

Deloitte.
Insights



Complexity: Overcoming obstacles and seizing opportunities

The Deloitte Global Chief Procurement Officer Survey 2019

Deloitte Consulting LLP's Supply Management & Digital Procurement practice marries cutting-edge digital tools with market-leading consulting services to drive insight around spend management and deliver increased cost savings at a faster pace. Aim for the best return on investment on your third-party procurement spending through Deloitte's cloud-based solutions and services, driving category management, supplier management, and sourcing of indirect and direct materials. Contact the authors for more information or [read more about our Supply Chain and Network Operations services on Deloitte.com](#).

Contents

Introduction and methodology	2
The good, the bad, and the digital	5
Preparing for the world outside the box	8
Setting the house in order	13
Driving the change	20
Tech-over	26

Introduction and methodology

The master plan: Why top-performing CPOs must become masters of complexity

Trade wars. Climate change. Digital disruption. Talent shortages. Regulations.



PROCUREMENT ORGANIZATIONS TODAY are facing increasing complexity on all fronts. This complexity has only increased challenges for chief procurement officers (CPOs), who, in addition to delivering sourcing-centric cost savings, are also expected to enhance their influence with C-level peers and extend their business impact into strategic areas such as risk management, corporate development, and innovation. Yet more often than not, CPOs are asked to do all of this with fewer resources and thinner budgets.

“Complexity will only increase and creating value will only become more and more difficult over time ... better to be ready!”

— Anonymous CPO respondent

While many CPOs may feel like they’re ready to drown in a sea of complexity, they can still find ways to stay afloat—or even identify new opportunities to move their organizations forward. This report explores how CPOs can change their lens on improving core value chains and organizational resources, tap transformational digital capabilities to revolutionize procurement, and become “complexity masters” able to turn the risks apparent in complex business scenarios into value creation opportunities. Specifically, we examine procurement complexity in four areas:

- **External complexity:** Everything outside the four walls of the organization that procurement must acquire and manage to serve its internal stakeholders

- **Internal complexity:** The challenges of managing interfunctional relationships and aligning procurement with broader business objectives
- **Digital complexity:** Technology and processes issues that both mediate the other three complexity areas and fuel digital transformation efforts

- **Talent complexity:** People, organizational models, and how procurement teams execute on their business plans

At the end of each section, we offer three key action items for CPOs as they consider how to tackle complexity within their own organizations, including a recommendation for “going digital” as part of a larger transformation effort.

ABOUT THE SURVEY

Since 2011, the Deloitte Global Chief Procurement Officer (CPO) survey has been providing exclusive insights into the key challenges and opportunities shaping the course of procurement, serving as a global benchmark of sentiment about the function. These insights have, over the years, helped members of the C-suite, procurement leaders, business partners, suppliers, and supporting technology providers in furthering their ambition, strategies, and performance.

The 2019 survey was conducted in association with procurement market intelligence firm Spend Matters and Odgers Berndston. In this year’s survey, 481 procurement leaders from 38 countries took part, representing organizations with a combined annual turnover of US\$5 trillion.

“COMPLEXITY MASTERS” METHODOLOGY

In previous editions of the survey, we used a “high performer” methodology based on achieving savings targets and business partnering effectiveness, and then applied that metric to all firms in the report. In this year’s edition, we wanted to expand the performance measurement by making it more comprehensive and then applying it in the context of this year’s theme of complexity management. The “complexity masters” group is considered a set of procurement organizations that delivers:

- **Top quartile procurement performance.** We assessed this on a balanced scorecard split between stakeholder influence/alignment (based on sourcing influence and early business alignment/involvement across nine enterprise-level strategic decision-making areas) and a combination of savings attainment against plan and a business partnering index that measures estimated stakeholder impact/satisfaction.
- **Performance in the face of high complexity.** We developed a complexity index to winnow the high performers down to those who had the highest quartile complexity based on a calculated complexity index. The rationale is to learn from those high performers who had to outperform in the face of high complexity. This complexity index was derived primarily from the following elements:
 - **Industry complexity:** Industries such as oil & gas, life sciences, and consumer goods are examples of higher complexity industries. Public sector, not-for-profit, and real estate are examples of lower complexity industries.¹
 - **Spend size:** Greater total spend is considered a typical indicator of higher complexity for an organization.
 - **Supply risk:** We based this upon CPO-cited trailing 12-month increase in procurement-related risks (pricing, disruptions, bankruptcies, etc.).
 - **Business strategy complexity:** This is derived from the number and criticality of enterprise business priorities cited by CPOs in the survey. While this is actually “good complexity” (i.e., more opportunity for procurement to get aligned), it’s complexity nonetheless.

Endnote

1. Based on Deloitte analysis. “High complexity” industries are industries that tend to have global manufacturing, are capital/technology-intensive, and/or consumer-facing.

The good, the bad, and the digital

Mastering digital transformation to untangle procurement complexity



IF THERE WERE one word to describe the scenario chief procurement officers (CPOs) are facing in 2019, it would be complexity. Procurement organizations today shoulder an expansive and intricate set of responsibilities, and each new task that arises from these responsibilities adds another node to an ever-growing network of complex initiatives and challenges to address.

Some of these are ever-present, such as the perennial concerns about cost reduction. Others are reactions to new problems, such as the high levels of risk and uncertainty prevalent in the current business environment. Findings of our survey¹ indicate that over 60 percent of firms have seen increases in procurement-related risk in the last 12 months. Norms of global trade are being

challenged through changing pacts and levies, and this is certainly evidenced in the supply chain (see sidebar, “A change in focus and approach for businesses”).

So, while the mandate for CPOs to reduce costs and risks seems crystal clear, the ability to execute is a different story. Many procurement leaders are finding it hard to weigh competing demands for their limited resources. They’re having trouble determining how best to meet their supply-related commitments alongside more ambitious goals such as strategic business partnering and innovation contributions. They also struggle with frequent fire-fighting. As one CPO put it, “Too many activities are rushed into, reactionary or directionless, which creates greater complexity.”

A CHANGE IN FOCUS AND APPROACH FOR BUSINESSES

According to the survey findings, the top risk scenarios for manufacturers today include economic downturn/deflation (56 percent), followed by trade war (48 percent), Brexit uncertainty (31 percent), and China slowdown (27 percent).

Global value chains are being fundamentally restructured—there is now a gradual shift away from heavily globalized supply chains toward more domestic, regionally focused supply chains. The topic is front-and-center with CEOs on their earnings calls, and is also being acknowledged by CPOs. Our survey findings reveal that the top two “strong priority” business strategies for the next 12 months are the perennial concern of cost reduction (70 percent), closely followed by an increasing focus on risk reduction (55 percent).

Tackling this increasing scope of responsibility requires CPOs to not sit back and bemoan complexity. As our research suggests, procurement organizations should shift toward a proactive mode of addressing complexity directly. This shift typically takes two forms:

1. **Eradicating “bad complexity.”** Complexity that introduces risk and hampers procurement performance should be eliminated where possible. For example, supply chain disruption events from natural disasters to geopolitical strife and cyberattacks have all raised perceived supply market risk in the last year. Yet more than 50 percent of organizations in our survey claimed to have zero or minimal effectiveness in using commercially available digital tools to spot and predict risk in supply markets.
2. **Embracing “good complexity.”** Complexity can be exploited to expand procurement’s influence beyond traditional sourcing-centric spend management toward a broader engagement model and service offering. This includes efforts to more broadly influence business stakeholders in strategic areas (e.g., capital expenditures, enterprise risk management), as well as more deeply influence stakeholders through demonstrated leadership in areas such as corporate development.

Eliminating and embracing complexity effectively, our research suggests, hinges upon one key

initiative: digital transformation. If CPOs master this core area, they will be able to achieve mastery over all other forms of complexity. No longer simply a buzzword, digital transformation is becoming an imperative for top-performing procurement organizations. What’s more, digital transformation has become core to business transformation. Procurement can’t credibly help lead the transformation of the business unless it can address complexity and transform itself. Nor can it lead transformation effectively without tapping suppliers for these digital capabilities.

Case in point, the survey findings indicate that “high-performing” (top quartile) procurement organizations who were able to deliver multipronged value in high complexity environments had demonstrably stronger digital capabilities than their peers. They also had tighter alignment with key stakeholders such as IT and risk management, and more flexible digitally enabled operating models. We call these firms “complexity masters” (see sidebar, “What do complexity masters look like?”) and will discuss them further in this report.

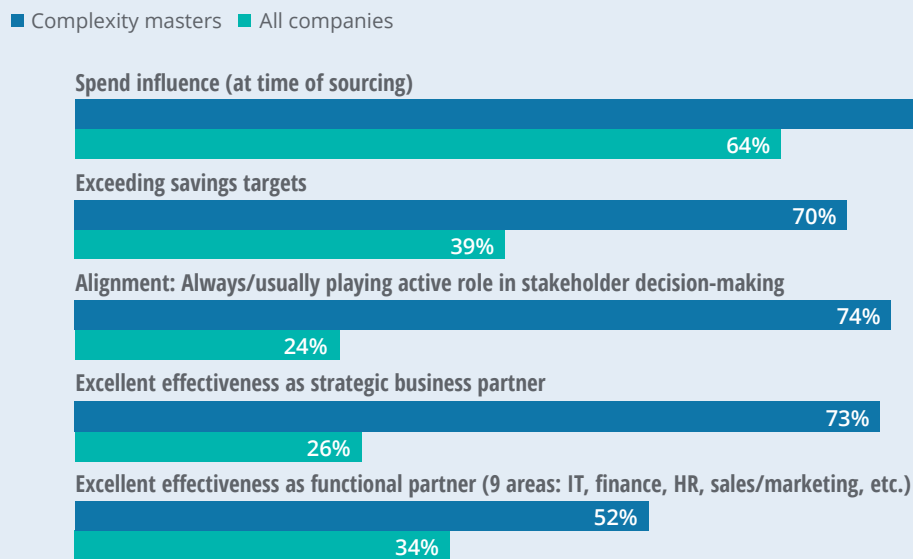
Yet while digital transformation is currently de rigueur, procurement can’t do any of this effectively without its talent proactively learning and adopting the most flexible and intuitive technology approaches and tools. As such, the procurement operating model is shifting, not so much toward traditional outsourcing but instead

WHAT DO COMPLEXITY MASTERS LOOK LIKE?

In this 2019 edition of the *Deloitte Global Chief Procurement Officer Survey*, we set out to learn from procurement organizations that were top quartile in performance and also in the top quartile of complexity (see sidebar, “About the survey” in the *Introduction and methodology* chapter of the series). The metrics shown in figure 1 highlight the performance differences between these 40 complexity masters compared with the rest of the 483 firms in the report, but we’ll focus on the specific capabilities that can help deliver performance in the face of complexity.

