

Charting the course  
Why procurement must  
transform itself by 2020







## The Fighting Temeraire, Joseph Turner, 1839

Source: The National Gallery, London, UK

Procurement in 2020 will look very different than it does today. This future world will alter existing assumptions and introduce emerging hazards. It will require additional skills, knowledge and tools to address entirely new challenges while solving current ones more creatively. And it will likely change the very core of how companies look at procurement as an organizational function and an overall company competence.

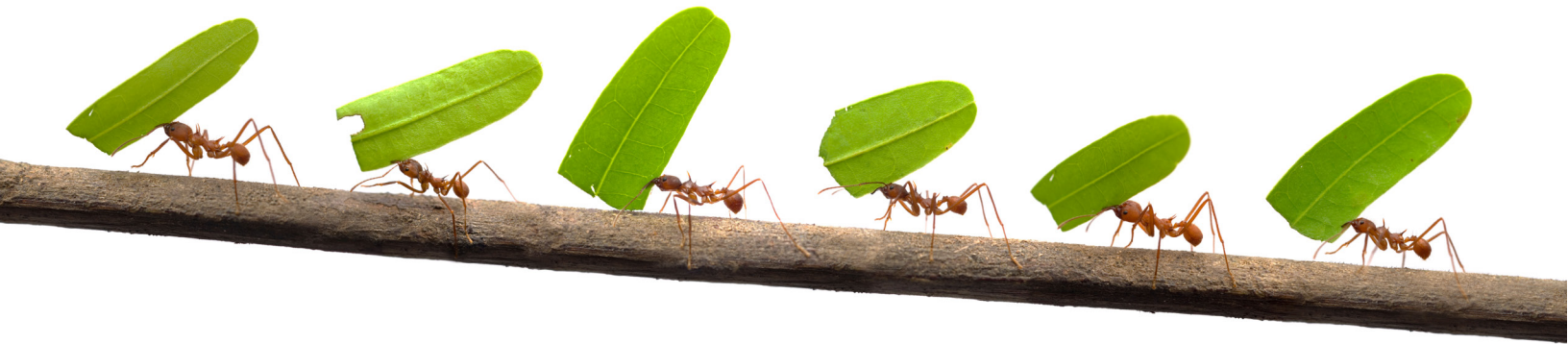
Procurement organizations experienced the first steps on this journey in recent years, but in the decade ahead there will likely be a dramatic shift that will be eye-opening by comparison. In 2020, new capabilities and competencies will likely be mandatory. Organizations that fail to embrace new procurement models may fall further and further behind the competition, jeopardizing overall competitiveness and viability.

History has much to teach us about periods of accelerated change — in business and beyond. The painter Joseph Turner captured a fundamental technology shift from sail to steam propulsion in the famous painting, *The Fighting Temeraire*. The ships in Turner's painting are most notable for what they signal about a radical future — the modern tug stands in the foreground of the sail-powered warship, which went from being the epitome of naval superpower to a relic almost overnight.

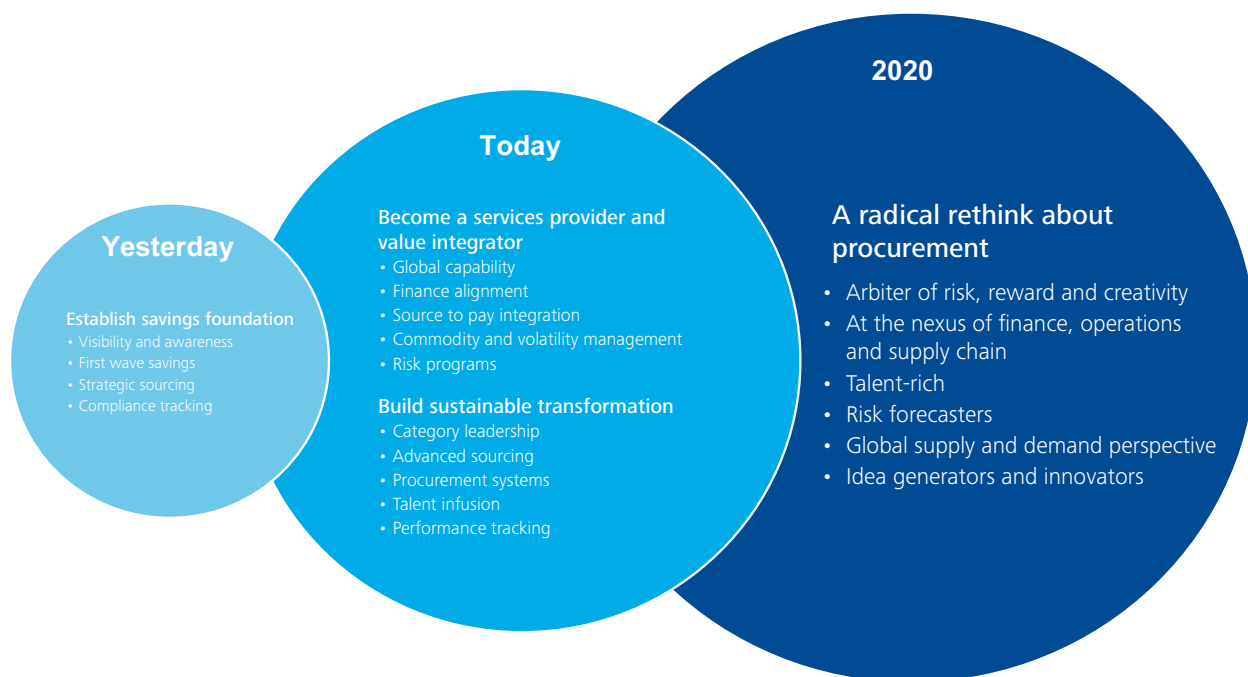
The tug in the painting represents a future that speedily ushered in new technologies, rendering a massive and battle-tested ship irrelevant on the high seas. The fate of the old ship represents the potential future of the seemingly high-performing procurement organizations of today that could be outmoded and outgunned in a matter of years.

