the way for a more transformative and innovative approach to solutions for the business.

From strategy to action

Putting these strategies into practice and transforming the procurement function will be a substantial change for many. But failure to make the transition will see procurement increasingly lose influence and credibility. The business case for change of this magnitude will need to be carefully constructed and supported by someone who has influence around the C-suite table. Get the best and brightest resources on the planning team and dedicate time for that team to build the next generation procurement solution. Engage openly and meaningfully with all stakeholders, sceptics as well as advocates. Use it as an education process, to articulate the meaning and value of procurement and elicit different views on how procurement should be interacting and supporting the organisation on an equal footing.

Bear in mind many people's perspective on the procurement function is borne out of their personal experiences of buying goods and services. It will require patience and persistence to raise awareness of the differences between buying for oneself and procuring goods and service for an organisation.

Facing the future

Despite huge strides made by procurement over the last 30 years, there remains a significant gap between how the function perceives itself, and how it is perceived with the business, where, as our survey highlights, it is often seen as bureaucratic, slow and limited in the value it brings to the bottom line.

In today's environment of uncertainty and volatility on the one hand, and digital innovation on the other, however, there is a unique opportunity for the function to challenge this traditional perception and become a proactive problem-solver, seeking new and innovative solutions in collaboration with internal and external partners.

Navigating the procurement technology landscape may seem daunting, but those who are focussed, selective and determined to deliver a step change in stakeholder delivery will be more successful than those who merely stick to business-as-usual procurement processes and systems. Looking at the breadth and depth of the complexities and challenges faced by businesses today and for the foreseeable future, offers procurement the chance to rewrite perceptions, receive the recognition it merits and stand strong as equal partners within organisations.

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