

The future of procurement

One survey, two perspectives



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Introduction

The future of procurement is a work in progress. The function has seen dramatic changes in recent years, becoming more strategic, more collaborative, and more technology-driven than ever before—and these transformative trends are ongoing. Yet procurement today is still quite recognizable to anyone who worked in the field a decade ago.

To understand where procurement is now and where it is headed, Oxford Economics and SAP conducted a pair of global surveys during the first quarter of 2015. Fielded across 18 countries, one survey went out to more than 500 senior procurement executives. The other went to over 500 non-executive procurement practitioners, such as category managers, sourcing staff, buyers, and procurement operations specialists. We also conducted a series of live interviews with executives who represent the industries and regions surveyed.

The inspiration for this work was the landmark *Vision 2020* report created in 2010 by Ariba, an SAP company. That document, built on the opinions and observations of leading procurement executives, started a conversation around the evolution of the function. It anticipated procurement's increasing impact on business performance, the growing challenges associated with talent acquisition, and the rising importance of data. Some of the bolder prognostications—for example, that procurement would be absorbed completely into business units and disappear as a discrete function—seem unlikely to happen at scale in the next five years, if ever. Yet for a paper that described itself as “one part prediction, one part hopeful thinking,” *Vision 2020* has proved remarkably prescient.

Our twin surveys update the worldview of *Vision 2020*, validating some key expectations while offering some course corrections too. We found that, at most companies, procurement still has challenges to address in terms of technology, organization, and human capital before it is a truly strategic function. But clearly the forward momentum is measurable and ongoing.

Spotlight on high performers

Our surveys show that companies with higher projected revenue growth (over 10%) often have different strategies and priorities than their peers. Among the findings:

- Executives from high-revenue-growth companies are more likely to have increased budgetary and personnel investments in the procurement function over the past two years, and more likely to say that over the coming decade procurement will grow in strategic importance.
- These executives from high-growth companies also are more likely to say procurement within their companies is becoming more collaborative, embedded in other parts of the organization, and that data is being used across the company.

Practitioners from companies with higher projected revenue growth are also more likely to have a rosy view of the procurement function:

- Practitioners from these high-growth companies are more likely to say procurement within their companies is becoming more collaborative with other parts of the business.
- Practitioners from high-revenue-growth companies are more likely to be satisfied with their jobs.

The bottom line? While it is difficult to directly connect financial performance with these behaviors, our survey shows that high-performing companies are more likely to emphasize strategy and collaboration in the procurement function.

From here to where: Differing views of the future

When it comes to predicting the future of procurement, where you stand depends on where you sit. Executives and practitioners agree that the function is changing, and both groups are focused on the increased use of advanced technology, including reporting and financial modeling tools, process automation, and mobile devices, as well as the demand for more skilled workers. But the larger question of where procurement is headed on an organizational level draws different answers from the two groups, with executives much more optimistic about the prospects for an independent function of strategic importance.

Asked where they expect the procurement function to be a decade from now, half of the practitioners in our sample say it will shrink in terms of headcount and responsibilities, or be absorbed completely into other parts of the business. This outlook is shared by just 37% of executives. Instead, senior management foresees a more important role, or at worst stability, in the years ahead.

In fact, there is probably room for multiple correct predictions, as procurement is unlikely to become a monoculture any time soon. “It’s going to continue to bifurcate,” says Mike Merlin, Vice President, Procurement at casino-industry heavyweight Las Vegas Sands Corp. He expects the role of procurement to depend on the needs of the particular company or industry involved, and the resources committed to advancing the function.

“You’re going to have some companies that are going to continue to evolve and other companies that frankly will just keep cutting the POs,” says Mr. Merlin. In those industries with intense pressure on procured costs, like manufacturing, a bigger role seems inevitable. “The procurement folks there are going to have seats at the C-level of the organization, looking at innovative ways to drive cost out through partnering with suppliers and to bring maximum value to the company.”

