

The CPO Agenda in 2018: Expanding Procurement's Influence Through Change and Innovation

by The Hackett Group



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The CPO Agenda in 2018: Expanding Procurement's Influence Through Change and Innovation

By Constantine Limberakis and Christopher S. Sawchuk

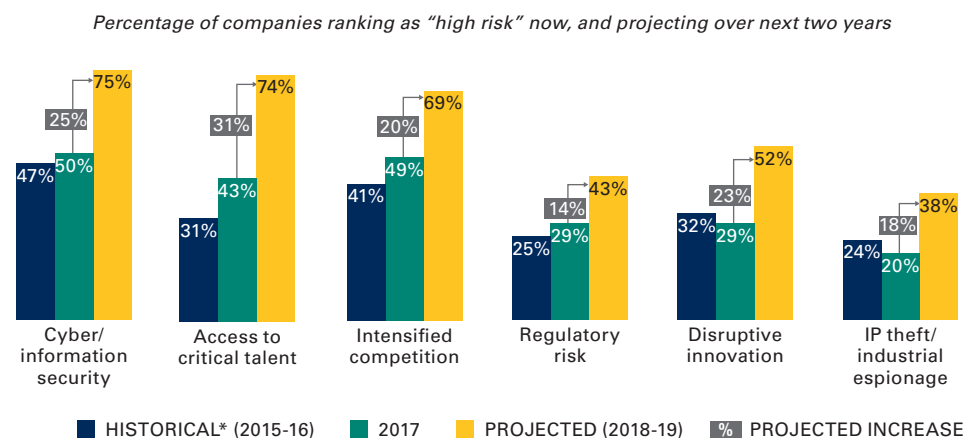
Executive Summary

Despite an optimistic business outlook in 2018, procurement leaders are still wary about a range of risks with the potential to reduce margins, from access to critical talent to managing cyber-risk. In this year's edition of our annual Key Issues Study, procurement leaders indicate they are focused on deepening collaboration with suppliers to meet growth expectations and manage risk. They expect that 30% of procurement processes will be touched by digital transformation activity in 2018, foreshadowing a year of both benefits and disruption. Fully 95% believe digital transformation will fundamentally change the way procurement services are delivered within two to three years. Early positive signs from the implementation of digital technology (such as robotic process automation and advanced analytics) are sparking interest in new areas where procurement can contribute strategic business value.

A Context of Enterprise Risk

Even the seismic shifts in the geopolitical landscape in 2017 could not disrupt the extraordinary changes underway as businesses transition from industrial-age to digital-age operating models. The main risks reported by participants in the 2018 edition of The Hackett Group's annual Key Issues Study are all directly related to this shift (Fig. 1).

FIG. 1 Current and projected business risk



Source: Key Issues Study, The Hackett Group, 2018

About this research

For the 2018 edition of our annual Key Issues Study, executive management and leaders of finance, human resources, information technology and procurement organizations at a global set of midsized and large enterprises were asked in late 2017 about their strategic priorities and initiatives for the coming year.

The study results, which are analyzed in separate reports for each function, also guided the creation of our 2018 research agenda. Issues cited by participants as top priorities or challenges will be addressed in our research, webcasts and other Advisory Program membership deliverables in the months to come, along with related best practices; empirical data to assist in building a business case for change; time-tested and emerging solutions; and case studies.

Global data protection regulation in the European Union

By the end of May 2018, global organizations that collect, store or process the personal data of EU citizens will be required to demonstrate robust data security and privacy practices. New requirements apply not only to customers, but also to third-party suppliers that collect or process “personally identifiable information” (PII) for company employees or customers who are EU citizens.

