

Achieving Procurement Excellence in the Age of Digital Disruption

By Laura Gibbons and Christopher Sawchuk

EXECUTIVE SUMMARY

Procurement is facing a dual challenge in 2020: reducing costs – both internal and external – and adding value. But just cutting cost is not enough. In the digital economy, fierce competition means organizations, both at the enterprise and functional level, must continually reinvent themselves to keep up with the pace of change. Procurement can cut cost by automating processes to become more efficient. At the same time, it can become a more strategic advisor and partner to the business by providing new value streams. Better analytics, increasing spend influence, and improving on value delivered from category management are all going to be areas of focus for procurement in 2020, according to our annual Key Issues Study.

For years, procurement has placed cost-related objectives at the top of its list of priorities. However, increasing demands, both external and internal, are pushing procurement to deliver more value in new ways. Outside forces are pushing companies to become more agile in order to adapt to changing business needs, and in turn, procurement must be able to support those needs. To do so requires focusing on multiple objectives aimed at sustaining a cost-effective, value-driven function.

In terms of importance, procurement's 2020 agenda looks similar to years past, with reducing purchase costs and becoming a trusted advisor among the most important objectives. Improving cost efficiency has risen to the No. 1 priority, echoing an enterprise trend in 2020. And although some of these are currently well-supported, it remains crucial for procurement to design new strategies and business decisions with these objectives in mind to ensure continued success.

Procurement key issues in 2020

1 IMPROVE COST-EFFICIENCY
Reducing total cost of procurement is the No. 1 issue for procurement organizations in 2020. Top organizations will leverage high-performing talent and an optimized service design.

2 REDUCE PURCHASING COSTS
Reducing purchasing costs has consistently been a top priority for procurement organizations, indicating that providing core services is a basic requirement for success.

3 BECOME A TRUSTED BUSINESS ADVISOR
Top-performing procurement organizations recognize that a strong relationship with business partners enables early involvement and greater spend influence.

4 MODERNIZE PROCUREMENT APPLICATION PLATFORMS
Modernizing technology provides several benefits to procurement, including improved agility, customer-centric processes and cost efficiencies.

5 INCREASE SPEND INFLUENCE WITH STRATEGIC SOURCING
Spend influence is among the top measurements of procurement's performance, leading to reduced purchasing costs, improved quality and better strategic outcomes like product innovation.

6 IMPROVE ANALYTICAL AND REPORTING CAPABILITIES
The potential of analytics is increasing quickly. Organizations should prioritize leveraging external data, optimizing dashboards and adopting predictive analytics.

7 ALIGN SKILLS AND TALENT WITH BUSINESS NEEDS
Organizations increasingly understand the need for top talent. For procurement, this means leveraging cross-training and investing in developing talent.

8 IMPROVE PROCUREMENT AGILITY
Becoming an agile enterprise is increasingly important for businesses, but that means developing agile behavior at the functional level.

9 OBTAIN MORE VALUE THROUGH CATEGORY MANAGEMENT
Leveraging new value streams is important for procurement to strengthen relationships with business partners and deliver value to customers, for which category management can be a great resource.

10 IMPROVE PERFORMANCE MEASUREMENT CAPABILITIES
Improving performance measurement is key to capturing procurement's multiple value streams, as well as communicating with various stakeholders.

Other topics considered key issues by study participants but of lesser importance: 11) improve customer-centricity; 12) reduce supply risk; 13) optimize deployment of procurement resources; 14) improve procurement centers of excellence (CoEs); 15) obtain more supplier value through supplier relationship management; 16) improve demand forecasting and planning; and 17) secure procurement data and systems.

Source: Key Issues Study, The Hackett Group, 2020

Addressing procurement's critical gaps in 2020

In order to achieve its objectives, procurement leaders first should understand which objectives are already well-supported and which need attention (Fig. 1). Procurement respondents to The Hackett Group's 2020 Key Issues Study indicated five critical gaps that need to be addressed to meet the function's goals in 2020.