Those firms that skimp on training and development for the procurement team, though, whether because of a perceived lack of need or a real lack of resources, will end up with lower-profile and less capable procurement shops.

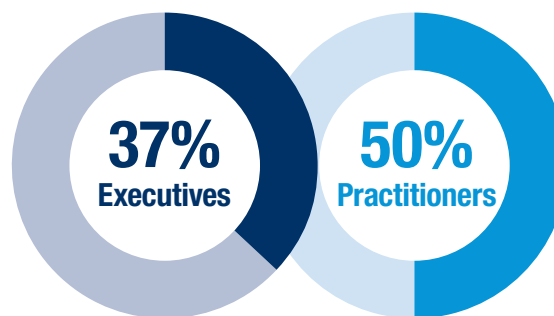
Another determining factor in procurement’s future role is whether corporate leadership and the business units perceive value in making the function more strategic. This means procurement executives will have to wield some political skills and make sure they get their due. That’s not always easy, says Tim Thomas, Head of Procurement at JBS, the big meat-packing company. “It’s a little difficult when you take a person that has grown up through production and now they’re the GM or even a vice president—a lot of times they don’t know what we do. It’s kind of out of sight, out of mind.” With less than one-third of executive respondents prioritizing work with business lines on new initiatives, both now and in two years, this potential lack of proactive collaboration could serve as an obstacle to procurement’s ambitions.

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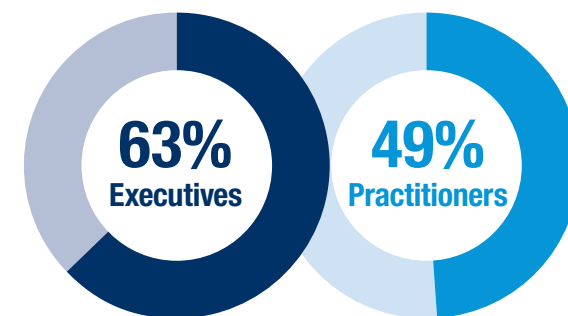
Mike Merlin, Vice President, Procurement, Las Vegas Sands Corp.

Differing views of the future of procurement

Where do you see the procurement function in ten years?



Procurement will be completely absorbed into other areas of the organization or will consist of a smaller team performing only core functions



Procurement will maintain its current structure or maintain its current structure while becoming more strategic and absorbing other functions

Becoming more strategic and collaborative

Two core tenets of the *Vision 2020* report were the widening strategic scope of procurement, and the growing importance of collaboration with suppliers and other parts of the business. Despite the real-world challenges to effective collaboration highlighted by Mr. Thomas of JBS, our surveys show that both of these trends have borne fruit and in fact are remaking the function.

Both practitioners and executives agree that procurement within their companies is playing a more strategic role in the organization and collaborating more often with suppliers and across the company. In fact, practitioners are even more likely than executives to say that the function is becoming more strategic, and also that procurement data is being used to drive strategic decision-making across the company.