Yet, even during periods of radical and rapid change, fundamentals always matter. The battles procurement will fight in 2020 will build upon the training and experience of today. In preparing for this new world, current procurement improvement programs can help build foundational capabilities, from category management to stakeholder engagement to leadership development.

However, mastering the fundamentals will just be a starting point for success in 2020. If we stop with traditional programs alone, procurement will go the way of the old wooden battleship, outfitted to fight wars that no longer exist. That is why we must stop thinking about procurement evolution as linear steps towards an ideal future state and start preparing to build a whole new set of capabilities.



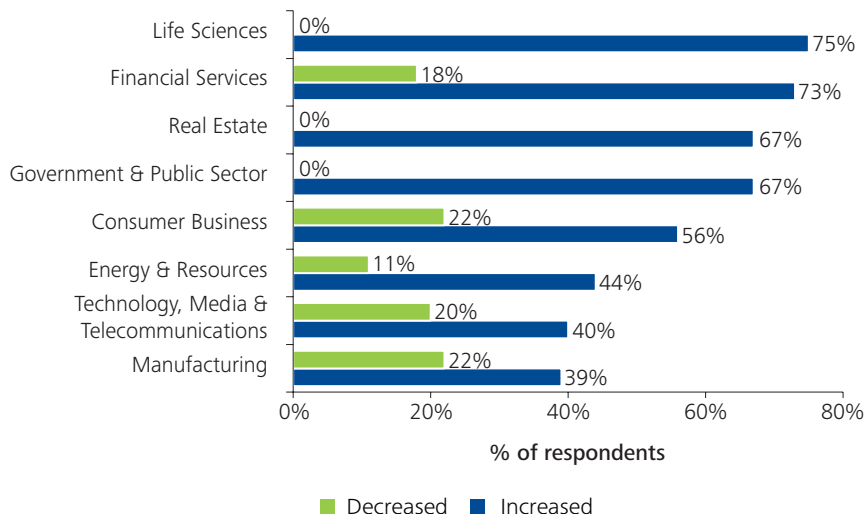
# Existing procurement maturity models may no longer apply in 2020



## Inputs to a changing procurement universe

The first step in the journey to 2020 will be to fully understand how the procurement landscape is shifting around us, often more radically and quickly than we might first imagine. Even in the past year, procurement leadership uncertainty has increased across sectors at a rapid pace. A Deloitte perspective from the Chief Procurement Officers (CPOs) of today shows the growing uncertainty they face, cross industry.

Chief Procurement Officer uncertainty by sector



Source: The Deloitte CPO Survey "The opportunities and challenges of increasing uncertainty", 2012

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Uncertainty has become the only certainty common across procurement leaders, and we expect the level of uncertainty to only increase. Consider the overall changing business climate, including new industry dynamics (such as a return to re-shoring and supply chain localization) taking place at an incredibly rapid rate. What's more, this change is occurring across a backdrop of continued volatility across the supply chain impacting nearly all industries — commodity prices swings and currency shifts are unprecedented in many markets. On top of this are the opportunities and dangers in a complicated global regulatory and tax environment.

Procurement in 2020 will also likely encounter expanding risks and extended supply chains. The locations of suppliers for both physical and virtual goods and services as well as the geographic location of internal procurement staff and facilities may have growing and significant total cost and risk implications. Today, when it comes to managing supply chains on a localized basis (e.g., Southeast Asia), such activity is pressuring organizations, even those that are less resource constrained than most. Tomorrow may

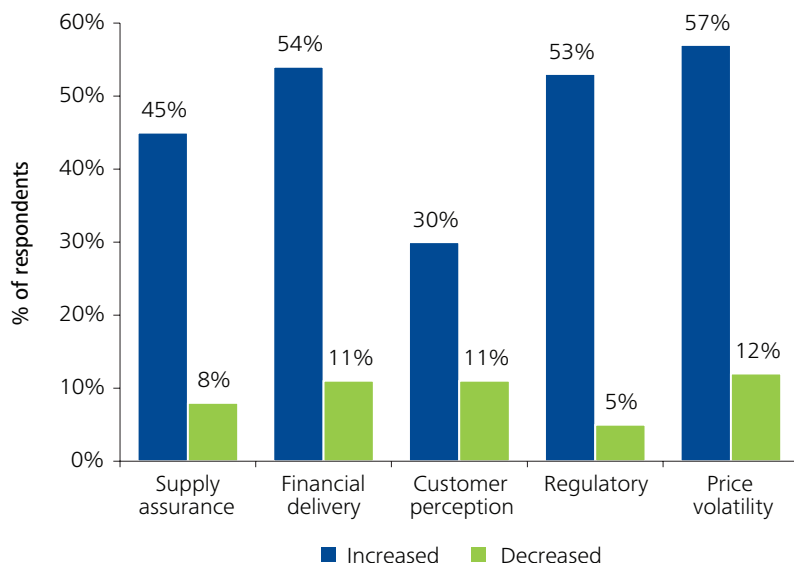
bring the need to do this in real-time to predict and forecast outcomes, factoring into account a range of cost, compliance, transfer price, credit (tax) and related inputs.