FIG. 1 Procurement function key issues in 2020



Source: Key Issues Study, The Hackett Group, 2020

Procurement objectives with critical performance gaps

Improve procurement agility: Procurement agility is critical for success, yet falls short of business expectations. Top-performing procurement groups can predict and quickly respond to changes in business expectations.

Become a trusted advisor to the business: Organizations acting as trusted advisors leverage top talent to deliver consistency, agile behavior and a deep knowledge of the business. Most important, trusted advisors maintain a collaborative, proactive partnership with stakeholders to enable business success.

Align skills and talent with business needs: Adapting the procurement talent model to meet business needs is long overdue. Skill types in need of updating include both soft (e.g., strategic thinking and business acumen) and hard (e.g., analytic decision-making and technology savviness).

Modernize application platforms: Modernizing technology supporting the procurement function is critical for laying a foundation of customer-centric workflows and user-friendly interfaces. These tools will enable agile behavior and free up time for strategic activities.

Improve analytics and reporting capabilities: Developing analytical skills is essential for strategic decisions, predictive insights and agile behavior. These can be developed internally and hired externally for highly skilled roles.

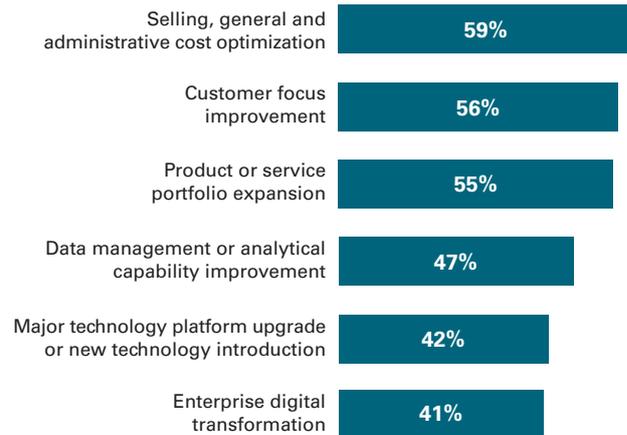
The enterprise agenda in 2020

The procurement agenda is shaped by enterprise strategic priorities and operational plans, which in turn are driven by economic and business conditions. In 2018 and 2019, customer focus improvement was the dominant transformation initiative on the enterprise agenda, with cost optimization in second place. In 2020 this ranking has flipped (Fig. 2). While procurement has its own objectives for delivering value, it is important to understand the bigger context of enterprise goals in the coming year. Procurement is well-positioned to support company initiatives. In fact, cost optimization is also procurement's No. 1 issue in 2020.

Cost, customer focus and product/service portfolio expansion/innovation were the top three enterprise initiatives in both 2019 and 2020. However, the next three most prevalent enterprise transformation initiatives are related to data, technology and digital in 2020 for the first time. This is a clearer signal than we've had before that the enterprise is anxious to extract value from analytics and has begun to understand the value of technology

infrastructure modernization. Procurement's 2020 priorities are well-aligned with these elevated goals.

FIG. 2 Percentage of companies with major initiatives on the 2020 agenda



Source: Key Issues Study, The Hackett Group, 2020

Leveraging procurement's service delivery model for effective change

In order to make lasting changes to the procurement organization, transformation should be addressed through a comprehensive evaluation of each component of its service delivery model (SDM).

Procurement study respondents consider service design to be the most important SDM element, followed by human capital and technology (Fig. 3). While analytics and information management and organization and governance rank lower, they remain critical to implementing and sustaining any organizational changes. Service partnering, while it should not be overlooked, is unlikely to see any drastic changes in the near future.