FIGURE 1

Complexity masters outperform others in the face of complexity



Source: Deloitte Global CPO Survey, 2019.

toward more flexible digitally enabled models. The report found that high-performing procurement organizations were using higher levels of contingent talent and cloud-based apps (especially those with predictive analytics) and extending them to stakeholders to help the business itself. Furthermore, business process outsourcing (BPO) models are being transformed as such firms are

aggressively deploying robotic process automation (RPA) to transform themselves from “body shops” to digital transformers.

In short, CPOs who can become digitally enabled “complexity masters” will be able to deliver value in lockstep with the business—no matter what storms and headwinds build up.

Endnote

1. Deloitte, *Global Chief Procurement Officer Survey*, 2019.

Preparing for the world outside the box

Mastering external complexity



GLOBAL SUPPLY CHAINS are vast, dynamic, and interdependent, creating a complex environment that could produce business disruptions at any moment. No organization or business can claim that it is impervious to the damage that external factors can cause. In a world where the success of the procurement business depends hugely on its ability to effectively capture value from external supply markets, it is imperative that chief procurement officers (CPOs) master external complexity.

Nearly all procurement practitioners are familiar with the Kraljic 2x2 matrix of supply market segmentation and its two dimensions: value and complexity. In practice, this external complexity has evolved to become a broader proxy for risk—that is, high complexity creates more opportunities for things to go wrong across the value chain.

In the last year alone, several risk factors have added complexity to external supply markets—trade wars and resulting tariffs, climate change, uncertainty about the outcomes of global trade negotiations, and ultimately, the possibility of an economic downturn and deflation (figure 1).

CPOs largely view these “outside-in” events as the continuation of an already high-risk environment, but even so, 61 percent of respondents found that risks increased over the last 12 months (figure 2). Familiarity with these risks, however, did not necessarily translate into confidence in managing them. Only 37 percent of CPOs surveyed were prepared “to a large extent” (as compared to 53 percent of the “complexity masters”—the group of procurement organizations that deliver a top quartile performance of those surveyed and also deal with highly complex environments), and only

a few said that they were “completely prepared” (figure 3).

Tariffs played a prominent role this year, with 33 percent of total respondents (and 48 percent of manufacturers) naming it a major risk. But this seemingly transitory risk has foreshadowed the more systematic and longer-term risk of an economic downturn, cited by 42 percent of respondents and echoed in certain sectors such as US Manufacturing.¹ Fears of a recession are clearly on the mind of many CPOs, who when presented with this response option in this year’s survey for

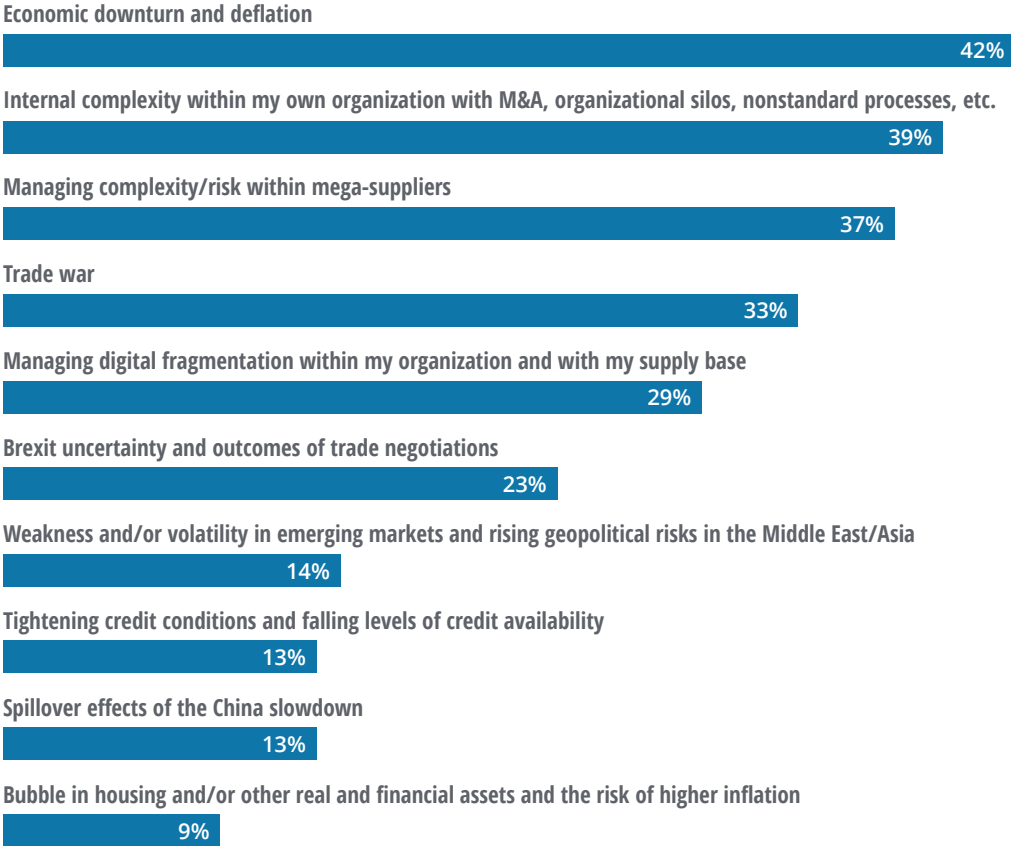
the first time placed it ahead of all other regularly tracked factors.

Despite this growing external complexity, procurement leaders are managing risk selectively. Trade disputes, for example, are primarily driving CPOs to pursue reactive and tactical redesign of their inbound supply chains. While 14 percent of respondents said they were “completely” or “to a large extent” planning to move to existing supply sources, nearly two-thirds (62 percent) only used this strategy “to some extent” or “to a small extent.” Interestingly, the complexity masters have been

FIGURE 1

Economic downturn and deflation emerged as the biggest risk that respondents said their organizations face

Please select the top three scenarios in terms of the degree of risk presented to your organization



Source: Deloitte Global CPO Survey, 2019.

ATTACKING COMMERCIAL COMPLEXITY AND THE RISK OF SUPPLIER POWER

The real supply risk surprise in this year’s survey was the second-highest cited risk (by 37 percent of respondents): the threats posed by “mega suppliers” that have emerged as a byproduct of years of strategic sourcing and industry consolidation. Supplier power means greater commercial/relationship complexity, which creates not only price risk but also agility risk if the supplier can’t be managed strategically for mutual benefit. Even so, 36 percent of all organizations still plan to continue performing spend consolidation—the top procurement strategy to be employed over the next 12 months—and two-thirds of firms will also perform the “tried-and-true” strategies of competitive bidding with new suppliers and contract negotiations with existing suppliers. In contrast, the complexity masters pursue these strategies but also seek to reduce costs and risk by reducing complexity in demand through SKU rationalization (56 percent compared with 25 percent for all firms) and through specification improvement (40 percent compared with 24 percent for all firms).

more aggressive here, with 24 percent doing so “completely” or “to a large extent” and 64 percent doing it “to some extent” or “to a small extent” (figure 4).

Although discussions on trade disputes and protectionism may have dominated market commentary in 2019, there hasn’t been any exodus

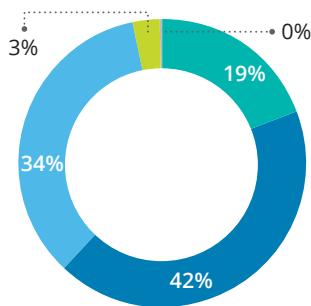
to localized sourcing. For over a decade, progressive manufacturers have developed more domestic, regionally focused supply chains for the purposes of speed and resiliency/redundancy, and the recent trade wars have merely forced a change in supply mix rather than making them scramble to redesign their networks purely from the supply side.

FIGURE 2

Most CPOs feel procurement-related risks have increased over the last 12 months

How has the level of procurement-related risk changed over the last 12 months?

- Increased significantly
- Increased somewhat
- Broadly unchanged
- Declined somewhat
- Declined significantly



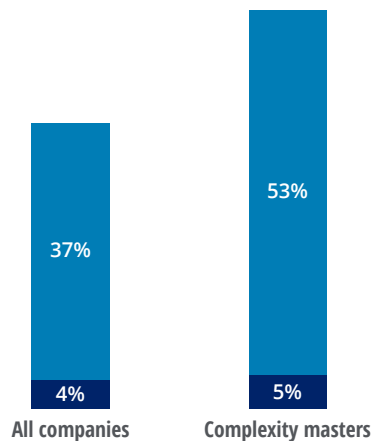
Source: Deloitte Global CPO Survey, 2019.

FIGURE 3

Which CPOs are prepared to address top risks?

Level of preparedness to address top risks (percentage of respondents)

- To a large extent
- Completely

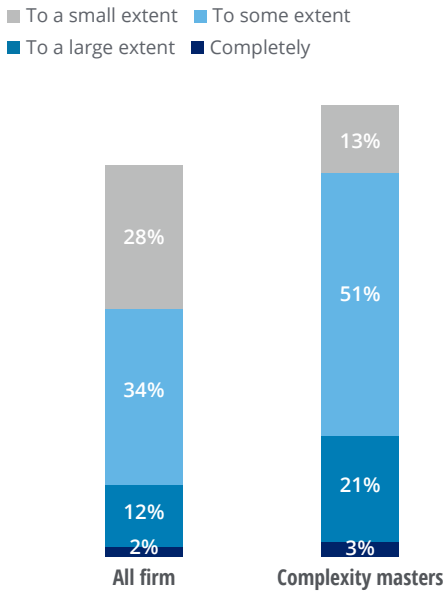


Source: Deloitte Global CPO Survey, 2019.

FIGURE 4

Complexity masters fare better in moving existing sources of supply to negate risks

Extent to which firms are moving supply lines based on supply risks



Source: Deloitte Global CPO Survey, 2019.

Since risk levels appear to have remained elevated, however, procurement can use the burning platforms caused by such complexity to light a fire within the company to address the resulting risks—and potentially save some money, too. But this is no simple, one-time effort. In order to be able to achieve a sustainable advantage, companies must continually digitize and analyze their supply chains to help make them less risky and more resilient against both planned and unplanned events.

As research from *MIT Sloan Management Review* illustrates, the desired end-state is one in which an organization’s supply chain is able to “pivot” based on real-time analytics and flexible decision-making and execution processes.² Evolved direct-sourcing capabilities are one example of this, with rapidly advancing capabilities for activities such as commodity hedging, Internet of Things (IoT), advanced analytics, and cost modeling giving leading organizations a competitive advantage.

So, what are some next steps for CPOs to help improve their mastery of the external environment? Here’s what they can do:

1. Develop playbooks and contingency plans to address the most pressing risks.

Whether it’s global trade uncertainty, increasing tariff pressure, or natural disasters, external risks will always arise at inconvenient times. The best thing CPOs can do is to be proactive: Make an honest assessment of their organization’s exposure to various risks and develop playbooks for addressing them. Key starting questions include:

- What are the key failure points in our supply chain, and how can these be mitigated in the event of a disruption?
- What are the measurable risk thresholds (e.g., price increases) that need to be defined?
- What indicators do we need to track to assess the likelihood of each risk coming to fruition, and what action will we take in the event it does?
- How would each risk impact our organization in terms of talent, technology, and cost?
- Do our supplier contracts have the necessary language (e.g., force majeure clauses) to address trade risks or other disruptions?
- How quickly can we respond to changes in the environment, both foreseen and unforeseen?