Procurement executives also agree that supply risk factors are increasing year over year – some quite dramatically (see chart below from Deloitte's recent CPO Survey). These include not only supplier financial stability and price/margin risk, but also overall supply assurance, customer perceptions and regulatory concerns.

Given these converging risk elements as well as organizational expectations and requirements, conventional procurement is fighting a multi-front war, balancing near-term cost management with longer-term and more strategic opportunities.

In response, leading procurement organizations of today are unfurling advanced capabilities, such as leveraging suppliers as important sources for innovation, employing advanced commodity management tactics and focusing on currency and foreign exchange in partnership with treasury teams to give but a few examples.

**Procurement risks (year over year)**



Source: Deloitte CPO Survey, June 2012



# External forces impact on procurement today and in 2020

Between today and 2020, the procurement function will need to respond to external forces across a number of dimensions.

External forces	Today	Projections for 2020
<b>Corporate strategy</b>	Focused on bottom-line results and minimization of targeted risks (i.e., supply continuity)	Ability to target and flex to support specific initiatives (top and bottom line), including driving overall business innovation, supporting market penetration, and tapping supplier experience and creativity
<b>Financial metrics/ bottom line value</b>	Aligning finance/procurement metrics an increasing focus, but majority of organizations are not aligned on how to measure financial impact, financial performance and true bottom line impact of activities	Financial metrics are procurement measurement metrics; all KPIs tied to EBITDA, ROIC, etc. and mapped to all initiatives; metrics extend and link with sell-side such as balance of trade and two-way margin management to enhance partner relations
<b>Global supply</b>	Reactive efforts driven by business strategy (e.g., enter new markets, reduce costs, access available global supply, etc.); reports are often "after the fact" predictive, sensing or ad-hoc	One market, one world — global supply is supply, to support in-country, regional and global efforts for the business
<b>M&amp;A</b>	Cost reduction synergy a criteria for deal evaluation and a focus of post-merger integration	Procurement seen as a reason to do M&A, not just to realize synergies; acquired supply chains seen as a strategic asset (or liability); deep involvement in all aspects of transactions, from M&A due-diligence to divestitures and carve-outs
<b>Customers</b>	Customer interaction driven by compulsory requirements (e.g., traceability, reporting)	Procurement an integral part of sales efforts (B2B) and sales/marketing (B2C); tight buy/sell linkages with global supply including end-to-end visibility/traceability as a sales advantage; suppliers provide predictive regulatory and enforcement insight to customers
<b>Trade and operating model</b>	Variable connections with finance to mitigate commodity risk; often ad-hoc efforts	Commodity expertise and management as integral to the business as treasury, AP, etc. Currency and foreign exchange tied to broader risk and commodity management to manage exposure and trade risk/reward
<b>Regulatory</b>	Compliance efforts reactive, managed in silos and without leverage (teams, systems)	Core, global information management and analytics systems centrally support global compliance for such areas as anti-money laundering, Foreign Corrupt Practices Act, Sunshine Act, Anti-Bribery Act and Conflict Minerals
<b>Outsourcing/offshoring</b>	Limited procurement involvement in strategic decisions outside of sourcing, vendor management, etc.	Procurement as the overall shared service support outsourcing/offshoring decisions and management at all levels

We see a confluence of activity suggesting that companies must expand their engagement model and playing field for procurement. Today, this includes an expectation for multi-tier engagement rather than just immediate first tier suppliers for regional compliance-related initiatives. In 2020, such multi-level programs will likely expand to broader risk, sourcing and working capital management strategies (including supply chain finance and accounts payable) to drive not just procurement-led savings and compliance but also company-changing strategies.

In rising to this challenge, we expect companies to supplement internal efforts with reliance on external expertise and capabilities to drive enhanced market intelligence and analytics, especially in non-core areas. Procurement will also need to build a new level of trust and transparency within the broader business to empower innovation and the ability to successfully manage internal and third-party relationships.

New sources of information will abound in 2020, causing data overload for some and intelligent supply chain nirvana for others. Across categories and supply chains, available datasets for input and analysis will increase by an order of magnitude. Organizations that don't have competency in managing information and intelligence today may fall increasingly further behind tomorrow, creating gaps that will become tougher and tougher to close.

**Start right — But don't scuttle the ship just yet!**

For a new procurement function to thrive in 2020, a near revolution will likely have to occur. Many of today's fundamentals will stand in the decades to come: category sourcing, baseline procurement systems, human resources management, purchasing performance, and knowledge management. But the purchasing organization of 2020 will need more.

Procurement will likely need a new operating approach to optimize localization (i.e., regional enablement) and global support. Decisions around centralization and execution may vary between organizations, but the need to define functional and organizational structure will always remain as part of overall processes, category sourcing, leadership, and execution roles — just as it is today. Such a structure not only enables procurement to support internal customers (and their needs) at more defined and localized levels, but also to enable insight and action to adjust for balance of trade questions that might arise with customers.

For example, on a localized basis, a procurement organization might opt to support global marketing with a shared, data-driven infrastructure that supports a macro-view of activities all the way down to hyper-local planning. Such a structure would enable a global marketing organization and agencies of record (and local teams and local agencies supporting execution) to collaborate on improving measured outcomes across all media planning. But the same company might take a hybrid approach for direct materials categories, such as metal stampings, by centralizing vendor management data collection in support of in-country procurement teams (including supplier quality and development resources).