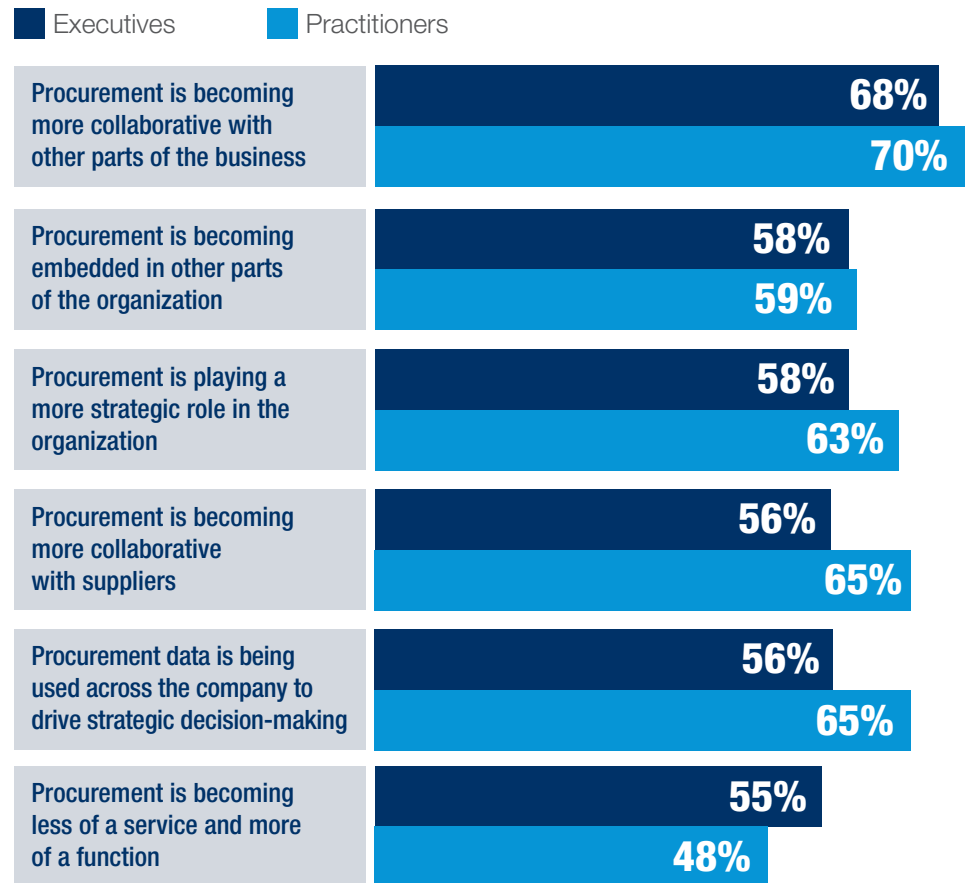
For all the positive momentum, though, realizing the full value of these trends comes down to execution. Collaboration, for example, is not an end unto itself—it does not do much good if people are working together without clear and achievable business goals in mind. At one large, US-based financial services company, the Chief Procurement Officer (CPO) arrived to find a culture of collaboration, inside the company and with suppliers, but there was still work left to be done.

“The challenge was for us to get our mind-set in a different place, around what we are actually buying,” he says. “We had to ask how we can support the business by being more challenging with our business partners. It wasn’t as much being collaborative from a ‘let’s build a relationship’ perspective, as helping everyone understand that going through a competitive process is the best way to bring the most value to the company.”

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Procurement’s growing strategic influence

Thinking about the procurement function at your organization, to what extent do you agree with the following statements? “Agree” and “Strongly agree” responses



At Las Vegas Sands Corp., Mr. Merlin has his team working closely with a major lighting supplier to meet a well-defined business need. The company's brightly lit casinos, which include prime properties such as The Venetian and The Palazzo in its namesake city and high-end venues in Macau and Singapore, among others, require a focus on reducing its energy footprint. Rather than just negotiating for better deals on bulk purchases of light bulbs, Las Vegas Sands is actually helping to improve the products it buys.

"We are bringing our lighting supplier to the table to custom-design more energy-efficient lightbulbs for our lighting fixtures," says Mr. Merlin. Through this carefully orchestrated relationship, the casino operator hopes to realize significant cost savings and the vendor should get a new product—already user-tested—that it can sell to other customers.

This kind of strategic collaboration with a supplier represents a big leap forward for the Sands procurement function—and a sense of where procurement can go at other companies. Already, the shifting nature of interaction with suppliers is a major force for change. Ownership of the supplier relationship is a long-debated issue, and survey respondents say procurement's ownership of this relationship is the trend having the greatest impact on the way the function operates. Not just any suppliers will do, either—the second-biggest trend is increased competition for high-performing suppliers.

The way procurement operates is also being affected by another new type of relationship—the use of non-payroll workers, who must be onboarded, compensated, and managed differently than traditional staff. An increasing reliance on freelance, part-time, and other contingent employees is a major trend across industries and regions, and procurement is no exception to the rule. This is true both within the function itself and in its dealings across the enterprise—and is in turn part of an even larger, long-term trend, the shift to a service economy.