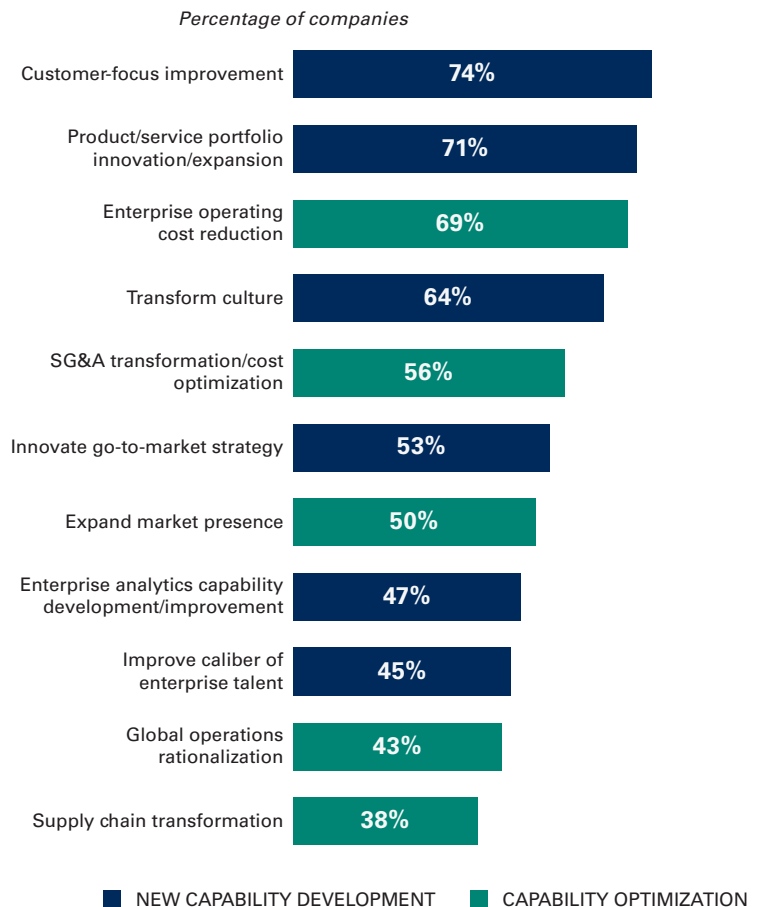
Cybersecurity is projected to be the top risk in the coming year. While organizations are focused on remaining competitive, most are also aware that the relentless wave of data attacks will continue. The importance in protecting customer information was further heightened by recent global regulatory requirements such as the Global Data Protection Regulation (GDPR) in the European Union (see sidebar at bottom left).

Further, with more data than ever being generated, stored and managed, organizations need to strengthen their information management and business intelligence capabilities by training or acquiring new talent with the skills required to understand and use data. The biggest jump from 2017 to 2018 in business risks listed by respondents is access to critical talent.

Enterprise Initiatives in 2018 Focus on Growth and Operating-Cost Reduction

The theme of information and analytics as a driver of growth and innovation is reflected in the major enterprise initiatives planned in 2018 (Fig. 2). Customer-focus improvement is the top-ranked initiative, followed by product/service expansion. These are two essential areas for generating top-line revenue growth. Improving the customer experience and supporting innovation both require better, more easily accessed data.