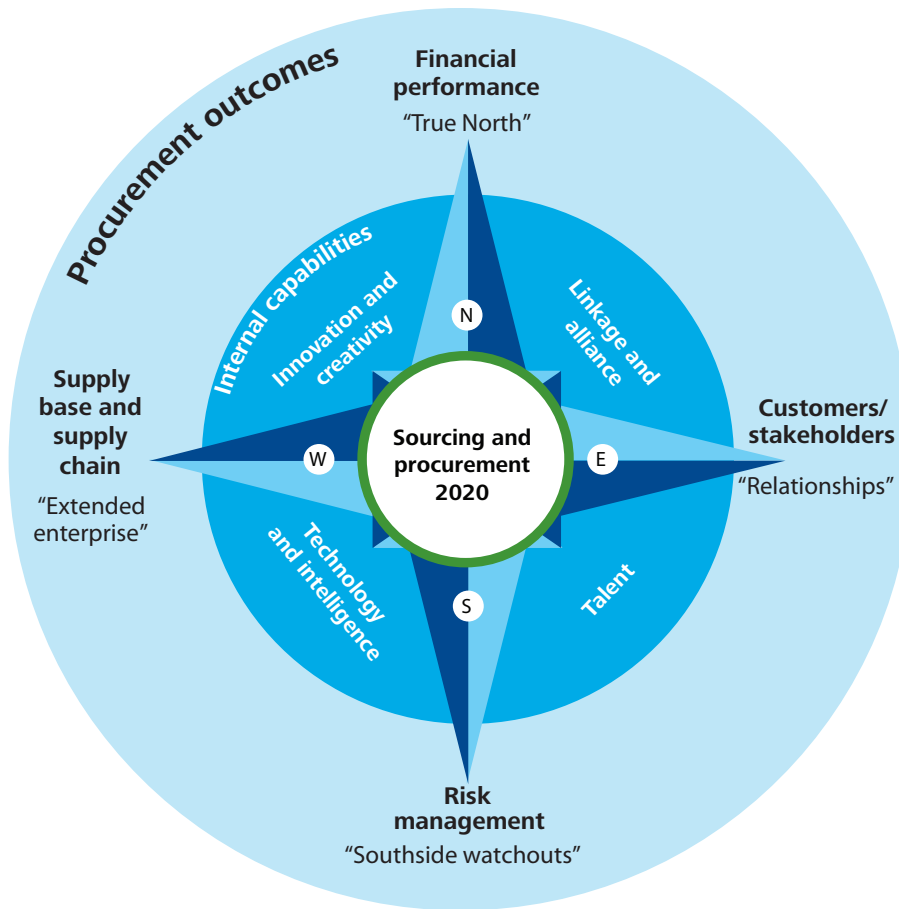
As with traditional transformation efforts, leadership and stakeholder engagement will remain essential, but with a new, finance-centric orientation (explored later in this analysis). Procurement will still need to engage other business owners, ranging from those responsible for P&Ls to functional roles including legal, IT, HR, marketing, engineering/design, customer service/support, supply chain and manufacturing, etc. And it will also need to more successfully enlist change management tactics and lessons both within the function, with finance partners, and across the business.

In addition, who “works in procurement” will be different than “who does procurement,” a critical nuance. At the extreme, 50% or more of the function could be comprised of those carrying out procurement responsibilities as part of a rotating assignment. Innovation, automation, compliance and value capture approaches including systems that report on performance will also remain, as will collaboration, benchmarking, measurement, and reporting processes and tools. But given the expanding definition and scope of procurement, these elements will grow to encompass additional areas, such as embedding previously internally-focused environmental, health and safety (EHS) team members in continuous external supplier and supply chain auditing and vendor development activities.

To navigate this uncertain future, procurement leaders need a compass to help them chart their course and focus on delivering tangible outcomes. At the center of this compass is the future charter/commission of procurement — the guiding vision that sets the right course.



# Sourcing and procurement "True North": A framework for procurement success in 2020







## The compass — Charting the course

Procurement won't succeed "by luck" in 2020 — fortunes will be won and lost based on preparation and planning, including developing a cohesive charter and strategy for what the function must deliver tomorrow — not by what the function has done in the past. Procurement must prepare to support new global initiatives and emerging market growth. And it must develop a path to deliver sustainable and quantifiable returns.

One way to illustrate this path forward is with a compass that charts, at its four cardinal points, the outcomes that procurement should be ready to achieve in 2020. These points are Financial Performance and Risk Management (to the North and the South) and Supply Base and Supply Chain and Customer/Stakeholder connection (from the West to the East). These outcomes, and the axes on which they rest, are neither mutually exclusive nor disconnected from each other. The North/South axis represents risk and reward, and the West/East axis represents the traditional supply chain flow of goods and services from an extended supply base to customers.