FIG. 3 Priority of service delivery model components

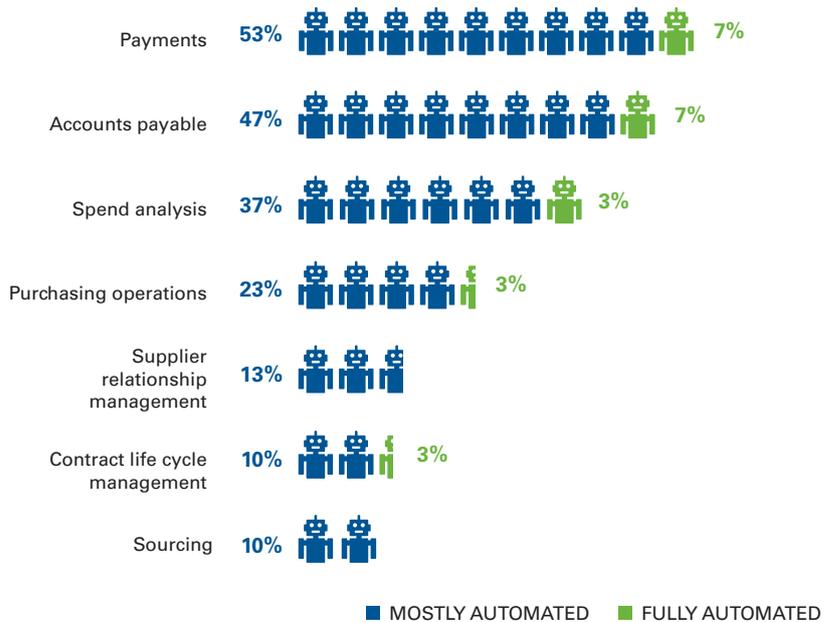


Source: Key Issues Study, The Hackett Group, 2020

1 Service design

In a departure from enterprise priorities, procurement executives indicated that service design is the top-priority SDM element in their 2020 transformation efforts. Service design addresses how procurement creates processes that meet customer needs and desires. Process automation is a key enabler of a customer-centric procurement function, particularly in payments, accounts payable and spend analysis (Fig. 4). While very few processes are fully automated yet, we can expect the trend of automation to continue to grow over the next three to five years. Automation will be critical for procurement to achieve its No. 1 objective in 2020: improving cost-efficiency.

FIG. 4 Level of automation, by process



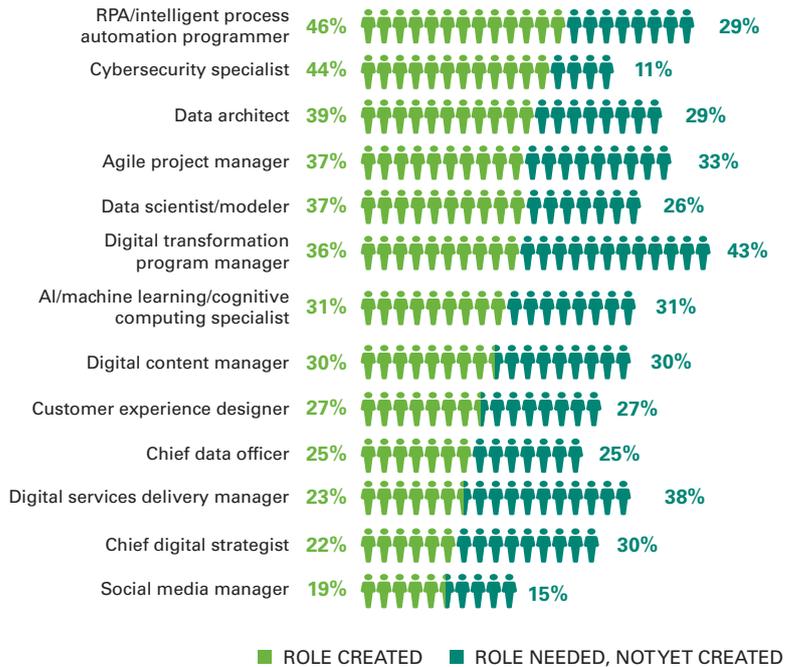
Source: Key Issues Study, The Hackett Group, 2020

2 Human capital

For the past several years, procurement organizations have recognized the need for an improved human capital strategy. Aligning talent and skills with business strategies is among procurement's top priorities in 2020. However, many have struggled with understanding how to get there. A strong talent strategy includes a redefined skills profile, training and development program, and recruiting strategy.