FIG. 2 Major enterprise initiatives planned for 2018

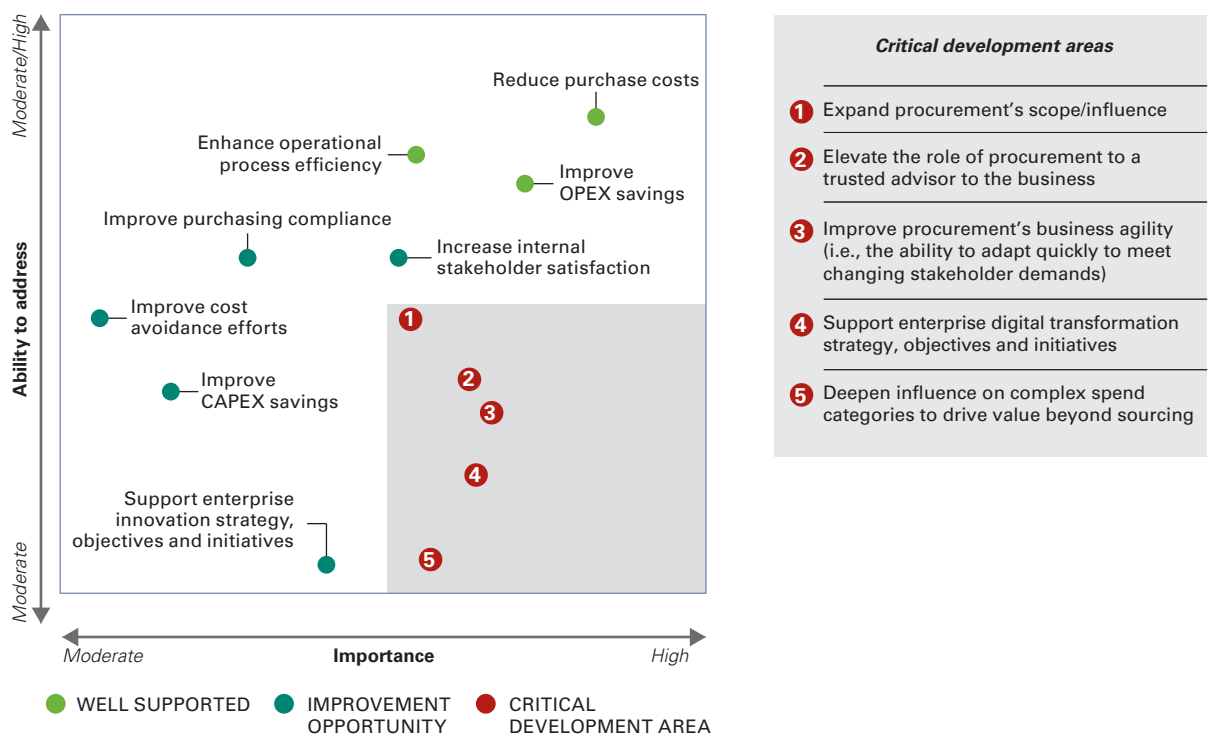


Source: Key Issues Study, The Hackett Group, 2018

Enterprise cost reduction is also a priority in 2018. Historically, cost-cutting programs have been carried out in functional silos, without much cross-functional coordination. In the era of digital transformation⁷, better alignment and collaboration between groups like finance and procurement is necessary but often requires significant cultural change.

Procurement organizations need to evolve to meet the demands of a rapidly changing business environment, but must live with reductions in operating budgets averaging 0.3% in 2018. Their goals for the coming year reflect their resource-constrained and risky environment. Among these are improving their agility, elevating their role to that of a trusted advisor, enhancing their cost-avoidance capabilities, and supporting enterprise digital transformation. While respondents rate support for these and other business objectives as important, they also acknowledge that their ability to address them effectively is relatively low (Fig. 3). It is a great concern that one of the areas that procurement is least prepared to address is supporting enterprise digital transformation objectives.

FIG. 3 Importance versus ability: Major enterprise objectives in 2018



Source: Key Issues Study, The Hackett Group, 2018

Improving procurement's business agility is one of these critical development areas. In this context, agility means finding new ways to harness the power of digital technology and quickly respond to changing stakeholder demands. Internal customers want the same customer-friendly buying experience they have come to expect from business-to-consumer service delivery models (e.g., Amazon, Alibaba, eBay). Correspondingly, increasing internal stakeholder satisfaction rose from 5% in 2017 to 23% in 2018 among procurement respondents that noted this as a critical issue or objective in both years.

⁷ The Hackett Group defines digital transformation as "the creation of business value by improving customer experiences, operational efficiency and agility by fundamentally changing the way organizations innovate, operate, deliver products and services, engage with stakeholders and execute work, using digital technologies as the enabler of holistic transformation."

Improving agility will also be pivotal in elevating the procurement role to a trusted advisor. While many have worked toward this goal in the past, most still have room to improve. Procurement's transformation requires addressing unresolved conflicts about its role in the enterprise. For internal customers, it is all about better service delivery, achieving the best price and finding innovative solutions. For accounts payable, it's about improving the alignment of purchase-to-pay processes to prevent issues like duplicate payments. For finance, it's about better collaboration to set realistic savings goals that align to budgets.