# Procurement in 2020 — Leveraging advanced concepts today, exploring the possibilities for tomorrow

Procurement outcomes	Advancing expectations today	Procurement in 2020 — The possibilities
<b>Financial performance</b> 	<ul style="list-style-type: none"> <li>A broadening alignment of procurement metrics with shareholder metrics: EBITDA, OIBDA, RONA, ROIC, etc.</li> <li>An increasing focus on total cost management and a signing-off on baselines to measure returns and performance</li> <li>Analytics-informed reporting and decisions</li> </ul>	<ul style="list-style-type: none"> <li>Procurement gains a seat at the tactical financial strategy (e.g., M&amp;A, divestiture, JV, capital expenditure, etc.) table on equal footing with corporate development, sales, marketing, operations leadership, etc.</li> <li>Quarterly and annual reports reference procurement contribution to revenue, margin, innovation alongside sales, pipeline and related metrics (as frequently)</li> <li>The rest of the business and Investors' questions often center on procurement areas and CFOs must be versed in detailed procurement activities</li> </ul>
<b>Risk management</b> 	<ul style="list-style-type: none"> <li>Finance and procurement organizations are having early victories in the case of modeling and even predicting supplier financial risk and are starting to expand programs on a global basis</li> <li>Other types of risk factors, including reputational and customer risk, remain loosely connected to supplier risk management processes and programs, but largely go unmanaged by procurement</li> <li>The “every person is a reporter” phenomenon as a result of social media is just starting to make matters more difficult for procurement</li> </ul>	<ul style="list-style-type: none"> <li>Commodity risk management is integrally linked with category management and multi-tier visibility</li> <li>Supplier behavior, infractions and violations are procurement’s responsibility, especially globally, where local practices and regulations might be different than what is expected in other markets</li> <li>Social media is the primary source of negative exposure; examples include supplier non-compliance for specific manufacturing, factory safety or labor practices showing up on social media channels rather than a private supplier audit</li> </ul>
<b>Customers/stakeholders</b> 	<ul style="list-style-type: none"> <li>Procurement brought in as part of the customer service and support equation, often from a cost and margin-driven perspective</li> <li>Centers of excellence support regional (global) efforts on a research, category, commodity, regulatory, process and tools basis</li> <li>Local content and offset agreements in global markets are both formally stated on the national level (e.g., aerospace and defense in India, requiring local suppliers) and more open to interpretation in other markets (e.g., local supply agreements in China impacting different provinces and political relationships)</li> </ul>	<ul style="list-style-type: none"> <li>Procurement as part of core customer engagement with a focus on both top and bottom line value</li> <li>Global cultural awareness creates top-line competitiveness (e.g., faster innovation in regulated markets/sectors) as well as insights into opportunities ahead of the competition (e.g., raw materials arbitrage, hedged regional off-take agreements, etc.)</li> <li>An emphasis on contracting in regional markets expands beyond tier one suppliers as well as linking buy- and sell-side agreements to identify risk and opportunity; such actions can help guarantee continuity of supply in emerging regions where high logistical costs and delays are commonplace (e.g., Africa)</li> </ul>
<b>Supply base and supply chain</b> 	<ul style="list-style-type: none"> <li>Procurement stewardship with suppliers and internal finance, legal and operations teams lead to implemented compliance strategies with zero tolerance for non-compliance (e.g., conflict minerals, FCPA, anti-bribery act, etc.)</li> <li>Sourcing decisions (incorporating price and non-price variables), scenario-based optimization that quantifies the cost of business constraints (e.g., split of business to reduce risk, higher up-front capital investment to improve the overall NPV of a multi-year contract, etc.) combined with the hedging of raw materials is pushing the limits of sourcing, finance and stakeholder collaboration</li> </ul>	<ul style="list-style-type: none"> <li>Market leaders across all industries (not just retail/high-tech) set up supply chain standards for industries beyond/ in addition to regulatory bodies</li> <li>Sourcing and commodity management enter the “program trading” world of Wall Street</li> <li>Weekly sales and operations planning processes feed what we might call an automated “sourcing bot” with information based on market demand, specifications, geographies, locations, and working capital. Humans approve and systems act</li> </ul>

# Capability #1 — Innovation and creativity

In 2020, company leadership will likely look at procurement not as a group that focuses on sourcing raw materials, goods and services, but rather as one that sources ideas. Creativity will involve engaging stakeholders in new, innovative ways (not just delivering new capabilities to the business through external resources).

We already see creative procurement in more advanced organizations exploring alternative delivery models that balance shared services, group purchasing organizations (GPOs), and business process outsourcing (BPO) providers to manage total spend. This orientation as services provider — and services intermediary — will be responsible for delivering sourcing and procurement capabilities with a variety of operating models depending on the geography, supply market and volatility, and business requirements.

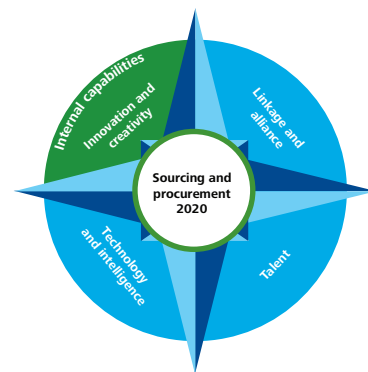
There is no doubt that creativity will never replace the need for close connection to leadership, yet the two are closely linked. Making procurement activities an outgrowth of executive interest and desire to create new value from purchasing rather than “selling” executives on each and every initiative is a key element of this two-way connection.

Efforts to reduce supplier costs through continuous development have become standard elements of transformation for more advanced procurement organizations. But impacting “make vs. buy” decisions and blurring the line by providing capital investment, technology and generalized IP investment with tier one suppliers and contract manufacturers is something that only a small subset of leaders are engaged in today. This will likely change in 2020 and become one key performance indicator for measuring creative procurement. For example, this could take the form of regularly sharing R&D resources and co-creating new intellectual property that ranges from radical shop-floor productivity improvements to new product innovation.