2. Evaluate structural changes in your supply base that could reduce risk exposure.

CPOs need to evaluate the global value chain their organization relies upon to determine whether they can increase the security of their business and their trading relationships. If their organization has previously moved operations offshore, they can

consider whether there is an opportunity to leverage changes in the marketplace to re-shore and not only potentially save money, but also reduce risk exposure. Structural shifts aimed at diversifying the supply base can also help reduce the power of megasuppliers.

3. **Go digital:** Explore the potential of dedicated supply chain risk management solutions. While risk management is a growing priority within procurement, adoption of tools to address it

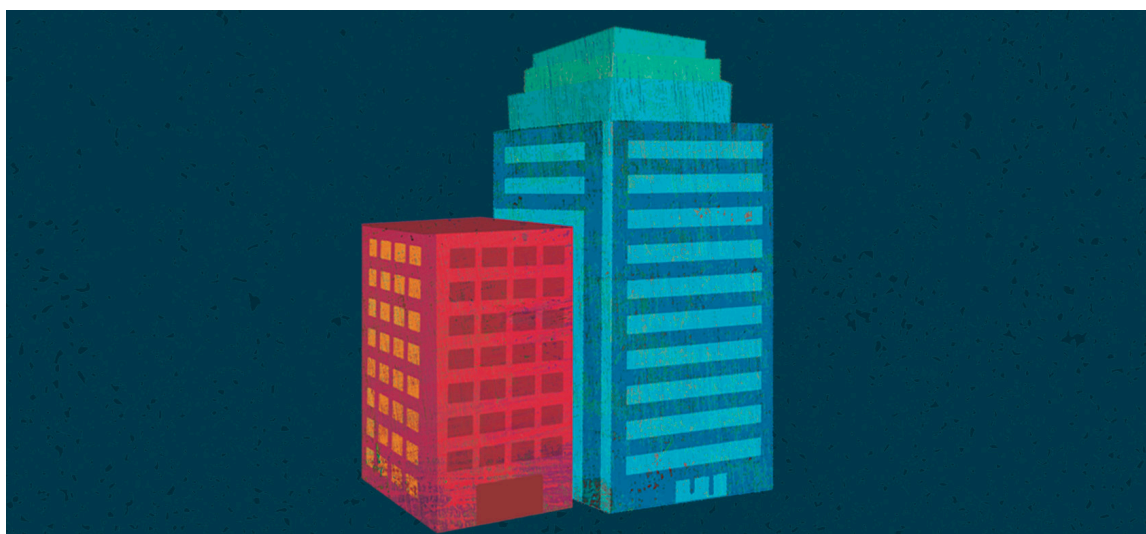
lags behind core procurement technologies such as P2P. Emerging risk management tools capable of mapping a complete supply network (beyond just tier 1 relationships) and developing customized risk profiles for various risk factors can be used to make an honest assessment of an organization's supply base and encourage cross-functional planning needed to mitigate external risks in a dynamic environment.

Endnotes

1. The Institute for Supply Management's PMI index has fallen in five consecutive months to fall below 50 in August 2019—ending 35 months of US manufacturing expansion. See Institute for Supply Management, "August 2019 manufacturing ISM report on business," September 3, 2019.
2. Laurent Chevreux, Michael Hu, and Suketu Gandhi, "Why supply chains must pivot," *MIT Sloan Management Review*, July 19, 2018.

Setting the house in order

Mastering internal complexity



ALIGNING VARIOUS INTERNAL departments with procurement, with suppliers, with best practices, and even with each other is key to mastering internal complexity. Procurement is a nexus of complex processes and it wears many hats, serving as a partner, service provider, and a key member of strategic planning initiatives. Improving alignment in three key areas—functional, business, and digital—can help CPOs master internal complexity while raising their total value contribution. Yet for many procurement leaders, progress on these areas has been slow.

Internal complexity begins with the need for procurement to **maintain functional alignment**, both as an enabling service provider for stakeholders and as a business partner in strategic planning. While only 26 percent CPOs surveyed described themselves as excellent internal business partners (figure 1) (the same as in the

2018 study), we dug deeper to understand how this relationship fared with “functional partners/peers” such as finance, IT, HR, and others who should be aligned with procurement to jointly serve the business units. CPOs reported that they have stronger relationships with some functions than others—namely, IT (50 percent), finance (46 percent), and operations (44 percent). These functions, they said, were most likely to rate procurement effectiveness as excellent (figure 2).

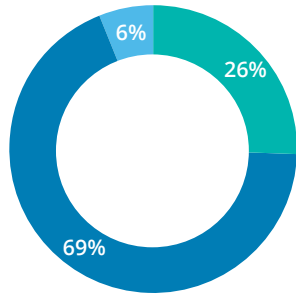
This presents challenges for procurement. Broader trends such as increased outsourcing of business functions and exploration of the external “gig” workforce suggest that a higher degree of collaboration will be needed between procurement and other functions to coordinate this externalized service delivery. Our 2018 global outsourcing survey, for example, indicates that when organizations were asked what they would do

FIGURE 1

Not many CPOs rated the effectiveness of procurement as a strategic business partner as excellent

How would you rate the effectiveness of your procurement function as a strategic business partner?

■ Excellent ■ Fair ■ Poor



Note: Excellent—procurement is highly regarded internally and seen as a key business partner which contributes significant strategic value. Fair—procurement has mixed influence internally with stronger relationships with some functions than others. Poor—procurement operates in silos from the rest of the business and struggles to collaborate with other functions

Source: Deloitte Global CPO Survey, 2019.

differently next time in launching an outsourcing initiative, four of the top five responses focused on how they would change their existing sourcing process to take a more structured approach. In fact, a sizable chunk of the respondents (42 percent) said that they should have spent more time in RFP or service provider selection.

Developing an integrated approach for third-party management and end-to-end source-to-pay (S2P) is crucial for reducing internal complexity, but it also enables procurement to seek “good complexity” by adding more services to its own service portfolio and related strategies (figure 3). In other words, while spend consolidation (36 percent) is the top strategy, business partnering (27 percent) helps open the door to improving specifications, managing supplier relationships, and more.

This snapshot shows an improving ability of procurement to align itself with key business goals

but also a growing embrace of more advanced strategies beyond classic spend management, due to the requirements of changing supply markets (e.g., managing powerful “mega-suppliers” in turn requires a more robust relationship management approach) as well as the internal pressures for value creation that procurement is facing.

The aforementioned procurement strategies are best served up early in strategic decision-making processes (figure 4). This “quality of spend influence” is evidenced by procurement being always/usually involved in offshoring/outsourcing (61 percent), make-vs-buy (57 percent), and perhaps most importantly, financial forecasting/budgeting (56 percent) to influence the spending far upstream before it even occurs.

What should also be apparent, though, is the “digital disconnect” between procurement and the business, as evidenced by only 14 percent of procurement organizations always being involved (and 31 percent being usually involved) during enterprise-level digital strategy. This creates barriers to achieving true **digital alignment**.

“Business partnering has always been a priority on the agenda of Voith purchasing. However, in times of digital transformation its importance is set to increase as speed and agility are the new imperative. Purchasing needs to expand the ability to partner and collaborate with both internal and external stakeholders. Ultimately, purchasing has to position itself as an influential function to be in the inner circle of decision making, thereby driving competitiveness and innovation. We at Voith purchasing achieve this ambition through early involvement in the product development cycle and an integrated material group management process. Additionally, digital innovations such as robotics help us to shift capacities and

capabilities from transactional tasks to seamless business partnering.”

— Ralf Havermann, senior vice president & chief purchasing officer, Voith Group

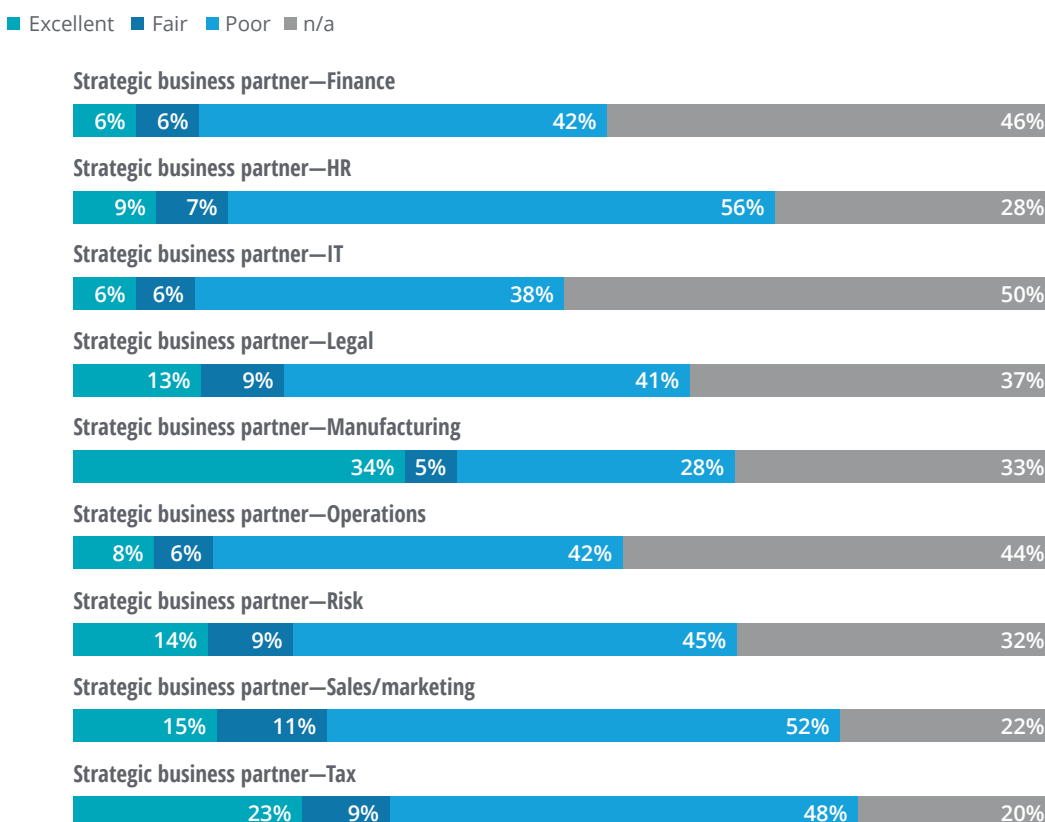
Many of procurement’s value-creation priorities are dependent on digital capabilities, whether that be automation that allows resources to spend more time collaborating with suppliers (and tapping their digital capabilities) or utilizing analytics and third-party intelligence sources that can actually

drive planning efforts rather than just reacting to them. However, it’s the business priorities that are most critical to align to, and while cost reduction and risk reduction are the top two cited priorities in today’s tumultuous times (figure 5), the next three strongest business priorities are focused on innovation and growth: expanding/introducing digital business models (52 percent), introducing new products/services or expanding into new markets (50 percent), and expanding organically (47 percent).