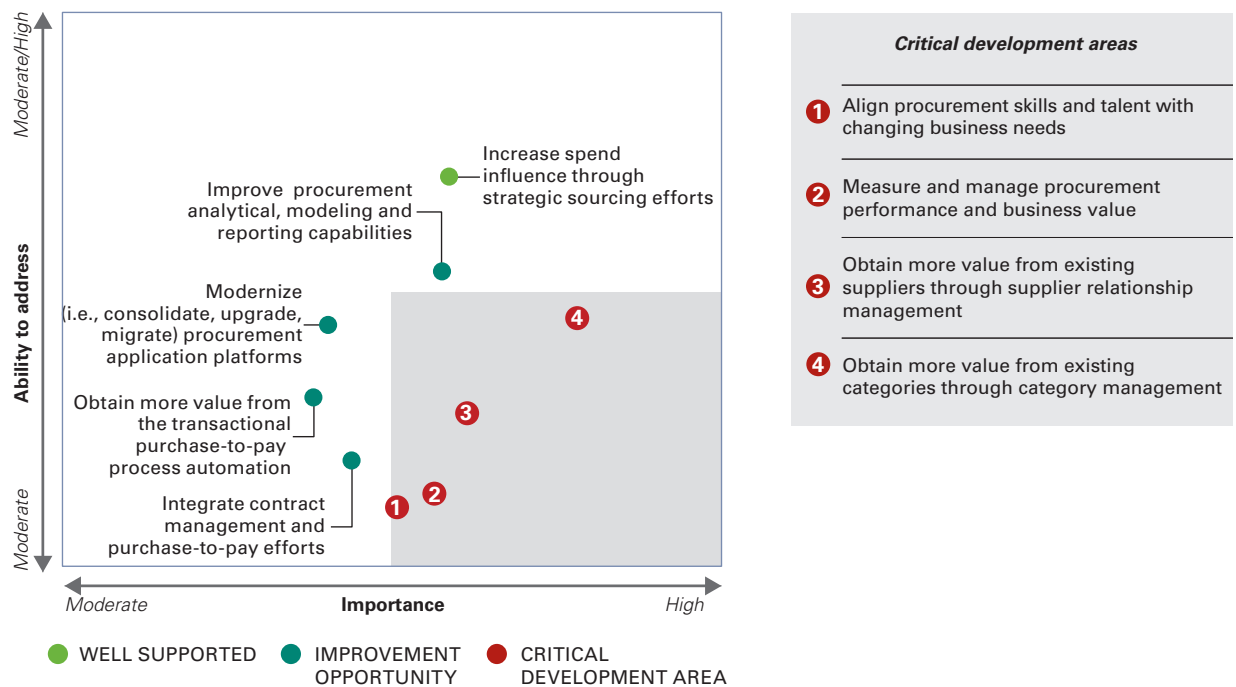
Procurement Must Improve Four Key Capabilities

Concerns about procurement's ability to address critical development areas go beyond capabilities required to help the enterprise meet its goals. Our analysis found critical development areas that affect the function itself and also highlighted gaps between what procurement believes is important and what it can actually deliver (Fig. 4) in these areas:

- Align procurement skills and talent with changing business needs.
- Measure and managing procurement performance and business value.
- Obtain more value from existing suppliers through relationship management.
- Obtain more value from existing categories through category management.

Each area is discussed in detail in the following pages.

FIG. 4 Internal procurement-related issues: Critical development areas in 2018



Source: Key Issues Study, The Hackett Group, 2018

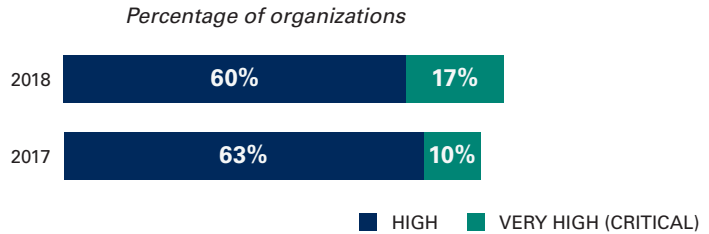
28%

Portion of study respondents considering adding non-traditional roles and skills (e.g., physicists, data scientists) to the procurement organization.

#1: Align procurement skills and talent with changing business needs

In 2018, 77% of respondents consider alignment of procurement skills and talent with changing business needs to be of “high” or “critical” importance compared to 73% in 2017. While the total increase is of minor significance, it is notable that the percentage that consider this area to be of critical importance jumped from 10% to 17%, a rise of 70% (Fig. 5). To meet this challenge, leading procurement organizations are looking at new talent/skill areas, with 28% of respondents evaluating the addition of non-traditional, insight-related roles and skills (e.g., physicists, data scientists) to the organization.