It's all about relationships

To what extent are the following trends affecting the way your procurement function operates? "To quite an extent" and "To a great extent" responses



Collaboration that provides real value takes work. "We had to ask how we can support the business by being more challenging with our business partners. It wasn't as much being collaborative from a 'let's build a relationship' perspective, as helping everyone understand that going through a competitive process is the best way to bring the most value."

Chief Procurement Officer, major financial institution

Plans and strategies for change

One measure of procurement's growing stature is that senior management is putting money into the function. Our survey respondents expect steady investment in the procurement function over the next three years, building on current momentum. Half of executives say budgetary and personnel investments will increase or increase significantly over the next three years, and a roughly equal number say it has already increased over the past three years.

Today's investments are focused heavily on human capital. Recruiting new people and investing in training and upskilling programs are top priorities, along with spending on procurement and supply-chain technology.

So what are all these well-trained, tech-enabled workers expected to do with their time? Executives are most likely to say they want practitioners to focus their time on working

with suppliers in a strategic way—an emphasis that will increase over the next two years. Management also expects greater focus on implementing and training on all that technology it is funding.

Mr. Thomas of JBS emphasizes the ongoing need for preparing procurement workers in what remains a specialized field. "I am finding very talented people, but they have to be trained," he says. Getting employees ready to manage procurement projects on their own tends to be a two-year learning curve, and oversight is still required. "If it was all electronic and not ever having to talk to anybody, they would be prepared to do that right out of the gate. But you know what we do is way more than that—the negotiating piece, when to push, when not to push, understanding when you have the best deal possible."

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Tim Thomas, Head of Procurement, JBS

Investments focused on talent, technology

What are the budgetary and personnel investment priorities for your procurement organization? Respondent choices in rank order

Executives say...



Practitioners say...

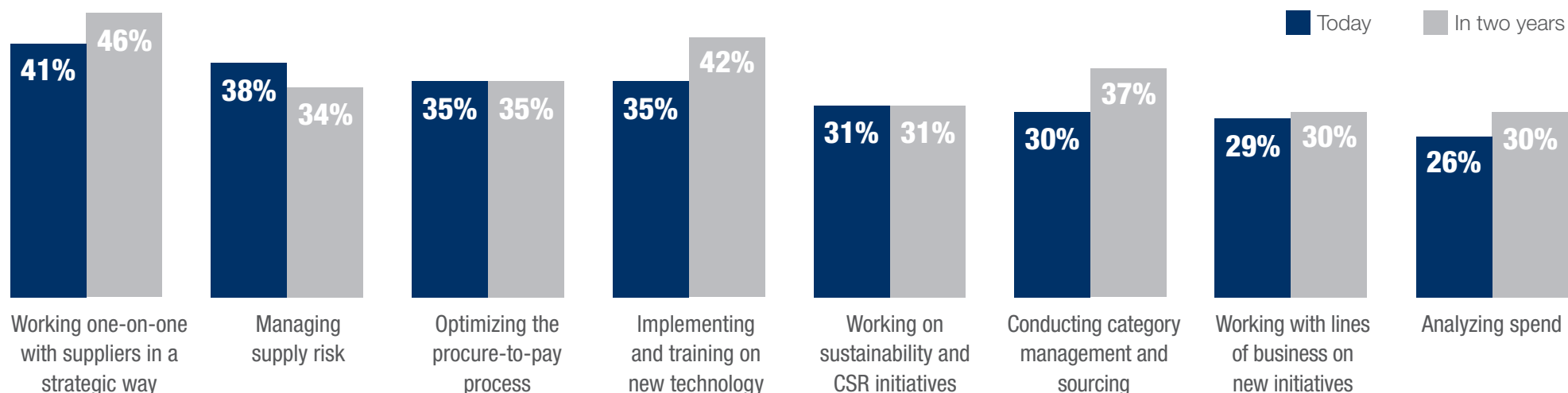


Practitioners, meanwhile, are tracking executive expectations, with 55% saying they spend the majority of their time working one-on-one with suppliers on either strategic or administrative tasks. Yet there are only so many hours in the week, and working one-on-one on administrative tasks takes critical time away from more strategic endeavors. One possible solution to the time crunch lies in the rise of business networks, which executive respondents rate as the top technology trend having an impact on procurement in the next three years—and which should enable more efficient use of practitioner time.