On many levels, “make vs. buy” influence is the ultimate test of procurement’s influence and capability because it relies on being the benchmark and market information clearinghouse, and therefore, the nexus point for all sides

of the company in joint decisions. Moreover, it involves looking beyond unit cost, asking questions like “how does a ‘buy’ impact the ultimate end customer?” Further, does this step transfer risk, or actually increase it for the business? Procurement can play a part in generating the right set of questions up-front as well as coming up with creative solutions on the back-end.

Consider how a procurement organization could thwart competitors from even taking a serious look at a potential vertically-integrated acquisition strategy because of covenants with previous supply contracts (rights of first refusal, early insight into a potential transaction, guaranteed supply contracts/associated off-take agreements, etc.) This is true creativity applied not only to supplier negotiation and engagement, but also to a broader game of supply chain chess, where procurement controls the pieces on the board.



# Capability #2 — Linkage and alliance



"Organizational alignment" has become an overused phrase in describing traditional procurement transformation goals. If we're to succeed in the world of procurement in 2020, true linkage and organizational alliances are imperative. These might take the form of joining finance and procurement with responsibility for metrics, numbers, controls and processes (including an extension of activity into accounts payable/invoicing, GRC, tax, treasury, etc.).

Future business linkages might also involve procurement having an embedded role in the brand management group within a CPG company taking the lead with marketable issues associated with supply chain traceability, supplier practices and global stewardship. For a company focused on B2B sales, linkage and alliance might take the shape of procurement working closely with account and sales organizations to help redefine the next generation of products and service levels based not just on the capabilities of the company but on the broader supply chain.

Linkage requires not just alignment but shared objectives and empathy. When it comes to building an alliance with CFOs, treasurers and controllers, procurement must not only be able to put itself in finance's shoes and embrace their objectives, but also go beyond the numbers. It must absolutely become *de rigueur* for finance and procurement to identify all general opportunities, savings, and cost and risk reduction opportunities together, not to mention tracking and implementing them. This is not a flexible partnership or a reporting relationship. It must be peer-to-peer.

As part of this linkage, procurement will need to work with finance more closely to truly become responsible for not just how spend is used, but how it impacts and meets the needs of the business. Such a transition will require a shift in mindset away from price (even on a total costs basis) to also consider consumption, delivery and quantity (i.e., questioning, measuring and suggesting "what is really needed" to achieve an outcome).

This alliance must build off of today's leading strategies. For example, a category manager should be assigned a financial analyst to help track and agree to savings approaches and commodity-level bookings — a leading practice today. But this analyst, working in tandem with category leads, will also suggest ways of reducing volatility and risk through hedging, treasury and related strategies that go beyond the norms of today. Such future activity might involve identifying counterparties for non-exchange traded hedging initiatives, leading the charge to identify longer-term off-take agreement opportunities with lower tier base/raw material suppliers and taking ownership of not just forecasting efforts, but being able to articulate when and how specific correlations may break down. In manufacturing, procurement teams may even seek to commoditize not just materials, but higher-tier labor and capacity as well, creating securitized (and even tradable) agreements for committed supplier activities (e.g., skilled labor hours or machine time).

Finance will also continue to play a key role, expanding the influence of sourcing and purchasing into areas where it is greatly needed such as professional services, capital equipment, facilities, healthcare, make/buy manufacturing decisions, etc. It will also go further in granting procurement new territory in 2020, for example, by involving sourcing in early-stage M&A due diligence and post-merger integration. Additionally, it will facilitate supplier financial and broader multi-tier risk management considerations such as capacity planning, commodity risk, geographic risk, geopolitical risk, environmental/labor risk, regulatory risk, and more.

Creativity and analytical horsepower will combine to influence the broader organization through new types of procurement-led initiatives to improve the business. For example, consider procurement's ability to blur the indirect and direct materials in a retail environment with a program that has a back office that buys office products at the same price as the front office — i.e., the retail storefront — using a combination of online catalogs and inventory management programs to create additional leverage for internal consumption.

Such an approach requires thinking outside of the standard procurement transformational box and a keen awareness of how the business operates. Procurement leadership in a manufacturing organization requires similar linkage and alliance. For example, procurement may collaborate with product engineering not just to rationalize specifications based on cost and available suppliers, but more broadly on risk, performance (e.g., reduced warranty claims) and even market changing dynamics, such as pursuing a supplier selection strategy that locks out competitors from key material and part suppliers lower down in the supply chain.

These are the types of solutions and processes that procurement needs to tap, or build, to find distinct advantages.

*To demonstrate the shifts that have occurred in procurement by 2020, we present three composite scenarios over the coming pages from illustrative future-state leading edge procurement functions. These are not mutually exclusive but designed to show profiles of success in these new environments.*



## Glimpses into the future

### What's possible in 2020: Finance and alignment linkage

Imagine an environment where sourcing and finance are inseparable. In 2015, a leading global manufacturing company implements a new type of complex sourcing decision model that enables finance and procurement with operational cost and risk metrics for procurement. As part of this effort, the organization weighs the cost/benefit trade-off of paying more for an alternative specification up-front that can deliver out-year savings and benefits. By 2016, these analyses are forming the basis of M&A strategy for this company as well, even taking shape during the due diligence phases of potential transactions.

At this organization, finance leadership and procurement linkage is not only about driving better sourcing savings to the bottom line. It's about rethinking and reprioritizing opportunities for savings and greater value-based outcomes for the broader organization. In 2016, the company sets up two centralized finance and procurement hubs in Singapore and Luxemburg to create new "buying companies" to provide tax advantages for the entire organization. These continue to operate as the company evaluates opening a similar center in Africa as business on that continent grows.