FIG. 5 Importance of aligning talent with changing business needs



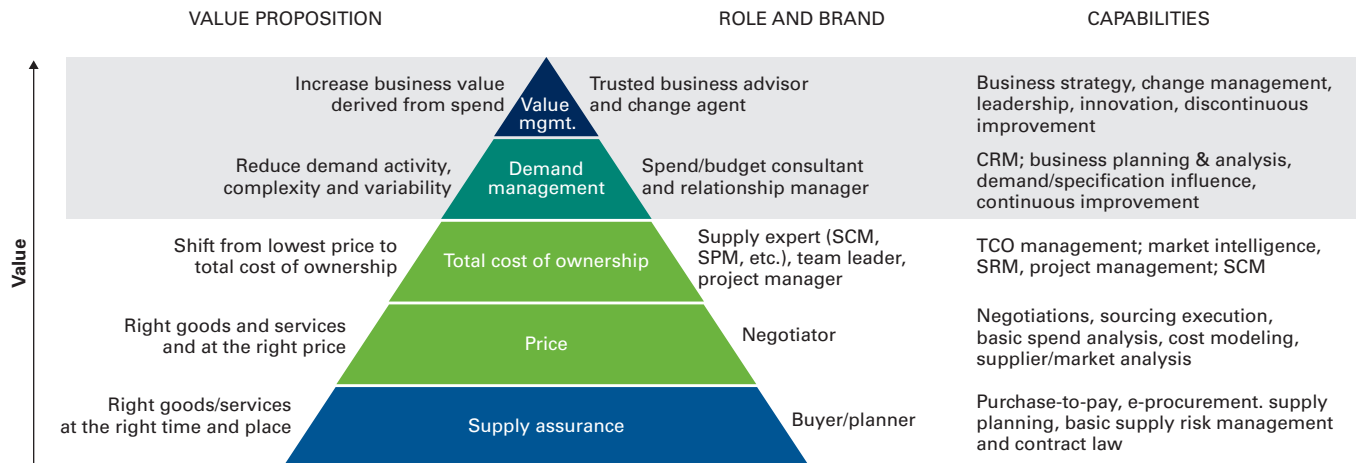
Source: Key Issues Study, The Hackett Group, 2018

#2: Measure and manage procurement performance and business value

In 2018, 76% of organizations ranked measuring and managing procurement performance and business value as high/critical in importance, but only a little more than half (56%) believe they have the ability to address the challenge.

As procurement organizations mature, they start looking beyond traditional areas of tactical supply assurance and price (Fig. 6). In parallel, procurement spends more time on strategic business enablement, an area that requires more coordination and collaboration with internal stakeholders and suppliers based on criteria outside of negotiated cost alone. Increasingly, service delivery requires advanced business skills such as negotiation, relationship management, problem-solving and strategic thinking. Moving into these areas, procurement serves as more than a buyer/negotiator; it becomes a consultant and change agent.

FIG. 6 Procurement value pyramid



Source: The Hackett Group

0%
 No study respondents get hard-dollar recognition for avoiding potential profit impacts.

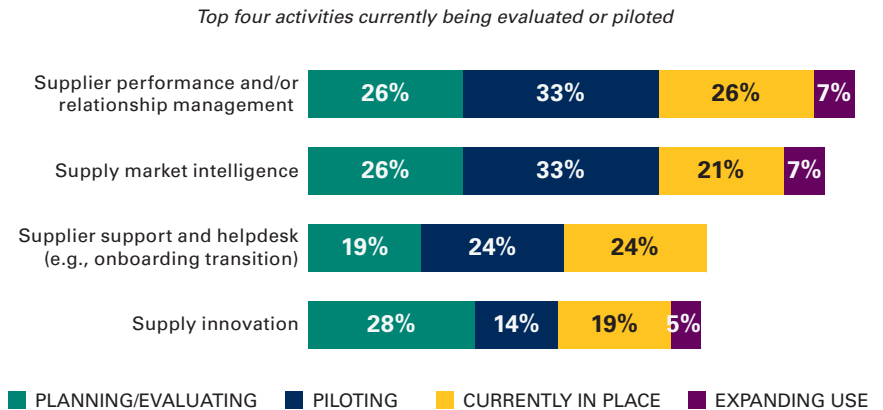
According to the study, 81% of procurement organizations still get most of their hard-dollar recognition for purchase-price reduction success. However, none of the survey respondents obtain hard-dollar recognition for avoiding profit impacts (e.g., from avoided regulatory costs, re-sourcing costs, etc.); only 34% get soft-dollar recognition. To incorporate digital transformation into procurement's value elevation, the function must continually look for business value-contribution opportunities beyond price reduction. These include protecting revenue and brand integrity, and supply risk management.

#3 Obtain more value from existing suppliers through supplier relationship management

Strategic partnership with the business requires taking on more responsibility for supplier relationship management (SRM) initiatives. Today 74% of respondents acknowledge the importance of obtaining more value from existing suppliers through SRM, but 51% have only a low or moderate ability to meet this objective.

SRM is not a new investment area for procurement. The Key Issues Study results document a high level of interest in moving SRM activities (along with supplier onboarding, performance management and more) to a Center of Excellence (COE) or similar leveraged model (Fig. 7), possibly to make better use of these relatively scarce skills. The implication is increased interest in linking supplier-centric processes to wider source-to-pay efforts and strengthening the acuity of supply market intelligence.

