Procurement 2020: Your action plan to prepare now
Reshaping corporate functions by 2020

Eight trends impacting corporate functions

**Pervasive digital capabilities**
Digital capabilities permeate all aspects of business and operating models, reshaping how companies (and functions) generate value.

**Corporate function drag**
Growth in functions’ overlapping process requirements outpaces coordination and efficiency gains, creating more bureaucracy that drags on the business.

**Data scrutiny**
Customers, regulators, business leaders and employees expect companies to understand what data they could have, what can be done with it, what risks it poses, and have plans to manage it well.

**Eroding process ownership**
Access to tools and data means the business will do more for itself and expect value beyond current functional process stewardship.

**War for talent**
Stiff competition for scarce talent (e.g., data scientists) creates the need for skills-based roles and talent sharing across functions.

**Asset lite**
New products and services can be made, customized and launched instantly using resources such as online software, 3D printing and crowdfunding.

**Winners take all**
The rise of platforms and network effects means companies that can create enough scale can secure most of the profits in a given market.

**Regulatory fragmentation**
Global legal and regulatory frameworks will fragment as more countries assert their place in the global regulatory and economic environment, and enforcement activity is driven by populist and political agendas.
## Procurement 2020: Impact of trends

### Procurement must make five shifts to succeed

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<th>Value drivers</th>
<th>Current state</th>
<th>Future state</th>
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<td>Cost Savings and Risk Mitigation</td>
<td>Execution Speed and Business Insight</td>
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<th>Procurement’s role</th>
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<td>Sourcing Executor</td>
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<td>Procurement Customer</td>
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<th>Delivery model</th>
<th>Current state</th>
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<tr>
<td>Stand-Alone Corporate Function</td>
<td>Hybrid Center of Excellence (COE)</td>
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<th>Resources</th>
<th>Current state</th>
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<tr>
<td>Execution Staff and Core Technology</td>
<td>Professional Advisory Staff and Customer-Oriented Technology</td>
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Shift 1: Value drivers

Execution Speed and Business Insight

Procurement uses new technologies and an increased focus on analytics to generate and enable quick action on insight regarding the supply market, supplier performance and business buying behavior.

The need for insight

79% of procurement executives consider gaining visibility into stakeholder needs an urgent issue.

75% of procurement executives consider displacing low-value activities to spend more time working with business partners an urgent issue.

Implications for the function

- Procurement will shift from relying on process hygiene to reduce costs and mitigate risk, to leveraging its knowledge about spend, suppliers and markets to eliminate overlooked inefficiencies and identify new sources of value.
- Procurement’s data gathering and storage must be centralized and streamlined to expedite execution.
- Procurement will continue its central role in supplier relationship and risk management, using its new analytics capabilities to deepen value added.

n = 122 procurement organizations
Source: 2018 Procurement Senior Executive Priorities Survey
Shift 2: Procurement’s role

**Sourcing Advisor**

While focusing on top-tier buys, procurement enables the business to independently source mid- and low-tier buys, acting as a sourcing advisor when needed.

**Implications for the function**

- Procurement will shift nontransactional work to the business to take on more high-value work.
- Experienced category managers will focus efforts only on top-tier buys and spend more time developing and managing category strategies.
- Valued skill sets for procurement staff will change to include process expertise and coaching others.

**Shift in distribution of buy ownership**

<table>
<thead>
<tr>
<th>Past</th>
<th>Future</th>
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<tbody>
<tr>
<td>Procurement owns</td>
<td>Business owns/procurement advises</td>
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</table>
- **Strategic**
- **Mid-tier**
- **Transactional**

The majority of sourcing advice will be for mid-tier buys that require medium to high levels of sourcing discipline.
Shift 3: Business role

Disciplined Sourcing Agent
The business will gain more responsibility over its sourcing decisions and own more of the consequences of irresponsible sourcing, as well as more of the partnership activity with suppliers.