FIGURE 2

As strategic business partners, IT, finance, and operations are least likely to rate the procurement effectiveness as excellent

How would leadership of other functions in your organization rate the effectiveness of procurement as a strategic business partner?

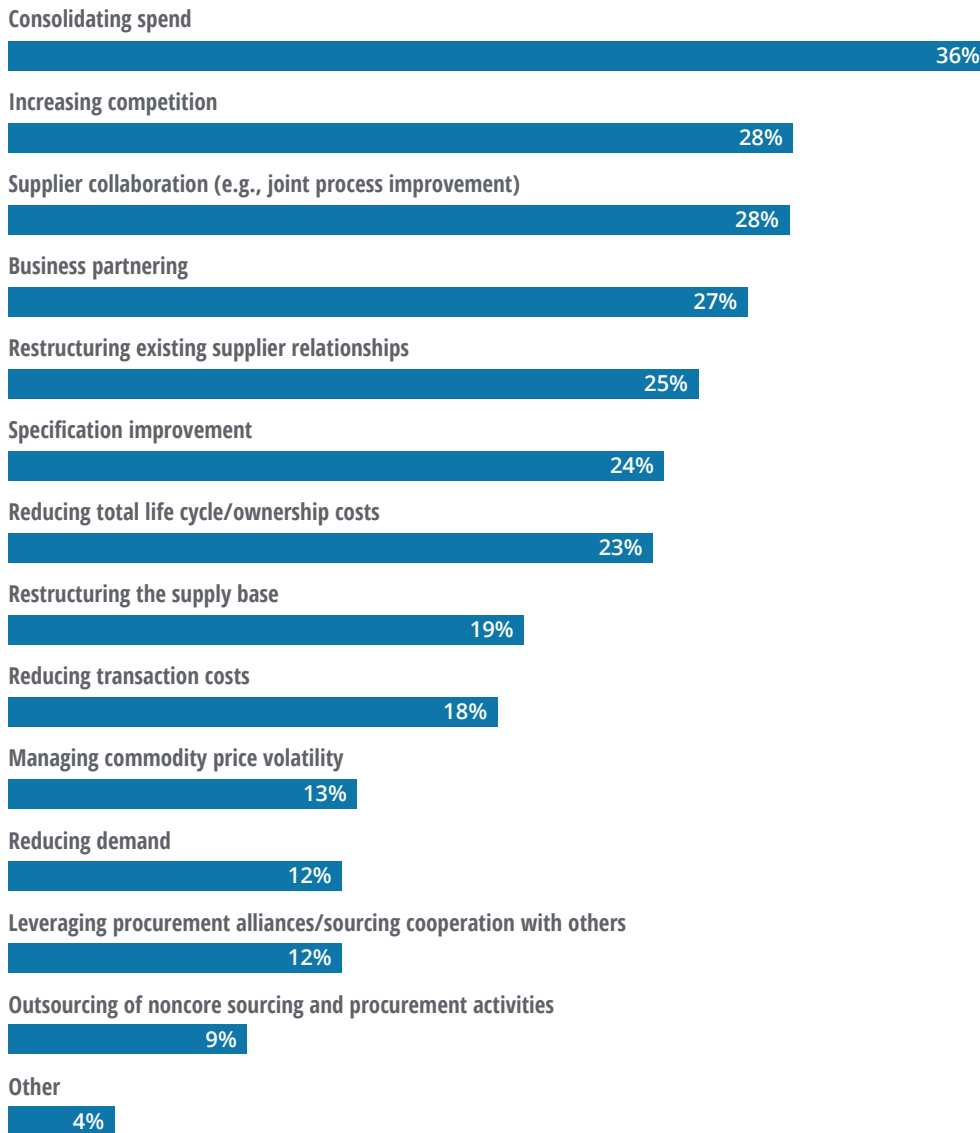


Note: Excellent—procurement is highly regarded internally and seen as a key business partner which contributes significant strategic value. Fair—procurement has mixed influence internally with stronger relationships with some functions than others. Poor—procurement operates in silos from the rest of the business and struggles to collaborate with other functions
Source: Deloitte Global CPO Survey, 2019.

FIGURE 3

CPOs rated consolidating spend, supplier collaboration, and business partnering as the “top three” priorities of their organizations over the next 12 months

Which of the following procurement strategies will you utilize most to deliver value over the next 12 months? (Please select up to three options.)



Source: Deloitte Global CPO Survey, 2019.

This disconnect creates a three-pronged imperative for procurement:

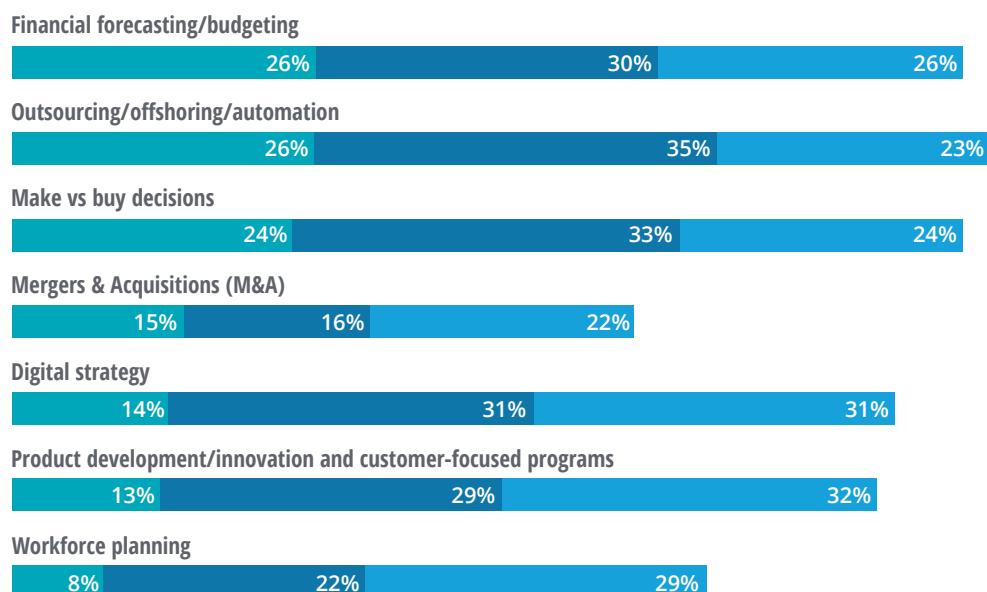
1. Align early to digital business strategies and then tap suppliers’ digital innovations
2. Gain strong IT alignment and IT sourcing capabilities to support agile development and optimization of commercial relationships
3. Lead by example within procurement to develop digital capabilities that can be extended

FIGURE 4

Most respondents said procurement plays an active role early in the strategic decision-making process

Procurement involvement in enterprise strategic decision-making (percentage of respondents)

■ Always involved ■ Usually involved ■ Sometimes involved



Source: Deloitte Global CPO Survey, 2019.

beyond procurement's boundaries (e.g., market intelligence and predictive analytics)

This is easier said than done. Most procurement and IT organizations struggle with the digital complexity of managing the plethora of digital solutions available in the market and developed in house. Mastering this internal complexity effectively requires CPOs to align their objectives and values with other executives in their organizations. When planning for the coming year, complexity masters should look to first-principles to answer how their function can be best prepared to assist the business in achieving its goals.

So, what can CPOs do to help improve their mastery of the internal environment? Here are a few steps that they can take:

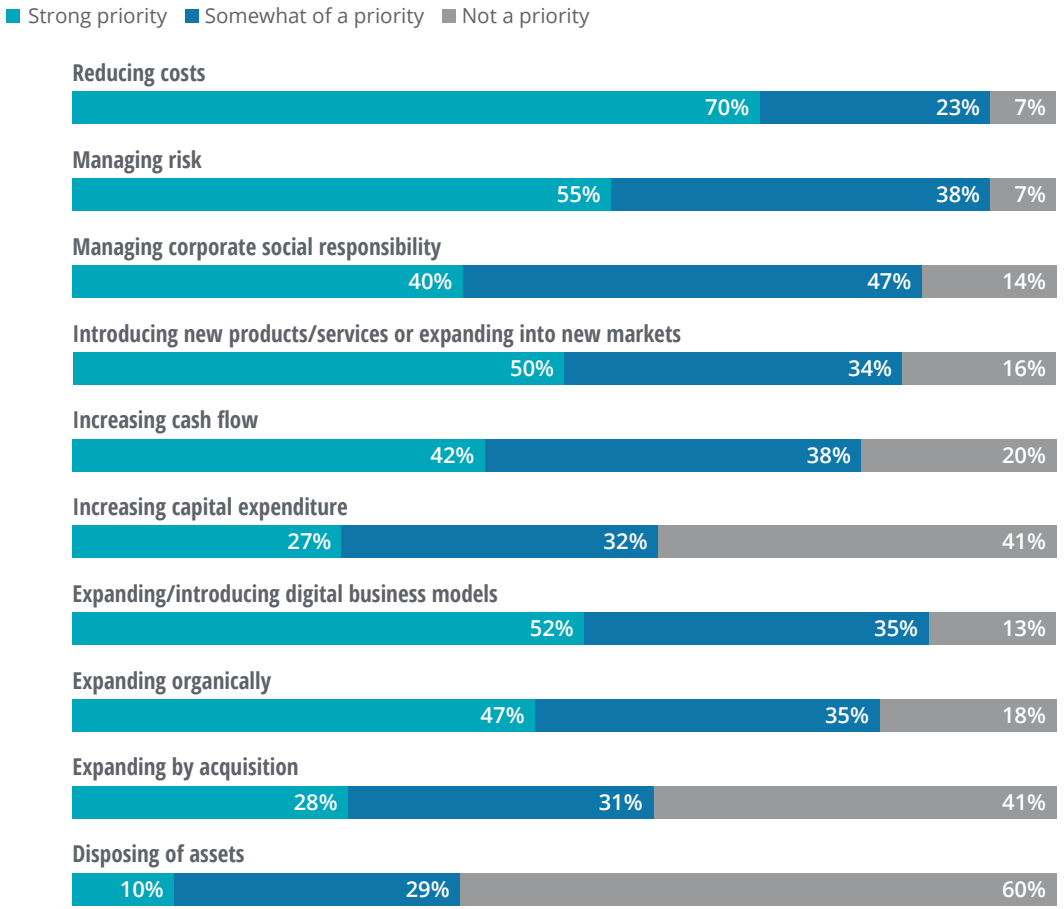
1. Determine the current maturity and influence levels in each alignment area.