FIG. 7 Supplier-based strategic activities in a Center of Excellence or similar leveraged model



Source: Key Issues Study, The Hackett Group, 2018

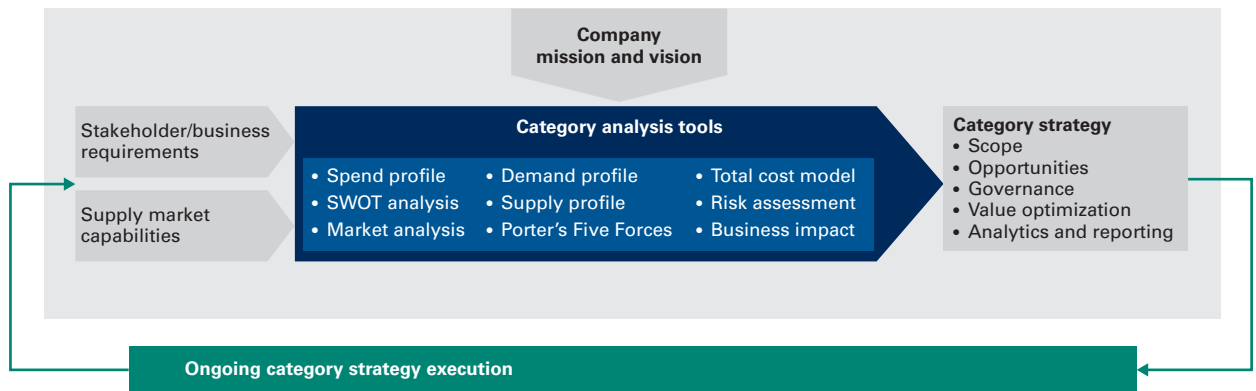
Organizations are also planning or piloting collaborative customer/supplier activities through their supplier innovation efforts. Increased competition has made today's suppliers more willing to invest in technologies and share ideas with customers with whom they have positive, collaborative relationships. Supporting supplier innovation promotes increased coordination between buyers and suppliers, strengthening partnerships and increasing motivation on both sides to invest further in the relationship. Thirty-five percent of respondents are evaluating the use of a supplier network in 2018 as a means of improving communication, collaboration, supplier profile maintenance, transaction processing and supplier catalog management.

#4 Obtain more value from existing categories through category management

By understanding spend categories better, procurement can pursue sourcing initiatives in ways that go beyond one-time events. Improving category management helps them manage the entire lifecycle in the value chain of goods and services. Eighty-three percent of Key Issues Study respondents consider obtaining more value from existing categories through category management to be of high/critical importance, but only 56% currently have the ability to meet this objective. Moreover, 25% also consider as critically important the deepening of procurement's influence on complex indirect spend categories, to drive value beyond sourcing. And, 44% are evaluating or piloting migration of analytics to a Center of Excellence for category management. Doing so will help procurement organizations centralize the evaluation of contract and supplier lifecycles and holistically manage specific groupings of materials or services that have similar supply and usage characteristics.

Even if major spend categories are properly sourced and the supplier base is rationalized, procurement must still find further ways to help the enterprise tap suppliers for more value. Using a category strategy execution framework can help organizations apply the appropriate value drivers, techniques and tools to meet the value objectives in other areas including strategic sourcing, SRM, value engineering, process reengineering, demand management, and compliance management. Using a framework like the one shown in Fig. 8, procurement organizations can more clearly define and build organization-wide alignment on category definitions and strategies.

FIG. 8 Ongoing category strategy execution



Source: The Hackett Group

The State of Digital Transformation in Procurement

To meet ongoing expectations for supporting enterprise operation cost reduction and functional development areas, procurement needs to accelerate its digital transformation through investment in technology and related skills.

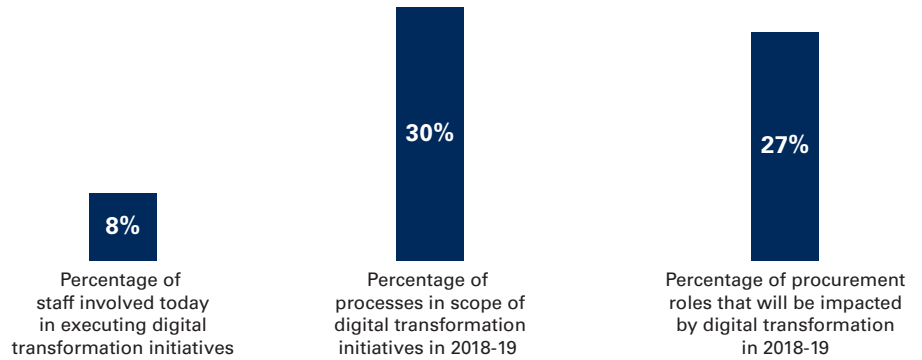
There is growing awareness of the potential impact of digital transformation on procurement. In 2018, 95% of respondents state that it will fundamentally change the way services are delivered over the next three to five years, compared to 84% in 2017. The percentage of organizations with a formal strategy for digital transformation more than doubled year over year, from 32% to 66%. Furthermore, in the same period, the number of organizations indicating they have the resources in place to handle the transformation also rose sharply, from 25% to 46%.