Business partners’ preference when making sourcing decisions
Primary factor that increases business partner willingness to engage the sourcing process

- 69%
  I prefer the process be easy to execute

- 31%
  I prefer to understand the value the process will deliver

Implications for the function
- Procurement will enhance its training and coaching capabilities to help ease the transition to business partners sourcing on their own.
- Procurement must develop new tools and processes that make it easier for business partners to execute sourcing events on their own.
- Procurement will need new mechanisms to evaluate and monitor sourcing discipline across events executed by the business.

n = 156 business partners
Source: 2015 Procurement Business Partners Sourcing Effectiveness Survey
Shift 4: Delivery model

Hybrid Center of Excellence (COE)

Experienced category managers will conduct the most important buys, while procurement process experts will provide purchasing guidance to business units.

Implications for the function

- The scope of procurement’s role and responsibilities will include less transactional work and more business partner management.
- The procurement team’s skill set will focus more on process excellence and less on specific category knowledge.
- Procurement will understand the varying levels of business partner sourcing discipline; for areas where it is low, procurement will take back buy ownership.

Procurement’s current organizational structure

- CPO
- Category manager
- Category manager
- Category manager
- Transactional purchasing
- Sourcing expert
- Sourcing expert
- Sourcing expert

Procurement’s Hybrid COE organizational structure

- CPO
- Category manager
- Procurement process expert
- Procurement process expert
Shift 5: Resources

Professional Advisory Staff and Customer-Oriented Technology

Investment in people will focus on professional advisory skill sets, while technology will focus on enhancing the purchasing customer experience experts to a greater extent.

Implications for the function

- Procurement will reallocate budget toward personnel and technology from activities such as outsourcing and corporate overhead.
- Within personnel investments, distribution of resources will shift toward professional and analytics skill sets. Dollar investment in personnel will likely increase because professional talent is more expensive, while head count may decline.
- Technology investment will shift to include bolt-on or robotic process automation software and customer experience technology, such as virtual supply rooms integrated with e-catalogs.

Investment in procurement personnel

Percentage of total budget

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<tr>
<th>Year</th>
<th>Professional Advisory Staff</th>
<th>Customer-Oriented Technology</th>
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<tr>
<td>2014</td>
<td>60%</td>
<td>40%</td>
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<tr>
<td>2017</td>
<td>78%</td>
<td>22%</td>
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Advantage of investing in procurement technology

- +54% Visibility
- +47% Execution speed

n = 109 procurement organizations
Source: 2017 Digital Procurement Benchmarking Survey
What to do now?

A to-do list for chief procurement officers

Immediate

1. Convene a subgroup of the procurement leadership team and a few midlevel, high-potential employees to examine the five shifts. Ask them to think forward five years, identify implications for your organization and develop scenarios for how your organization may change.

2. Include discussions related to the five shifts as a standing agenda item in meetings with the CEO and CFO. Begin brainstorming and drive consensus on expectations regarding execution speed and market and supplier insight.

3. Discuss implications of the second and fourth shifts — Sourcing Advisor and Hybrid COE, respectively — with the CEO and CFO.

4. Discuss implications of the first and third shifts — Execution Speed and Business Insight, and Disciplined Sourcing Agent, respectively — in the next meeting with business unit general managers.

5. Include IT when discussing implications of the fifth shift — Professional Advisory Staff and Customer-Oriented Technology — with the CFO.

Future

1. Embed the implications of the five shifts in the procurement strategic plan, defining how they affect the buy portfolio, and the procurement function’s structure, role and skills requirements.

2. Add metrics to the procurement functional dashboard to track changes related to the shifts.

3. Coach business unit management to help them improve their sourcing discipline and establish a process of reaching out to procurement for sourcing discipline support.

4. Describe the five shifts and their implications for the procurement function’s structure and role, and for individual career plans, in procurement team meetings, conference calls, emails and newsletters.

5. Re-evaluate procurement’s leadership team succession plans to ensure that the organization is developing leaders with the right skill sets. These include procurement process excellence, vendor management, analytics skills, project management and internal relationship management.

6. In meetings with vendor partners, explain how the procurement function and its value drivers are changing.
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