Focusing procurement's energy

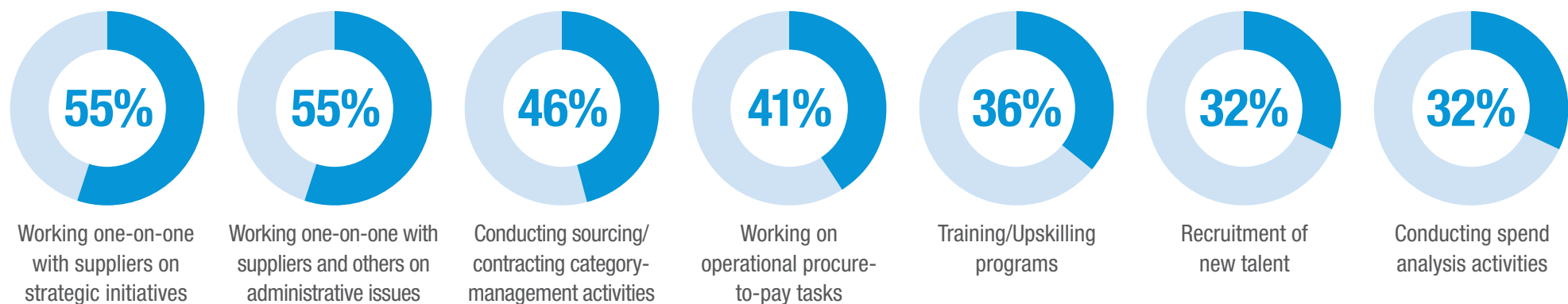
On which of the following areas would you like your organization to be most focused, today and in two years? Choose up to 3.

Executives say...



Thinking of a typical day at work, which of the following activities take up the majority of your time? Choose up to 3.

Practitioners say...



Outcomes and operations

The future of procurement will depend on its ability to deliver measurable value to businesses. The evolution of the function is meant to deliver greater payoffs in terms of cost savings, efficiency, innovation, and, ultimately, overall financial performance.

But measuring performance remains an inexact science. There are significant gaps between the amount of attention devoted to key performance indicators (KPIs) and the perceived value of these indicators, and also gaps between the perceptions of executives and practitioners. The non-executive staff, for example, say cost savings and avoidance metrics are considerably more important to their day-to-day work than their usage indicates. Executives, meanwhile, view several KPIs as substantially under-utilized, including risk management, impact on revenue from innovation, and order cycle time.