27%

Percentage of procurement roles that will be affected in some way by digital transformation in 2018.

It is too early to tell what the optimal ratio of resources to automation will be with digital transformation. Adoption of emerging technologies such as artificial intelligence, the internet of things (IoT), robotic process automation (RPA) and blockchain will eliminate many jobs, but will also create new ones. Study respondents indicate 27% of current procurement roles will be affected in some way by digital transformation in the coming year (Fig. 9). With 30% of procurement processes expected to be within scope of digital transformation activities in 2018, the number of roles affected will surely rise.

FIG. 9 Impact of digital transformation on the procurement function

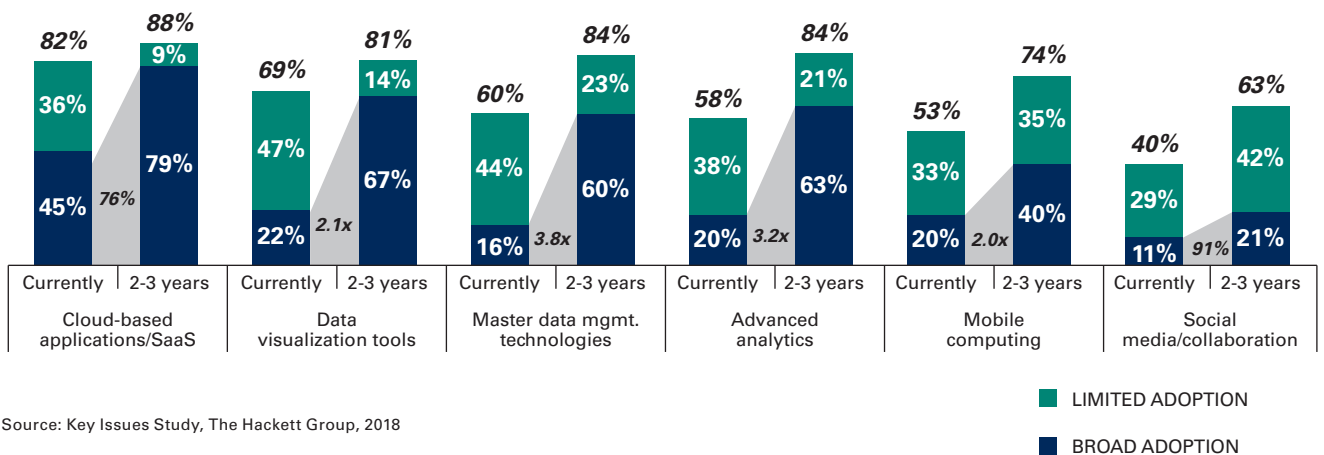


Source: Key Issues Study, The Hackett Group, 2018

The Technology Powering Digital Transformation

Procurement organizations are continuing to invest in mainstream technologies that make the transition to digital business possible. They plan to further increase their transfer of data to the cloud over the next two to three years and make far greater use of advanced analytics technology during the same period. Moreover, to better exploit the volume of data and data types, procurement organizations also plan to boost their use of technology to manage master data.

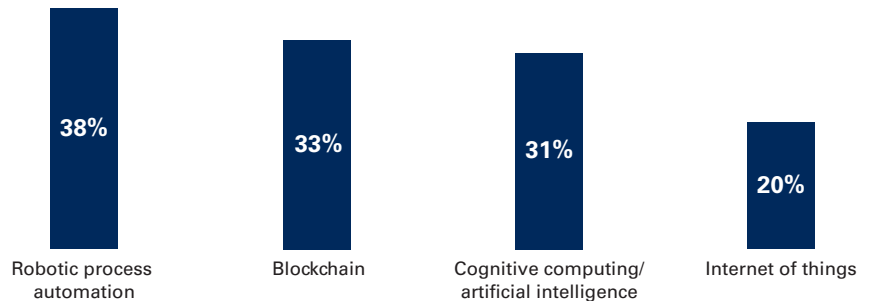
FIG. 10 Use of mainstream technologies in procurement



Source: Key Issues Study, The Hackett Group, 2018

Emerging technologies such as artificial intelligence and machine learning promise to help companies improve data classification and recognition, yielding a new understanding of relationships between disparate sets of data and helping organizations make faster, more profitable business decisions. A sizable percentage of procurement organizations are now piloting emerging technologies (Fig. 11).