Before they set out to reduce the complexities of internal alignment, CPOs need to be clear about who their allies are and who may see the procurement function as an adversary. They need to make an effort to learn the language and unique characteristics of other functions' supply chains, and apply those learnings in their appeal to C-level peers for procurement involvement. The goal should be to increase the amount of "good complexity" procurement is exposed to by broadening its service portfolio as it aligns to an increasing number of business priorities, ultimately allowing CPOs to proactively select the areas where procurement can add the most value and execute on shared priorities.

FIGURE 5

CPOs rated cost reduction and risk reduction as the top two priorities for their organizations in the next 12 months

To what extent is each of the following business strategies likely to be a priority for your organization over the next 12 months?



Source: Deloitte Global CPO Survey, 2019.

2. Coordinate your investments and activities to bridge gaps in your strategic alignment. For example, have you discovered that while your relationship with IT is strong, your procurement organization’s digital strategy is misaligned with IT’s road map? If so, you may need to begin a dialogue with the CIO to understand whether your strategy needs to shift, or whether there is information you can bring to IT to support a more holistic digital vision for your organization. Similar

conversations should be held with other functions, especially adjacent ones such as engineering and production teams.

3. Go digital: Automating tactical processes to address complexity and make time for strategic alignment. Automation can help make life a little easier for procurement leaders. CPOs can turn to automation for tactical activities (e.g., tail spend purchasing, accounts payable processes) to enable a focus shift to

strategic activities such as business partnering. Automating or accelerating aspects of the P2P cycle are an obvious starting point: Increasingly intelligent e-procurement systems are able to

direct stakeholders to preferred sources of supply or even use predictive analytics to warn users of the (un)likelihood of a purchase request being approved.

Endnote

1. Deloitte, *The Deloitte global outsourcing survey 2018*, 2018.

Driving the change

Addressing talent challenges to master complexity



FOR YEARS, MANY chief procurement officers (CPOs) have struggled to retain qualified talent and recruit new team members needed to address increasingly complex procurement charters. At the same time, talent models are rapidly changing, as are the compliance concerns related to contingent workers and a global workforce. In an effort to master talent complexity, CPOs will have to not only tackle the industrywide dearth of analytical and technical skills needed for success but also embrace new ways of thinking about talent.

Procurement organizations continue to face a high level of competition for adequate talent, with typically one qualified candidate for every six job openings, according to a study of supply chain talent gaps by DHL.¹ CPOs still have to invest significant time and effort to find the needed levels of technical and analytical competencies, as well as

leadership and professional competencies required for executing high-priority strategies. Yet there are considerable barriers to doing so. In the same DHL survey, 70 percent of respondents stated that they believe the profession lacks the aura of status and opportunities for career growth. This hiring challenge was echoed in our survey, where 55 percent of companies have found it more difficult to attract talent in the last 12 months and only 9 percent found it easier.

Since talent itself is a supply market of sorts, one interesting finding in our study had to do with talent sourcing. While 84 percent of all companies had full-time workers making up more than three-quarters of their procurement teams, we found that 28 percent of the complexity masters drew from contingent labor sources as compared to 20 percent for all companies. External talent sources take many forms and the study indicated

many such channels, including independent contractors (21 percent), on-demand category expertise (17 percent), and offshore centers (7 percent).

Mastering talent management comes down to the challenge of addressing the complex features of the procurement talent market: its shortage of well-suited applicants, the gap of current employees' skills against the capabilities needed to execute, and the increasing importance of digital procurement to how

CPOs approach talent strategy. Mastering this complexity involves procurement leaders finding the optimal balance of training for current employees and recruiting of "A" players (both externally and from other business functions).

While 84 percent of all companies had full-time workers making up more than three-quarters of their procurement teams, we found that 28 percent of the complexity masters drew from contingent labor sources as compared to 20 percent for all companies.

RESHAPING TALENT IN THE AGE OF COMPLEXITY

Demand for top talent in the global procurement space continues to outstrip supply, and the demands and expectations from corporations continue to grow. It's encouraging to see that investment into training in both technical and softer skills appears to be on an upward trajectory as organizations attempt to close this gap and build talented teams that can deliver sustainable value for their stakeholders. The data shows what we see every day, that demand for softer skills coupled with analytical insight is where capabilities need to be enhanced further. As technology evolves, many of the processing and transactional tasks that procurement has traditionally carried out will disappear. I believe this will mean that procurement departments will certainly get smaller. At the same time, while you may have fewer people, it will free them up to concentrate on the more strategic challenges and opportunities businesses face that can be supported by the external supply base and the interpretation of data. These leaner teams will be populated by more experienced procurement leaders with a wider range of commercial expertise, who are skillful and effective at operating at a higher level within their companies. It is here that those with exceptional strategic business partnering skills coupled with supply market insight built on the foundations of data and analytics made available to them will shine through. In addition, as the data shows, I suspect we will also see an increase in the use of flexible and agile workers who will be increasingly hired at a point in time for a specific program or project that requires deep subject matter expertise.

These trends ultimately could see retained procurement teams taking on a broader, relationship-based commercial role, in addition to the traditional procurement scope, perhaps working on mergers and acquisitions, or projects around monetizing intellectual property. In-house corporate procurement teams will play a much greater role in adding value, managing risk, and maximizing return by utilizing an agile combination of in-house procurement skills, technology, BPO providers, and the gig economy.

— *Lucy Harding, partner and global head of the procurement and supply chain practice, Odgers Berndtson*

The impact of losing this talent war can be keenly felt by CPOs and is evidenced by the fact that only 46 percent of them felt that their teams could sufficiently deliver on the procurement strategy, a decline from the 49 percent figure cited in the 2018 study (figure 1). Much of this gap is likely due to the more complex skill sets and competencies required by procurement organizations to deliver on a broadened value proposition that certainly includes digital-related capabilities. The complexity masters were much more confident with their teams though, with 66 percent of those CPOs having confidence in their teams' ability to execute.

Another strategy to help close skill gaps is training. For technical procurement skills, strategic sourcing/category management (68 percent) and negotiations (59 percent) were the top two "usual suspects" winning priority for training (with project management coming in third at 40 percent) (figure 2). Interestingly, though, supplier collaboration and business partnering (which can be supplier-related or stakeholder-related) came in with a strong 64 percent of CPOs intending to train in this critical area that effectively applies the best practices of CRM to the function of supplier

relationship management (SRM). This area also requires other "soft skills" cited in the report, such as manager training (38 percent), conflict management (32 percent), and emotional intelligence (31 percent), skills especially needed to perform transformational work (figure 3).

The real change for training comes in the digital realm, and it includes both vendor-specific training in source-to-pay (S2P) applications and training in more generic but evolving technologies such as analytics (which can take the form of basic visualizations/dashboards or more sophisticated predictive analytics and AI) (figure 4).

Looking beyond training and at the bigger picture of talent models themselves, CPOs who are able to master the complexity of existing models such as BPO while also employing new models such as the agile/contingent workforce will be better suited to overcoming these key talent challenges.

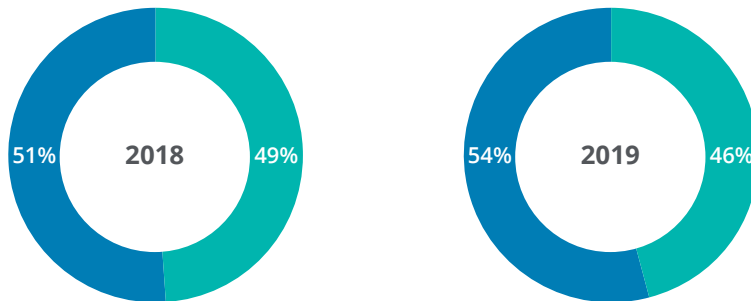
As our *2019 Global Human Capital Trends* report explains, the number of self-employed workers in the United States is projected to triple by 2020 to 42 million people, meaning a large and growing portion of the workforce with needed skills and

FIGURE 1

The confidence level among CPOs on the ability of procurement teams to deliver on strategy has slipped

Are the skills and capabilities of the current team at a sufficient level to deliver your procurement strategy?

■ Yes ■ No



Source: Deloitte Global CPO Survey, 2019.

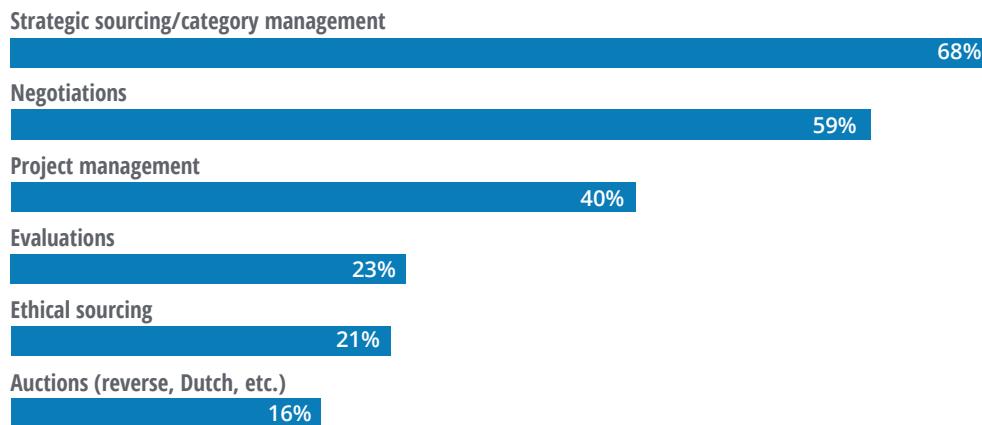
specializations will be accessed through alternative talent channels rather than traditional means.² To help close the skills gap, CPOs should embrace a wholesale rewiring of how organizations operate as it relates to alternative labor—one that allows them to connect the appropriate talent with the

appropriate roles no matter how that talent is sourced. Yet for most organizations, this approach is far from common: Only 11 percent of supply chain and procurement functions use alternative labor extensively, whereas in functions such as operations and IT, that share climbs to 25 percent.

FIGURE 2

CPOs considered sourcing and category management the most as a specific training area for technical procurement over the next 12 months

Please select the specific technical training you plan/expect to offer over the next 12 months. (Select all that apply.)

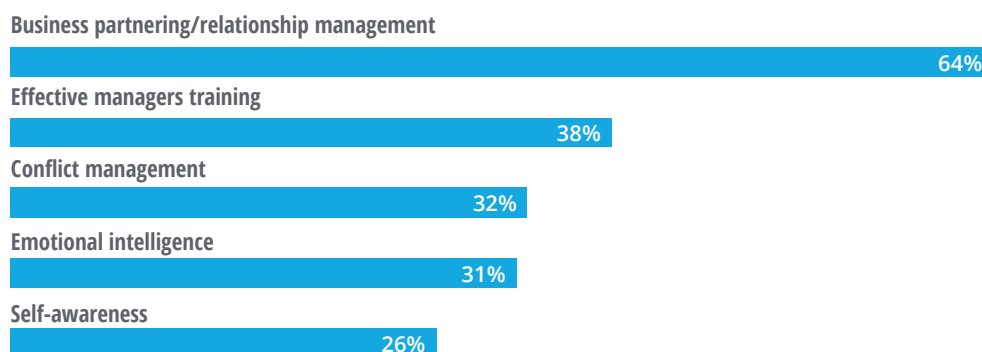


Source: Deloitte Global CPO Survey, 2019.