While some skill gaps can be filled through training and development of existing staff, many organizations will need to create new roles and hire specialized staff to fill them (Fig. 5). Among the most needed roles are digital transformation program manager and digital services delivery manager. Intelligent process automation programmers and cybersecurity specialists, however, are the most commonly adopted.

FIG. 5 New procurement roles recognized



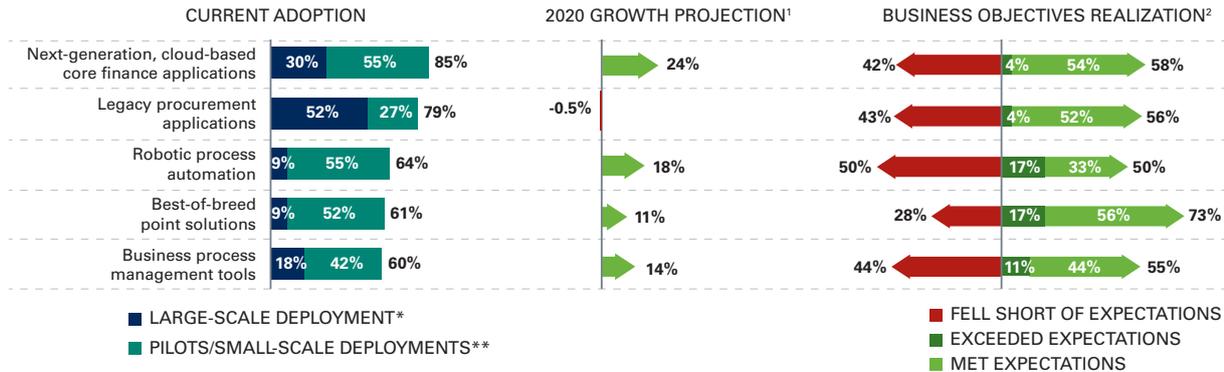
Source: Key Issues Study, The Hackett Group, 2020

3 Technology

Full digital transformation takes years to achieve. Today, with many organizations midway through their transformation, procurement faces complex decisions about where to invest time and money. In 2020, legacy procurement applications will be scaled back, while cloud-based core applications, best-of-breed solutions, robotic process automation (RPA) and data visualization tools will see significant growth.

Many technology adoption initiatives fell short of expectations in 2019, in part due to the lack of a comprehensive digital transformation plan, change management strategy, and appropriate talent on hand.

FIG. 6 Process automation technology adoption and objectives realization



* The technology is used on a limited scale in isolated use cases. ** The technology is used at scale in applicable use cases. ¹ Year-on-year percentage change in applicable adoption metric for each technology.

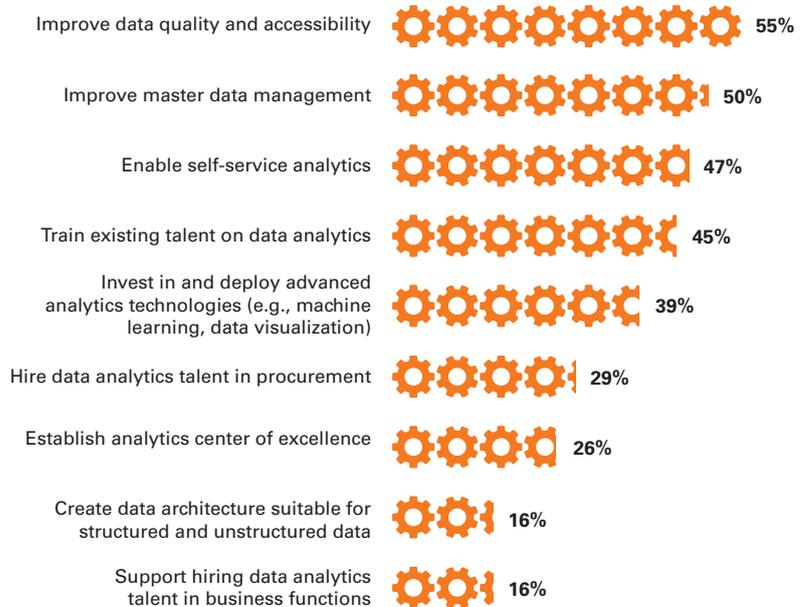
² Some examples include return on investment, payback, cycle-time improvement, quality of service improvement and customer experience improvement.