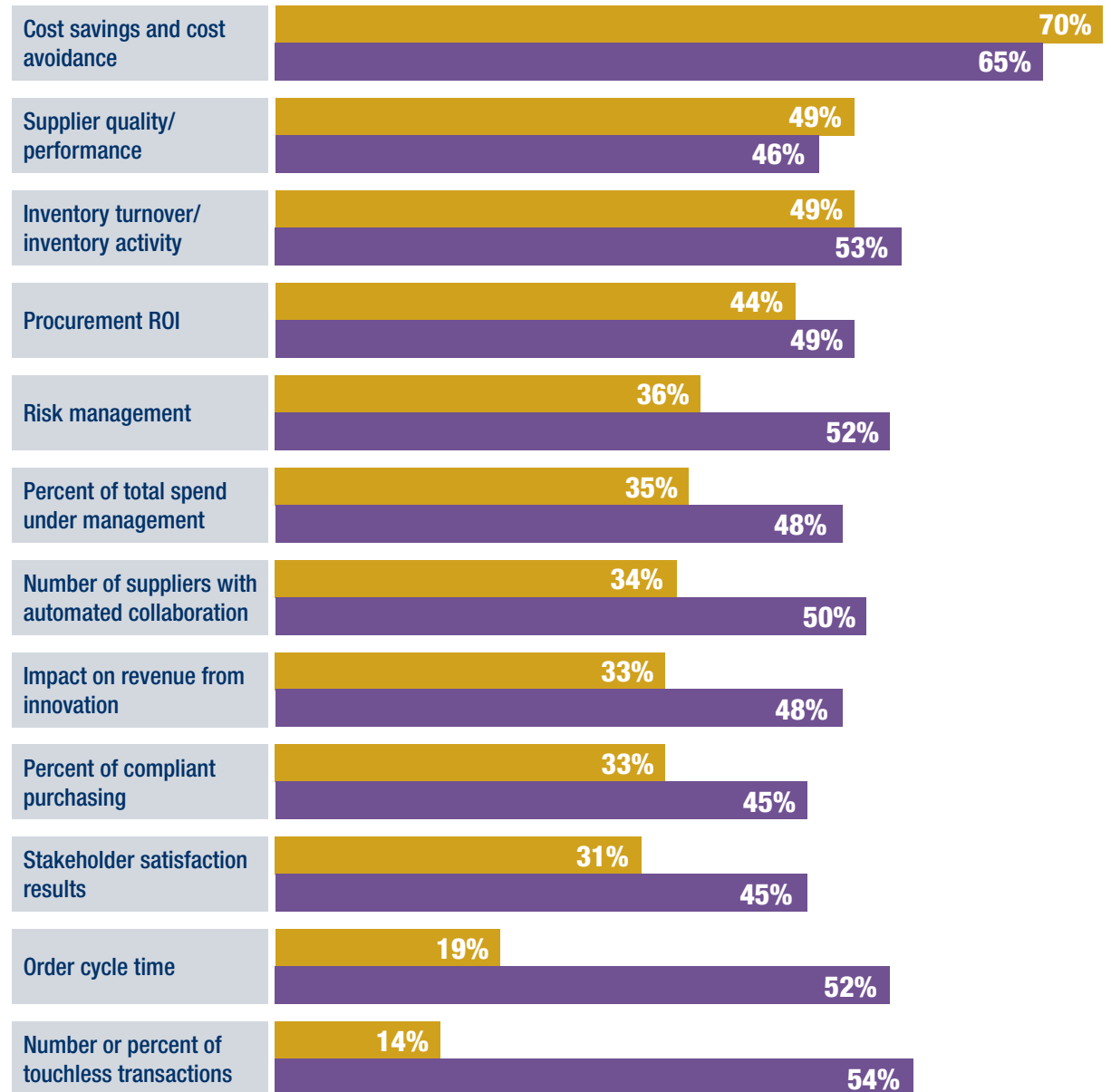
The financial services executive puts at least some of the blame for the disparate views of KPI value on the lack of a clear message from the top. “That disconnect might be lack of vision, honestly,” he says. “If the head of procurement has a good, strong vision, and the team understands what that vision is, there would be more common ground.”

There are, of course, many areas where practitioners and executives see things in a similar light. For example, both expect automation to be a major driver of change in the next ten years. Even here, though, there are some differences. Practitioners are more wary of the ease with which success will come to these process improvements, while executives are significantly more optimistic about the success of automation in three years.

The KPI imbalance: How executives see usage and value

■ Usage: Which of the following KPIs does your organization use? Select all that apply.

■ Value: How valuable are the following KPIs? “Valuable” and “Highly valuable” responses



And executives say changes to the procurement function are having an impact on their performance in terms of hiring and retaining talent, managing more categories of spending, and gaining cost savings. Practitioners tend to agree, but are more likely than executives to say that these changes are driving additional revenue.