FIGURE 3

Business partnering and relationship management emerged as the top specific soft skills training area for CPOs over the next 12 months

Please select the specific soft skills training you plan/expect to offer over the next 12 months. (Select all that apply.)

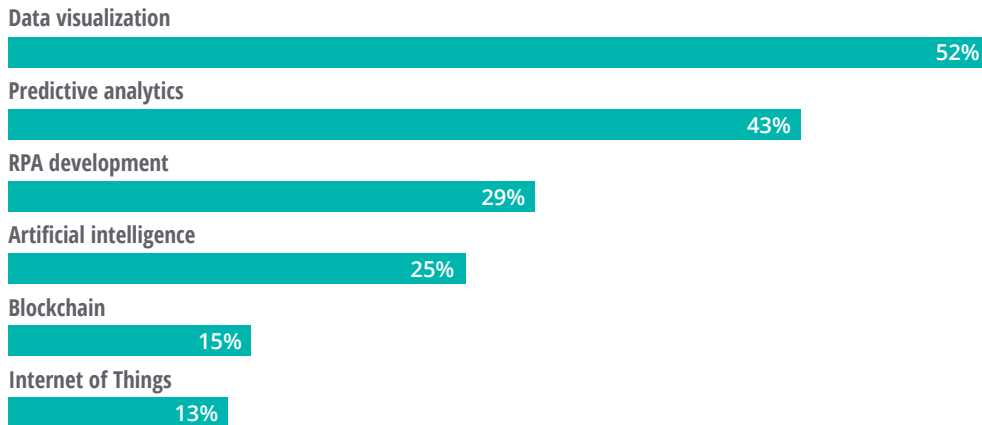


Source: Deloitte Global CPO Survey, 2019.

FIGURE 4

CPOs identified data visualization and predictive analytics as the top specific areas for digital skills training over the next 12 months

Please select the specific training you plan/expect to offer over the next 12 months. (Select all that apply.)



Source: Deloitte Global CPO Survey, 2019.

Ultimately, masters of talent are masters of outcomes. They are able to deliver value with all of the resources available, coordinating talent sources to their desired outcomes.

So what action can CPOs take to help improve their mastery of talent? Here's what they can do:

1. Make talent investments that best align with the business' key objectives. CPOs need to make sure their talent investments mirror their organization's strategy. There are numerous factors to consider, and their investments will look very different depending on their environment. Key questions to ask include:

- Is our supply base rapidly changing? Are we evaluating new sources of supply?
- Is our supply base contracting to a few powerful players, which in turn will require strong relationship management efforts with key suppliers?

- Did we just implement a new software package that requires new technical skills?
- Do changes in our industry require our sourcing team to evaluate new technologies to support product development?

2. Widen the talent search net. Reshaping the talent strategy can take many different forms. Expanding the scope of sourcing talent could include reskilling or upskilling current workforce through training, developing channels for recruitment (e.g., by working with local colleges and universities to build procurement and supply chain curricula), and shifting the approach to BPO, external support/gig workers, or supply chain managed services.

3. Go digital: Tap new digital marketplaces to access hard-to-find talent in the gig economy. In the past several years, we've observed an increasing shift of knowledge workers away from traditional work arrangements toward freelance arrangements.

The gig economy is no longer made up of simple tasks and on-demand delivery; it also increasingly consists of complex services and highly skilled workers, many of whom are intermediated by digital talent marketplaces. New platforms have arisen to help businesses not only find this key freelance talent but also

manage interaction with them—from project scoping through to payment. So, if there's a skill set or knowledge base (e.g., particular expertise for designing a sourcing strategy for a new category) a procurement organization sorely needs, they would do better to consider a 21st century approach.

Endnotes

3. DHL, "Demand for supply chain talent is at an all-time high, but demand outstrips supply," accessed September 13, 2019.
4. Erica Volini et al., *2019 Deloitte Global Human Capital Trends: Leading the social enterprise*, Deloitte Insights, 2019.

Tech-over

Mastering digital and procurement technologies to unsettle complexity



IN THE LAST five years alone, the digital landscape for procurement has evolved considerably. CPOs who are able to stay abreast of these changes and take a true transformational mindset toward technology are able to deliver new value streams beyond just internal procurement process automation. They are bringing new analytic tools and “outside-in” digital services to stakeholders, not only for cost reduction but also for emerging customer-focused requirements such as socially responsible products and supply chains.

Our survey findings reveal that while CPOs are at various stages of the digital maturity curve in their understanding and implementation of the digital procurement transformation (figure 1), complexity masters are better aligned with their organizations’ overall business strategies. Of the CPOs surveyed, 58 percent (and 74 percent of the complexity

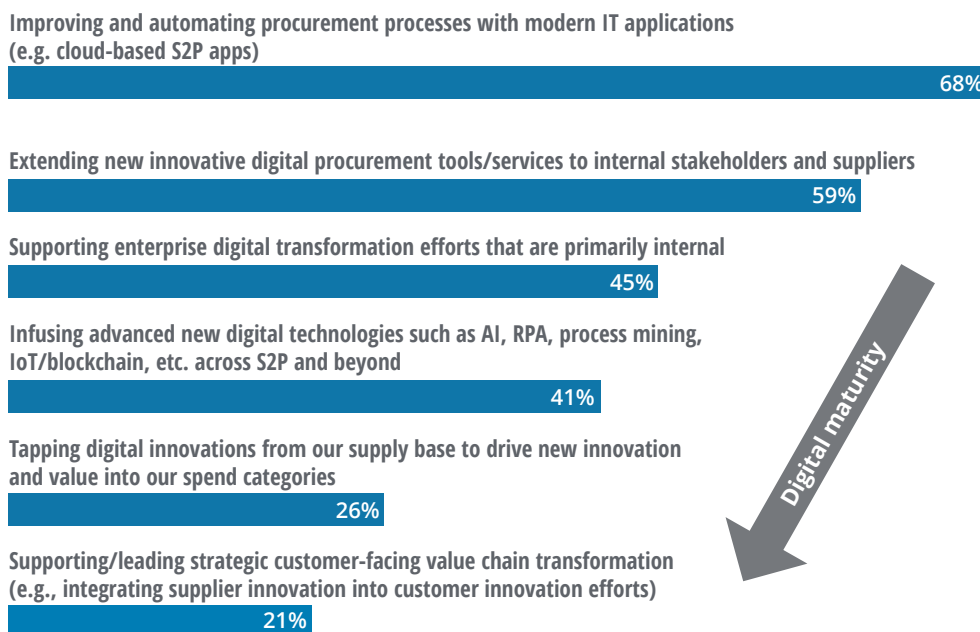
masters) are aligning their digital strategies to both their own objectives and to the overall business strategy. And they don’t do it alone, with 48 percent of organizations (55 percent for complexity masters) collaborating closely with their IT partners. CPOs can, when properly aligned, play a major role in assisting chief information officers (CIOs) to bring new capabilities to the organization, while remaining within budget and managing third parties to reduce risk and noncompliance. When combined, the CPO and CIO skill sets often make an ideal digital transformation partnership, with digitization and externalization working hand-in-hand to support more strategic digital capabilities.¹ This digital evolution and transformation could not be clearer in the report.

To help dismantle internal procurement complexity and improve internal performance,

FIGURE 1

CPOs are working with their organizations to understand and implement a “digital procurement transformation” using various strategies

How do you and your organization understand and implement a "digital procurement transformation"? (Please select all that apply.)



Source: Deloitte Global CPO Survey, 2019.

roughly two-thirds of CPOs are getting their house in order by implementing modern source-to-pay (S2P) applications that automate core workflows, which, done right, free them up to focus on even more strategic efforts. This embrace of technology is a work in progress, with the core set of S2P procurement activities—comprising requisitioning and ordering (e-procurement), invoice processing and payments (invoice-to-pay or procure-to-pay when combined with e-procurement), sourcing (RFx/auction), spend/supply analytics, and contract management—getting the most attention (figure 2).

Complexity masters outperform the survey population in terms of making key technology investment decisions.

Complexity masters outperform the survey population on all these aspects, and have 30 percent higher adoption of “upstream” technology such as spend analytics, sourcing, supplier relationship management (SRM), contract

management, and supply risk management. Interestingly though, a large percentage of companies that have fully implemented these modern technologies are not actually satisfied with the results (figure 3). In fact, shown in a different

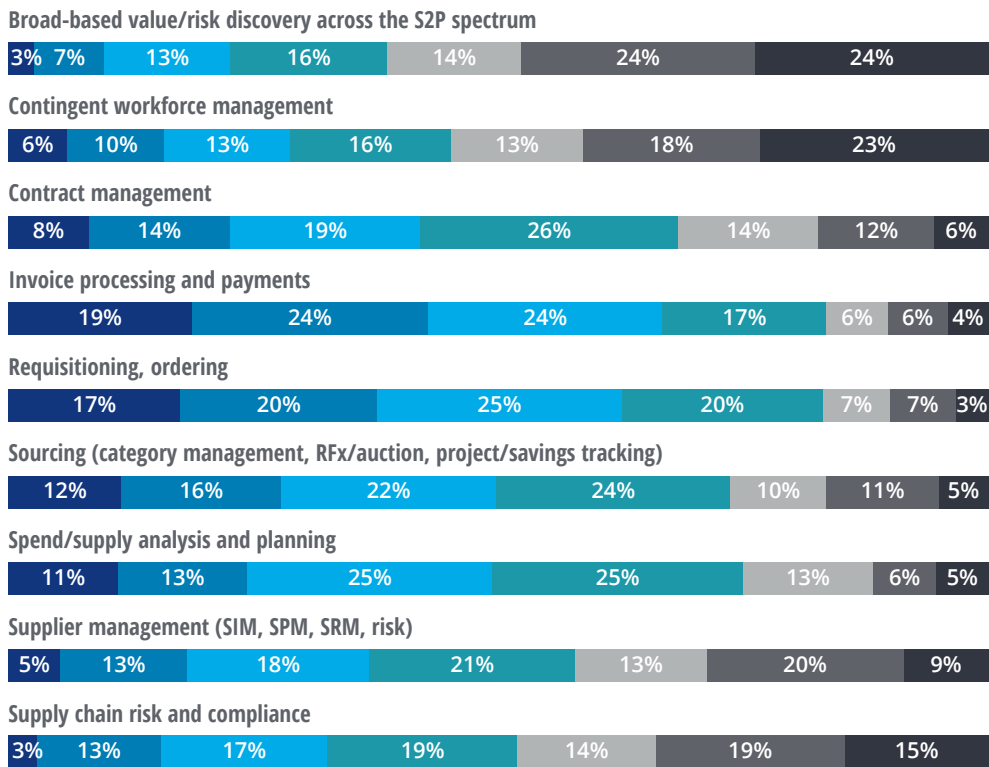
way, the results are sobering, especially for some of the more complex and strategic technology areas.