4 Analytics and information management

Delivering informed options for purchasing, managing risk and spotting areas of opportunity requires a solid foundation of clean, well-managed data along with the tools to properly leverage all types of data. Further, in order to translate data into meaningful insights, procurement needs staff with the ability to conduct sophisticated analysis using data from internal and external sources.

Fifty percent or more of procurement organizations are working on improving data quality and master data management (Fig. 7). These, along with investing in talent and analytics skills, represent essential first steps in developing strong analytics capabilities before moving on to more advanced tools.

FIG. 7 Steps procurement is taking to enable advanced analytics



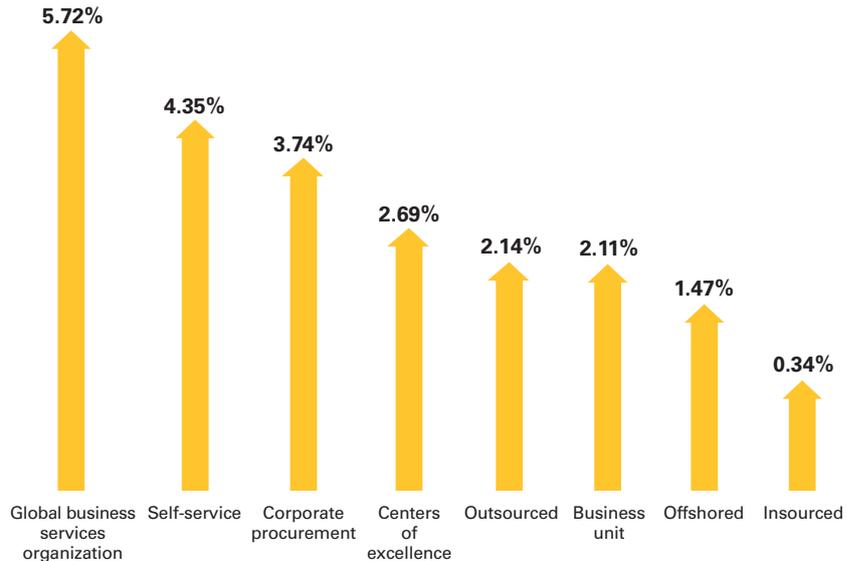
Source: Key Issues Study, The Hackett Group, 2020

5 Organization and governance

While strengthening or updating the SDM element of organization and governance ranked lower among procurement's priorities in 2020, it remains an important consideration. If procurement is to uncover new value streams and deliver customer-centric processes and tools, its underlying organizational model must adapt to help deliver new services.

In 2020, more procurement work will be conducted in global business services (GBS) organizations and via self-service (Fig. 8). The latter is increasingly important given the need for customer-centric service design.

FIG. 8 Percentage of change in volume of work expected in 2020

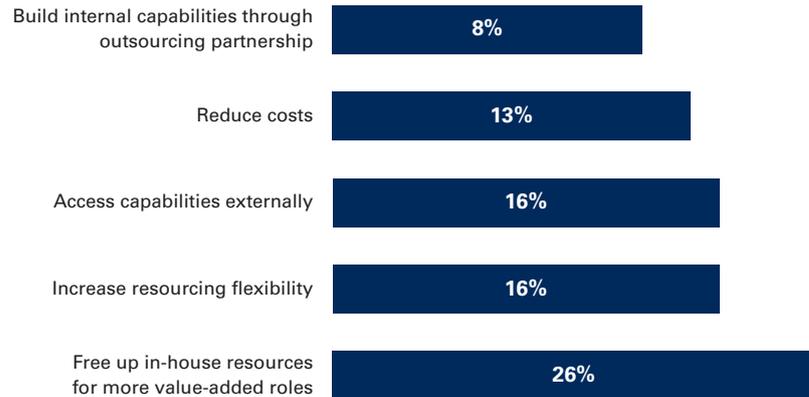


Source: Key Issues Study, The Hackett Group, 2020

6 Service partnering

Historically, outsourcing was primarily a means for process cost reduction. More recently, organizations have begun looking to outsourcing to build or supplement skills (Fig. 9). Further, leveraging outsourcing for tactical activities frees up in-house resources to focus on more strategic work. It also adds flexibility to the resourcing model as a whole, driving up procurement's ability to adapt to changing business needs.