This manufacturer simultaneously investigates a flexible payment program that combines elements of third-party and on-balance sheet financing to not only enable tens of millions of dollars in savings (with the flexibility to use its own capital or a third party's) but potentially even recognize the savings as income. A widely adopted source-to-pay (S2P) tool enables this ability — a system that eventually grows to incorporate a new type of touch-less procurement approach that takes P2P and vendor management system activities to the next level. It uses built-in intelligence for approvals and workflow, thereby freeing procurement resources to shift their effort to strategic issues versus tactical reviews and routing.

# Capability #3 — Talent



Capability and talent transformation are paramount in preparing for procurement transformation journeys. Top talent requires leadership and enthusiastic stakeholder engagement, and it is what enables procurement to operate as a peer rather than just in a service role. Having an honest reckoning over talent is essential. Clearly, one size does not fit all team members, and one of the most important roles of procurement leadership is to embrace diverse skills, capabilities and background for the appropriate positions.

Even today, the right procurement crew must be able to engage and interact with constituents across legal, IT, HR, marketing, engineering/design, customer service/support, supply chain, manufacturing, etc. But by 2020, these team members will likely be completely embedded in the business across all of these areas with the functional subject matter expert designing better value outcomes indistinguishable from the budget-minding, embedded procurement resource. Indeed, they will be one. The ultimate manifestation of this will be in cases where procurement resources are given a portion of P&L responsibilities (as part of their procurement charter) as well.

One way to think about procurement skills and expertise is that the type of talent that resides in the highest-end CFO and finance organizations today is similar to what will be required of procurement organizations in 2020. Analytical skills and a data-driven orientation will be the ante but will not stand alone in assembling the right team members. Overall, how organizations conceive of talent will transcend just identifying “A-players” at all ranks and levels.

Emphasis will shift to the assembly of talent internally and externally. HR organizations and procurement will need their fingers on the pulse of talent in both labor and supply markets. Talent may even be crowd-sourced internally and externally for specific initiatives. Social networking sites and platforms will likely become omnipresent in enabling procurement to assemble teams for varying periods of time — single meetings and individual initiatives through to year-long programs and multi-year or permanent collaborations.

Talent will be looked at individually and globally. Criteria will include not just listed skill sets and capabilities, but past performance, demographic/cultural nuances, and preferences. For example, a system may flag a particular candidate for a role not based on a past similar rotation, but a collection of indicators in a profile that suggests success in the desired new role. Leading companies will likely be able to do this externally — not just internally — mining candidates from social networks, jobs boards and resumé items across public sites.

The role of executive recruiter within procurement (a booming function and third-party role in 2013) may become secondary based on the declining value of general introductions and networking in favor of system and social-driven talent identification and team assembly. By 2020, CPOs will also likely turn to multi-tier succession planning as a necessary requirement to create lasting impact past their tenure and that of their reports, especially as they move into more advanced positions running companies and business units.

It is clear that talent and skills-level strategy and programs will matter at all levels in 2020, not just the top. Talent management and skills development will require the thoughtful blend of outside talent (i.e., recruiting) coupled with skills development and procurement rotations.



In more advanced organizations, HR organizations will team with procurement centers of excellence (COEs) to collectively help assemble talent. They will serve as human capital integrators, leveraging both internal and external sources for specific initiatives ranging from newly required traceability programs (e.g., the equivalent of Conflict Minerals compliance for 2020) to longer-term initiatives, such as volatility reduction and continuity planning.

For procurement's overall talent picture, companies must strike a balance of smart, youthful, and malleable talent with seasoned and empathetic management. Ultimately, this type of effort requires a fundamental reset of HR's role in procurement not in terms of just recruiting talent, but nurturing and growing it as well — and helping strike a balance of roles and the right expertise at all levels of the procurement function.



## Glimpses into the future

### What's possible in 2020: Integrating procurement and supply chain

In 2015, procurement, finance and accounts payable work together in more advanced organizations to drive standardized on-boarding programs covering 100% of a supply base, invoice and payment compliance against contracts, standardized payment terms, effective discounting programs and risk management initiatives to get cash in the hands of at-risk suppliers early.

By 2020, procurement and supply chain collaborate to tackle far bigger challenges. Consider how one leader in the retail and CPG sector bridges procurement and operations. In the case of new product introductions, procurement now helps drive materials specification (including sourcing and pricing), parts/component selection and reuse, overall design, and contract visibility and management extending across inbound and outbound supply chains. Procurement is also deeply involved in inventory-related decisions focused on optimal allocation throughout its own facilities and the supply chain.

Inventory factors into sourcing design decisions as well — from both cost and risk perspectives. Make/buy decisions take place jointly with operations, P&L owners and strategic suppliers. On a more advanced basis, the organization begins to pioneer a new effort to bridge buy and sell side collaboration. In working with suppliers as well as its retail and distribution network, it uses a systems-enabled approach to sales and operations planning (S&OP) that feeds what we might call an intelligent sourcing “agent” or “bot” with information based on market demand, specifications, geographies, locations, and working capital specifications to create program-based outcomes for buying and inventory that map to supplier capabilities, capacity, inventory and capital requirements.

This company attracts truly top-performing procurement and supply chain talent (competing for the same elite candidates as finance organizations) to build trading-like desks capable of driving these “program sourcing” efforts, which are like nothing corporate supply chains have ever seen before.

This collaboration significantly mitigates commodity risk, improves inventory turns, and reduces working capital. It also helps bring products to market more quickly, reduces overall supply risk and ensures that products are always on the shelves when and where they're needed.