FIGURE 2

Most CPOs are adopting technologies to automate core workflows

To what degree are modern digital technologies being used to enable the following processes?

- Completely—working well ■ Completely—but not that satisfied with results
- To a large extent—mostly in place ■ To some extent—scaling up ■ To a small extent—piloting
- Not yet—but evaluating ■ Not at all—not planning to use



Source: Deloitte Global CPO Survey, 2019.

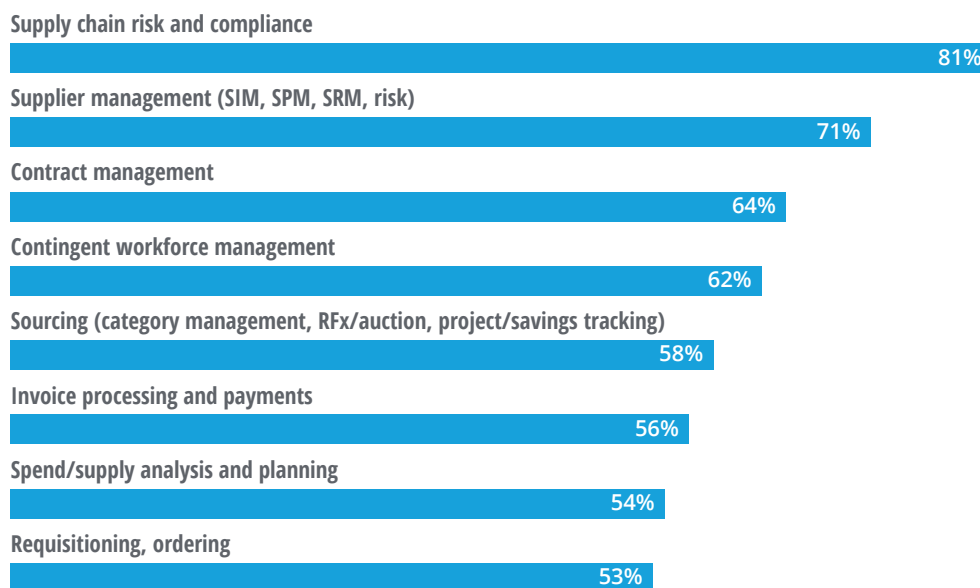
For the next two years, these core areas are expected to remain in focus. After analytics, which emerged as the top priority (59 percent), the most commonly cited areas of technology impact are related to upgrades of some element of the procurement applications landscape (figure 4). To that end, renewals for ERP platforms (35 percent), operational procurement tools (37 percent), and strategic procurement tools (37 percent) were viewed as the technology areas that would have the next-highest impact on businesses after analytics, which is a continuation of the trend from prior surveys.

Despite the expected focus on core technologies in the near term, we do still expect the adoption and usage of disruptive technologies for strategic procurement applications in all key solution areas built on the foundation established by core technologies. For example, artificial intelligence (AI) is primarily taking two forms: predictive analytics built on machine learning, and also the deployment of “bots” that are beginning to transform robotic process automation (RPA) from its roots as a complex workflow automation toolbox.

FIGURE 3

Most companies that have fully implemented digital technologies are not satisfied with the results

Percentage of firms who've completely implemented digital technologies that are not that satisfied with the results



Source: Deloitte Global CPO Survey, 2019.

Apart from the enterprise-level disruptive technologies, we also wanted to understand how these were more specifically being implemented within procurement to augment/disrupt mainstream procurement applications or create new avenues for value creation.²

Of these emerging technologies we analyzed, analytics and RPA show up clearly similar to the enterprise level, but “collaboration networks” are also being utilized that take different forms: supplier networks, e-marketplaces, supply chain networks, and narrow purpose-built networks for particular processes (e.g., risk/compliance focuses networks for supplier risk or environmental sustainability) or spend categories (figure 5). Beyond that, though, the more “bleeding edge” technologies appear to still be pursued by those CPOs who are either dabbling in the area (e.g., the

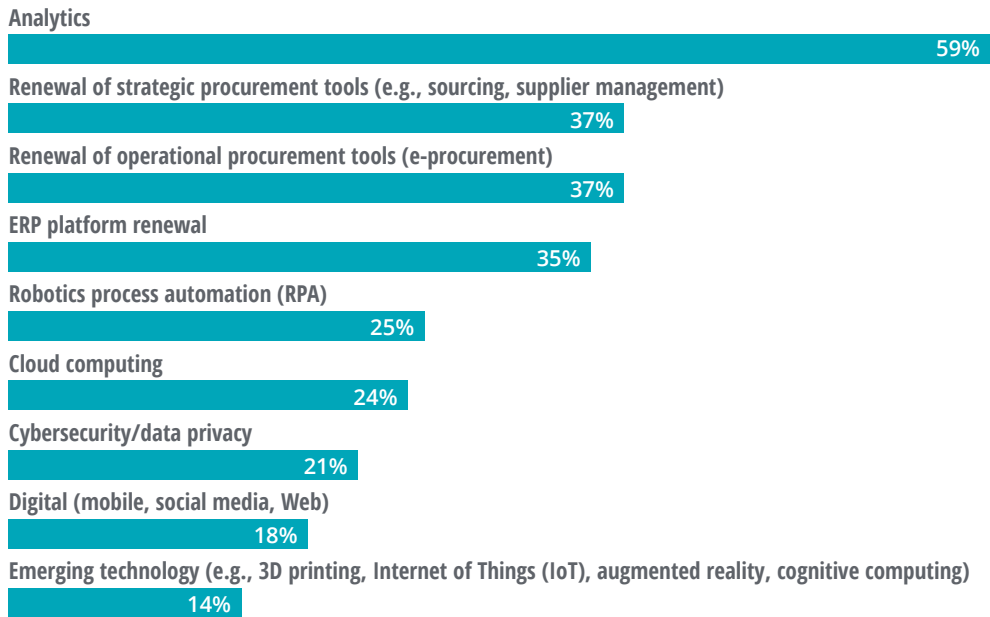
15 percent doing something in blockchain) or the 25 percent who are betting bigger (in areas such as AI/cognitive technologies). Customer satisfaction with these new tools, like most new markets, is a mixed bag (figure 6).

Much of this technology is increasingly being rolled out as standard functionality within commercially available procurement applications in areas such as spend classification, invoice automation, advanced contract analytics, and risk/fraud analytics. New vendors are also entering the procurement technology space and adding new sources of value via predictive analytics that leverage machine learning. Yet while this innovation is encouraging, there is also a downside. For all the value of new technologies able to reduce complexity and improve performance, the technologies themselves can add additional

FIGURE 4

After analytics, upgrades to procurement applications were cited as the areas of greatest impact over the next two years

From a procurement perspective, what technology areas will have the most impact on your business in the next two years? (Please select up to three options.)



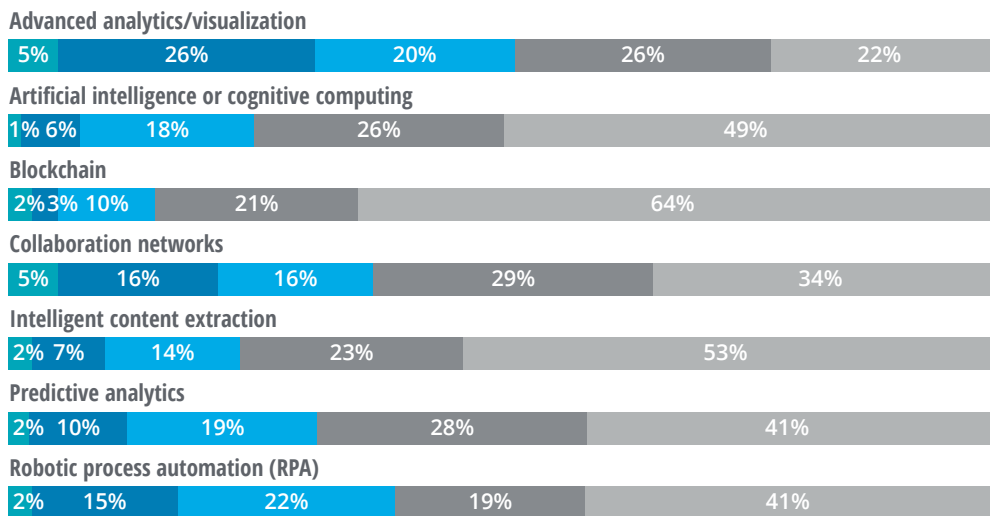
Source: Deloitte Global CPO Survey, 2019.

FIGURE 5

Advanced analytics and RPA are being utilized more compared to other disruptive technologies in procurement

To what extent are the following currently used in the procurement function?

■ Fully deployed ■ Scaling ■ Pilot ■ Being considered ■ Not started



Source: Deloitte Global CPO Survey, 2019.

complexity through fragmented applications, higher integration costs, degraded data quality, and more vendors to manage (these challenges can also occur with mega vendors who've acquired these best-of-breed players).

The survey findings clearly indicated that CPOs were feeling the effects of digital complexity, a majority of whom pointed their fingers at data governance, especially given their focus on and deployment of analytics that shine a light on this dark issue (figure 7). Interestingly, the complexity masters struggled just as much, partially because their businesses are more complicated (e.g., large firms who've grown through M&A) and partially because of their willingness to adopt value-creating tools that may also introduce complexity of their own through data fragmentation. The survey findings also point toward “death by a thousand cuts,” the root causes for this data governance issue driving poor data quality—too many systems, old systems, poor standardization, and insufficient resources within procurement and IT alike (figure 8).

So what steps can CPOs take to address these root causes and help improve their mastery of digital? Here's what they can do:

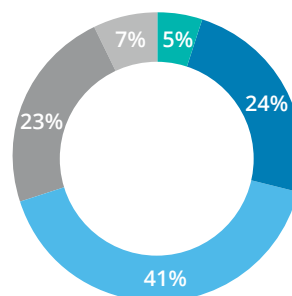
1. **Define a bold digital vision, but execute iteratively on a strong foundation.** An effective digital strategy is one that is both effective and doable, and takes many forms during the digital journey. Real impact will be customer-driven, but innovation may be hiding in plain sight with not only IT suppliers, but all suppliers pursuing digital business strategies. Sophisticated technologies such as predictive analytics using machine learning are compelling, but CPOs also need to get their

FIGURE 6

Some CPOs are dabbling with “bleeding edge” technologies, but satisfaction varies

How satisfied are you with the choices and availability in the market for your next-gen technology needs?