Mike Merlin of the Sands is one executive who sees this new story playing out. In the gaming industry, geography and culture play a meaningful role in customer experience—a themed slot machine that is popular in one market, for example, may fall flat in another. “We can’t say, ‘You can’t have that slot machine or that theme,’ because those things have a direct impact on revenue and the guests’ satisfaction.” The strategic response: His organization now works closely with local experts to ensure the right selection of themes and smooth licensing of creative content to help maximize revenue.

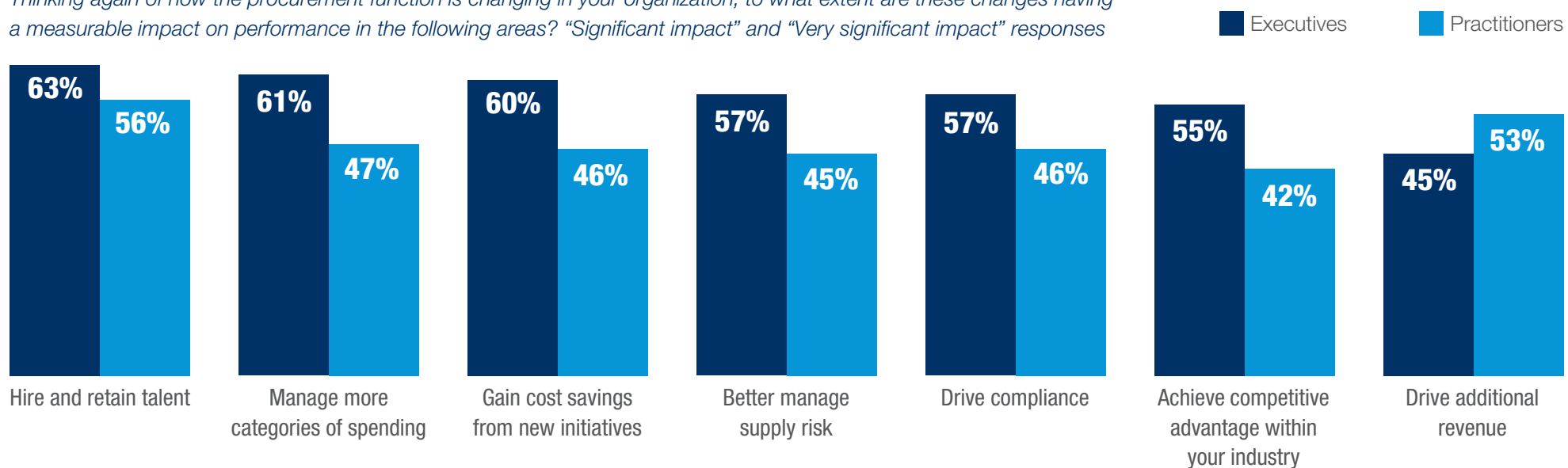
Business networks among top trends

Several economic and technology trends will have a significant influence on procurement in the next three years. Executive respondent choices in rank order



An evolving function drives performance changes

Thinking again of how the procurement function is changing in your organization, to what extent are these changes having a measurable impact on performance in the following areas? “Significant impact” and “Very significant impact” responses



CONCLUSION

Novelist William Gibson says that the future is already here—it's just not evenly distributed. That is true of the procurement function. In some cases, this divergence is appropriate, but in others it represents a drag on business performance. To better understand the future of procurement, we will examine several key themes emerging from our survey data in a series of upcoming papers, graphics, and fact sheets.

Stay tuned for more on the following themes:

- **Procurement gets collaborative.** Executives and practitioners are spending more time collaborating with other lines of business and external partners.
- **Goodbye to business as usual.** These new ways of working are forcing change on the way procurement operates—and on the way success is measured.
- **The technology agenda.** Procurement today is focused on automation and collaboration through networks—but executives and practitioners do not see eye to eye on every issue.
- **The human challenge.** As the nature of work changes and technology advances faster than most workers can keep up, attracting and recruiting the right workers is a challenge for the procurement function—and one of the biggest opportunities to rise above the competition.