FIG. 9 Primary drivers for outsourcing in procurement in 2020



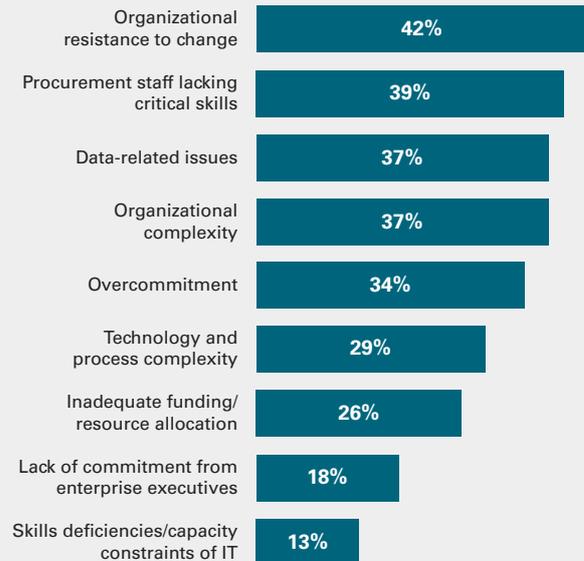
Source: Key Issues Study, The Hackett Group, 2020

Understanding the hurdles that prevent procurement's transformation

Undergoing a large-scale transformation is difficult for any organization. Barriers to success come in many forms – from internal resistance, to technical issues, to staffing constraints. Key Issues Study respondents cited organizational resistance to change as the top challenge to transformation in procurement (Fig. 10). To remedy this, developing a comprehensive change management plan early in the transformation is critical. Change management plans get customers and stakeholders on board with the long-term vision and ensure proper communication at all levels so no one is left in the dark.

Talent/skills and data are among procurement's top 10 key issues in 2020. On the other hand, leadership now appears to be supportive of digital transformation, with only 18% of organizations having any issues – a change from years past. Lack of assistance from the information technology (IT) function also appears to have been resolved, meaning that once procurement is ready to transform, IT is prepared to help at all but 13% of companies.

FIG. 10 Top hurdles preventing procurement transformation



Source: Key Issues Study, The Hackett Group, 2020

Strategic implications

In order for procurement to keep up with increasing business demands, it must quickly expand its value delivery model. Providing savings is no longer an achievement for procurement; instead, it is a basic expectation, while improving services like risk management, self-service and data-driven insights are new objectives.

To understand the next steps to take in its value-delivery evolution, procurement leaders should look to enterprise business objectives first. Digital transformation, data and analytics, agility, and talent/skills are four areas where most procurement organizations currently fall short in their ability to support the enterprise. And from there, procurement can develop a strategic plan designed to deliver multiple value streams to the business.

ABOUT THIS RESEARCH

For the 2020 edition of The Hackett Group's annual Key Issues Study, executive management and leaders of finance, human resources, IT, procurement and GBS organizations at a global set of mid-sized and large enterprises were asked in late 2019 about their strategic priorities and initiatives for the coming year.

About the authors



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Christopher Sawchuk leads The Hackett Group's Global Procurement Advisory practice. He has over 20 years of experience in supply management, working directly with Global 2000 and midsized companies around the world and in a variety of industries to improve all aspects of supply management, including process redesign, digital enablement, operations strategy planning, organizational change and strategic sourcing. Christopher specializes in working directly with chief procurement officers to help define a long-term strategy. He is a regular contributor to business publications, a frequent presenter at industry events, and author of numerous reports and books. His background includes engineering, operations and sales roles with United Technologies and IBM.

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