■ Completely ■ To a large extent
■ To some extent ■ To a small extent ■ Not at all



Source: Deloitte Global CPO Survey, 2019.

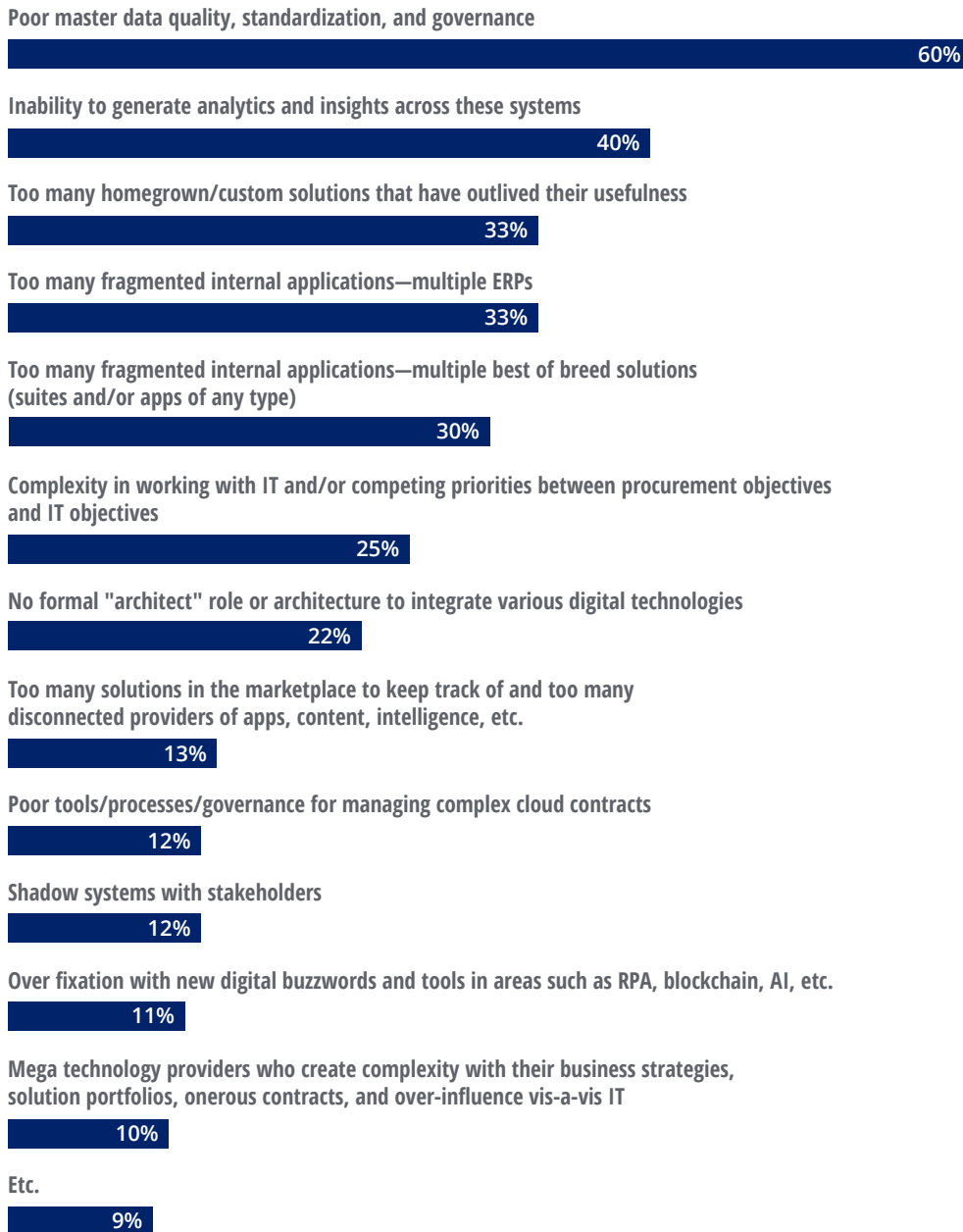
digital house in order (e.g., master data quality) with some help from their IT partners.

2. **Align procurement's digital strategy with that of the organization.** As with any transformation, CPOs will need to align to the digital vision (and business vision) of the executive team and board—and then deftly align those efforts with procurement's own digital vision. Alignment with functional peers is also critical to not just manage their spend more effectively, but align with them in their enterprise-serving objectives (e.g., efficiency for finance, compliance for legal, innovation for R&D, Agile DevOps for IT, global scalability for shared services, etc.). Leading CPOs are helping stakeholders help themselves through improved self-service analytics, contracting, supplier management, and risk/compliance management.

FIGURE 7

Most CPOs cited poor master data governance as the biggest challenge for mastering digital complexity

Which of the following areas of digital complexity are the biggest problems for you? (Please select all that create significant frustration for you.)



Source: Deloitte Global CPO Survey, 2019.

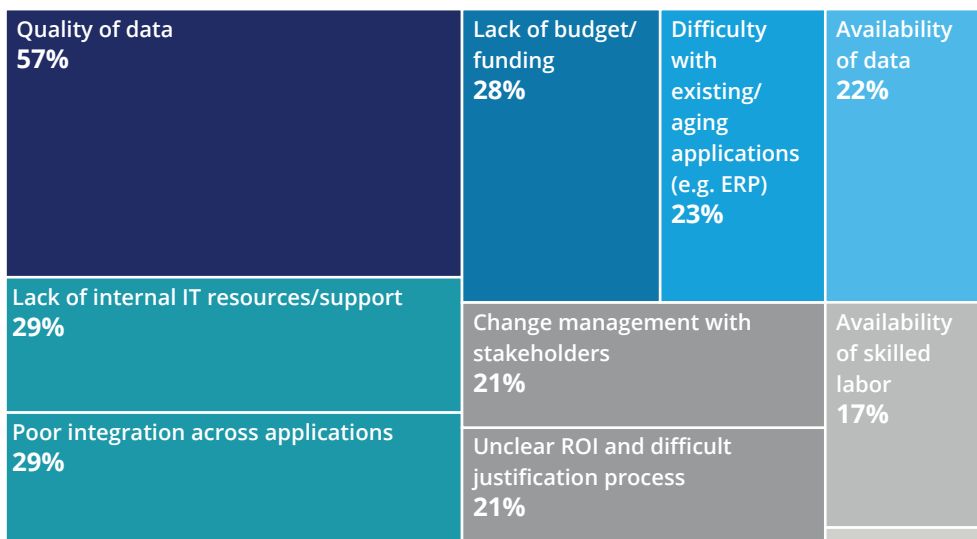
3. **Stay cognizant of the leading edge, but disciplined in your execution.** While next-generation technologies such as AI and RPA are only beginning to find their way into procurement organizations, CPOs who fall behind the curve will likely not only miss value creation for themselves, but also can become less digitally savvy and relevant to

stakeholders—including increasingly powerful suppliers. Suppliers can use digital to affect you for good or bad, so go on the offensive to both disrupt and collaborate. CPOs who want to realize their most ambitious goals will need to take a proactive and continuous approach to technology research—and often tap an experienced partner in the process.

FIGURE 8

Quality and accessibility of data present strong barriers to technology adoption

What do you see as the main barriers to the effective application of digital technology in procurement? (Please select up to 3 options)



Source: Deloitte Global CPO Survey, 2019.

Endnotes

1. Tom Espensen, "Why the CIO and CPO must collaborate to optimize digital transformation," ITAM Channel, March 1, 2018.
2. Jason Busch et al., "The impact of disruptive technologies and solutions on strategic procurement technologies (analytics, sourcing, supplier and contract management)," Spend Matters, March 24, 2017.

About the authors

Brian Umbenhauer | bumbenhauer@deloitte.com

Brian Umbenhauer leads Deloitte Consulting's Global Sourcing and Procurement practice. He is also the US Deloitte Private Consulting and US Consulting Industrial Products & Construction sector leader. In his more than two decades of experience, he has taken a personalized approach to building consulting practices, collaborating with clients, driving engagements, and (above all) measuring tangible and meaningful value for his clients. He has a proven track record in global business development, operations/business strategy advisory, and nontraditional approaches to creating client value. Umbenhauer is particularly experienced in industrial/consumer-related industries, but has also worked across industries and sectors. Additionally, he is fascinated by the convergence of expertise, capability, and technology in creating a new breed of integrated client solutions. Connect with him on LinkedIn at <https://www.linkedin.com/in/brian-umbenhauer-57b62b3/>.

Ryan P. Flynn | rpflynn@deloitte.com

Ryan P. Flynn is a principal in Deloitte Consulting's Supply Management & Digital Procurement practice and the firm's Third Party Management Lead. For the past 18 years he has guided global companies through technology-enabled procurement transformations to deliver value through cost savings and risk mitigation. He has worked across multiple industries and brings expertise across the source-to-pay process, including strategic sourcing, process and technology design and implementation, third-party risk management, and governance and operating model design.

Pierre Mitchell | pierre@spendmatters.com

Pierre Mitchell leads procurement research and IP development at Spend Matters. He has nearly 30 years of supply chain, advisory, and research experience, and is a recognized procurement expert specializing in advanced supply processes, practices, metrics, and enabling digital tools and services. Connect with him on LinkedIn at <https://www.linkedin.com/in/pierre-mitchell-b4011/>.

Contact us

Our insights can help you take advantage of change. If you're looking for fresh ideas to address your challenges, we should talk.

Industry/practice contacts

Brian Umbenhauer

Global Sourcing and Procurement practice leader | US Consulting Industrial Products & Construction Center leader | Principal | Deloitte Consulting LLP
+ 1 312 486 4301 | bumbenhauer@deloitte.com

Brian Umbenhauer is the leader of Deloitte's US Consulting Industrial Products & Construction sector, as well as the leader of the Global Sourcing and Procurement practice. He is based in Chicago.

Ryan P. Flynn

Principal | Deloitte Consulting LLP
+1 312 498 8250 | rpflynn@deloitte.com

Ryan Flynn is a principal in Deloitte Consulting LLP's Supply Management & Digital Procurement practice who specializes in helping global companies capture value through technology-enabled procurement transformations. He is based in Atlanta, GA.

Deloitte.

Insights

Sign up for Deloitte Insights updates at www.deloitte.com/insights.



Follow @DeloitteInsight

Deloitte Insights contributors

Editorial: Abrar Khan, Preetha Devan, Rupesh Bhat, and Anya George Tharakan

Creative: Sonya Vasilieff, Rajesh Venkataraju, Adamyia Manshiva, and Tushar Barman

Promotion: Nikita Garia

Cover artwork: Anna Godeassi

About Deloitte Insights

Deloitte Insights publishes original articles, reports and periodicals that provide insights for businesses, the public sector and NGOs. Our goal is to draw upon research and experience from throughout our professional services organization, and that of coauthors in academia and business, to advance the conversation on a broad spectrum of topics of interest to executives and government leaders.

Deloitte Insights is an imprint of Deloitte Development LLC.

About this publication

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.