FIG. 11 Percentage of organizations currently piloting digital technology



Source: Key Issues Study, The Hackett Group, 2018

Use of RPA is projected to grow by a factor of 4.5X in the next two to three years, from today's 7% to 30%. Essentially a kind of software that automates or integrates execution of repetitive, rules-based tasks or activities, RPA can help procurement teams improve process quality by eliminating the potential for human error and increase auditability by recording all transactions. Relieved of low-value routine work, procurement staff can be redirected toward activities requiring specialized knowledge and judgment.

Blockchain promises to revolutionize checks and balances between buyers and suppliers. A decentralized, distributed data architecture that consists of a continuously growing ledger of recorded transactions that are linked and secured using cryptography, blockchain is used to facilitate secure online transactions. Examples of its applications in procurement today include customs declarations and contract validation. Fueled by its potential to establish provenance, trust and transparency, use of blockchain technology is expected to rise sharply over the next two to three years, from 9% to 35% of procurement organizations.

Strategic Implications

We anticipate that 2018 will be a year of robust economic growth, albeit tempered by the effects of continued technological disruption. Enhancing the means of collecting, enriching and analyzing information will be critical for understanding trends and identifying opportunities. But in parallel with finding more and better ways to use data, companies must take the steps necessary to protect it.

In 2018, procurement must develop its strategic capabilities (such as category management and supporting supplier innovation) via digital transformation, while continuing to deliver excellence in the basics (compliance, operational process efficiency and savings identification). Despite an inevitable array of disruptions (technological, regulatory, etc.) nothing should keep procurement from working to meet the needs and wants of internal stakeholders and suppliers through investment in talent management and technologies that will improve data collection, performance measurement, risk mitigation and collaboration.

Related Hackett Group Research

Risk: The Next Opportunity for Procurement to Extend Its Value, November 2017

Procurement Spotlight Report: Strategic Sourcing, October 2017

Gauging and Improving the Impact of Customer-centricity Programs in Procurement, October 2017

Six Critical Skills for Procurement to Succeed in a Digital World, September 2017

About the Advisors

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In his current role, Mr. Limberakis leads the development of intellectual property and research relating to procurement and supply chain. He has over 15 years of experience in supply management, having worked in a variety of consulting, product development and market research jobs. Mr. Limberakis was recognized by *Supply & Demand Chain Executive* magazine as one of its "Pros to Know" in 2013 and 2015. Areas of procurement-related expertise include strategic sourcing, contract management and supplier management.

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Principal & Global Procurement Advisory Practice Leader



Mr. Sawchuk has over 20 years of experience in supply management, working directly with Fortune 500 and mid-sized companies around the globe and in a variety of industries to improve all aspects of supply management, including process redesign, technology enablement, operations strategy planning, organizational change and strategic sourcing. Mr. Sawchuk specializes in working directly with CPOs to help define a long-term strategy. He has been recognized by *Supply & Demand Chain Executive* magazine as one of its "Pros to Know." Mr. Sawchuk's background includes engineering and operations roles with both United Technologies and IBM.

The Hackett Group (NASDAQ: HCKT) is an intellectual property-based strategic consultancy and leading enterprise benchmarking and best practices implementation firm to global companies, offering digital transformation and enterprise application approaches including robotic process automation and cloud computing. Services include business transformation, enterprise performance management, working capital management and global business services. The Hackett Group also provides dedicated expertise in business strategy, operations, finance, human capital management, strategic sourcing, procurement and information technology, including its award-winning Oracle EPM and SAP practices.

The Hackett Group has completed more than 13,000 benchmarking studies with major corporations and government agencies, including 93% of the Dow Jones Industrials, 87% of the Fortune 100, 87% of the DAX 30 and 58% of the FTSE 100. These studies drive its Best Practice Intelligence Center™ which includes the firm's benchmarking metrics, best practices repository and best practice configuration guides and process flows, which enable The Hackett Group's clients and partners to achieve world-class performance.



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