# Capability #4 — Technology and intelligence



By 2020, more advanced procurement journeys are likely to include a range of technologies to help tackle strategic areas like value engineering, demand management, inventory, commodity management, integrated demand/supply planning, risk management, quality/service level management and new product introduction. In many cases, procurement will lead the evaluation and management of these solutions sets, relying on IT organizations to “keep the lights on” and ensure capacity and availability.

These efforts will likely help eliminate the divide between procurement and supply chain teams. Complex services categories, including those where non-purchase order spend predominates will also be enabled by the right set of technologies, including better vendor management system (VMS) tools or unique assets to enable lifecycle management of print, telecom, IT (e.g., software), marketing spend, and other complex services categories.

Platforms (both technology and business networks) will likely not stand alone, divided by vendor brand or category and supply market orientation. Instead, they’ll interoperate like global cellular networks of today. IT organizations, suppliers, and third-parties will continually build niche applications (or “apps”) on top of these business platforms and shared infrastructure that exists between organizations and trading partners — not just enterprise software companies. These apps begin to take advantage of advanced mobility, social, cloud, and analytics capabilities to put the right data in the hands of procurement and the business to help better manage spend.

Technology can help make procurement the organizational nexus of shared information to drive both administrative and forward-looking activities. These might include decisions based on country and regulatory knowledge and capability (e.g., tax, environmental compliance) that change the location of inbound supply activities. Turning “big data” into “smart data” will be a required capability for companies in general, and procurement organizations can be at the forefront.

It is an accomplishment to become metrics and information-centered, but it is quite another to do it around the right types and sets of information, which is where both the sourcing and interpretation of different types of information becomes key. Within this environment, top-performing organizations will put supplier management and engagement at the core of activities to drive compliance and risk management initiatives.

The right sets of data combined with insight in these areas will also link broader supply chain topics, interests, risks, and opportunities to procurement initiatives. In different areas, from S&OP to new product introductions to inventory and working capital decisions, there will be an increasingly blurry line between operations and procurement.

To support these requirements in 2020, procurement leadership and technical teams will need to get smart about IT potentialities, far beyond their familiarity today. This will require a new view to linking front-end analytics with supplier and user self-service (e.g., portal frameworks), external information feeds/sources, process

oriented applications (e.g., supplier management for compliance and tracking) and broader internal systems integration into traditional MRP and supply chain planning modules. Most important, it will be up to procurement to decide what it needs and then IT to implement the requirements — not the other way around.



## Glimpses into the future

### What's possible in 2020: Procurement as an innovator

In 2014, a wholesale distributor begins its journey with a system of record for suppliers, spend, processes, and categories. It then extends spend visibility to go beyond basic analytics by closely yoking procurement with the rest of the business to support common, measured goals and metrics, which became the foundation of its innovative success stories in supply/demand collaboration around VMI, contracting, and pricing.

Following this initial set of improvements, the company replaces transactional procurement work with core automation systems. By 2015, the company achieves a target of 98% of spend covered by eProcurement, direct procurement, and e-invoicing systems. Front line ease-of-use (i.e., a user interface that any user can walk up to and start using) becomes procurement's secret compliance weapon.

By 2016, the company adopts an integrated supplier and customer management approach for partner integration that goes far beyond standard package solutions of the day. With this program, the wholesale provider leverages a common system of record for all partners and items.

This approach enables new capabilities for vendor management inventory (VMI) programs across a range of goods and services where the company and its suppliers take shared responsibility for sensing and meeting demand to support end customers (not just the business). In other areas, the company drives innovation through procurement via joint contingency and backup planning with vendors (based on potential scenarios for capacity constraints brought about by supply risk elements).

The company also develops a more dynamic approach to pricing and contract execution where unit cost, total landed cost, and risk calculations come together as collective triggers for sourcing and execution decisions at multiple tiers in the supply chain. As part of these efforts, procurement solicits creative inputs from suppliers on everything from recommended order quantities to packaging to new product and service concepts. In fact, the company's fastest-growing new product line in 2018 comes out of a sourcing exercise that considers new supplier ideas.

# Transform or die

A new vision and capabilities are needed as we cross the oceans that separate procurement today from procurement in 2020. Just as Turner immortalized in his famous painting, even the most advanced sailing frigate of yesteryear will not explore new lands and fight new battles forever.

This journey may start with finding new ways of building trust within the business by procurement extending an empathetic but challenging hand to work with spend owners to improve business outcomes through new exploration of demand specifications, buying decisions and supplier engagement. Or perhaps it will start with procurement taking station to assume a risk management helm that takes into account commodity, currency, political/regulatory and other emerging areas that bring both threat and opportunity. These early steps must quickly proceed beyond singular initiatives to address the four outcomes we have outlined in our 2020 procurement Compass: Financial Performance, Risk Management, Supply Base/Supply Chain and Customer/Stakeholder Connection.

Procurement must step up to the challenge with the mindset that incremental movements will not suffice and that it must earn the trust of the business to fully succeed. And in doing so, it must embrace a vision for 2020 that goes far beyond the thinking of today, leveraging creativity and know-how to change not just the function from within, but the overall business value procurement can deliver.

In this adventure, everything we've learned and practiced up until now still counts. Yet procurement transformation, history lessons, and classic maturity model thinking must be put in their place. Incremental changes in capability and thinking can help bail out a sinking ship as it is towed into the scrap yard, but it will not keep it above water forever. Procurement must transform or die.



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