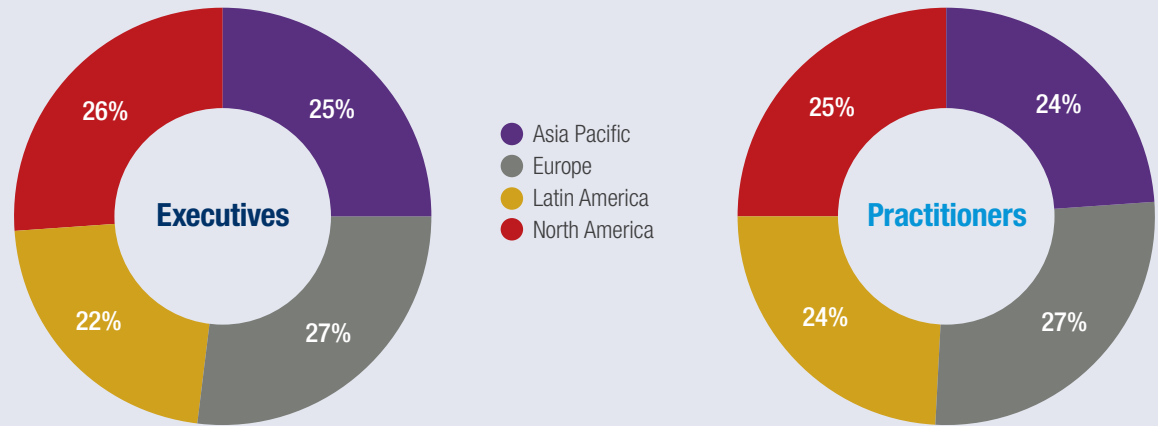
“The future is already here—it's just not evenly distributed.”

William Gibson

About the research

In the first quarter of 2015, Oxford Economics and SAP surveyed more than 500 procurement executives and 500 non-executive procurement practitioners. The respondents come from around the world and a range of industries, including financial services, retail, consumer products, and energy.

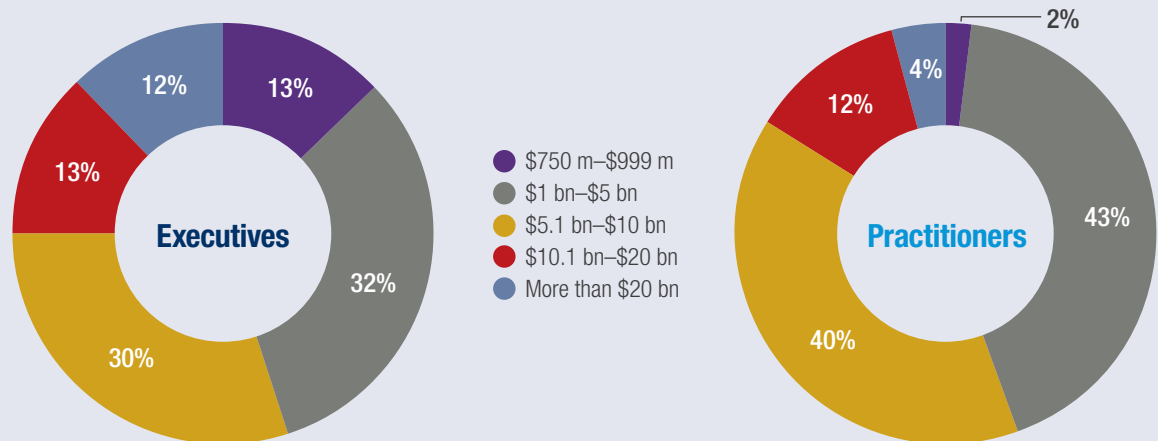
Respondents by region



Respondents represent companies with more than \$750 million in revenue, and the majority expect at least moderate revenue growth over the next two years.

Respondents by company size

Annual revenue in US dollars



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