

Infinite possibilities

Procurement in 2025



Building a better
working world

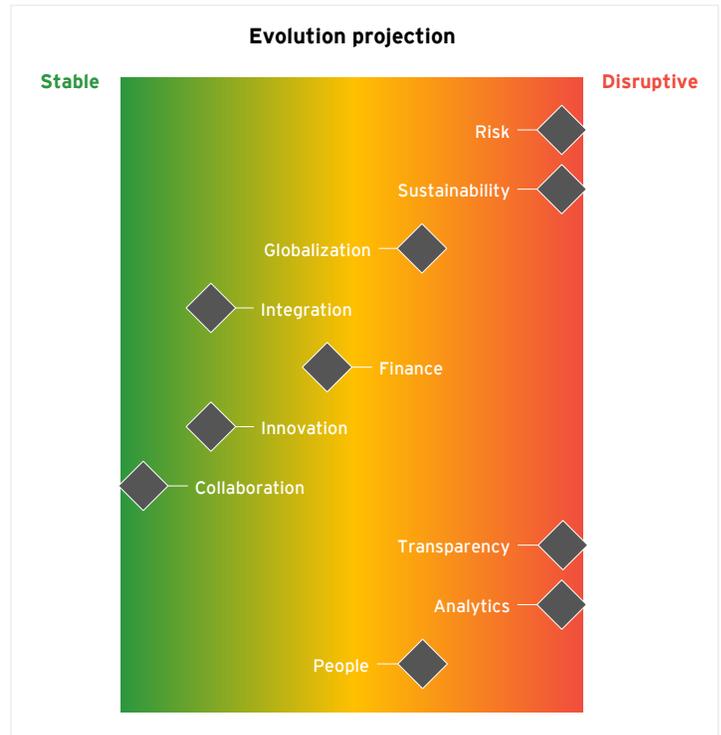
Preface

The procurement of a corporation's materials and services is, one could argue, the most complex business function in 2014. CPOs and their procurement teams have to balance a staggeringly complex landscape of pressures and requirements to execute their jobs at the highest level: from business pressures to contain costs, to legal pressures to comply with regulations, to social pressures to source ethically. In such a daunting landscape, it is difficult to imagine new challenges emerging, but that is exactly what will happen in the decade to come.

As this report will attempt to describe, issues such as globalization, social transparency, risk management and sustainability will bring new challenges to all the best procurement organizations around the world by 2025. While these changes will pose new challenges, they will also bring new opportunities for leaders who see the future and move their organizations into the new world that has already begun to emerge.

This EY report presents ten "change dimensions," which are the high level areas in which we see the procurement function evolving in the next decade. For each change dimension, we present a short description of the functional, as well as a sense of how disruptive the change curve might be in the coming decade. We follow these remarks with a detailed discussion of each dimension and close with some potential actions to consider in 2014.

On behalf of EY, we thank you for taking the time to review our report on the future of this complex and challenging function. We hope you will find our vision of procurement in 2025 insightful and the discussions thought provoking.



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Change dimension 1: Risk

Functional challenge: Managing procurement risk in a comprehensive, continuous manner.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, procurement risk management will undergo a major evolution, moving from discrete/qualitative approaches focused on disruptions to a continuous/quantitative function integral to all sourcing and supplier management decisions.

Discussion: Risk management is a topic that has risen to the top of most CPOs' agendas over the last two years. Most procurement and supply chain executives have become aware of the tremendous exposure that supply acquisition and supplier relationships bring to the modern global enterprise. Today's procurement risk management approaches are for the most part in their nascent stages of development; as such, they tend to be comprised primarily of qualitative analyses (supplier audits, risk registries, heatmaps, etc.) and they tend to focus on discrete, disruptive, and non-likely events.

In 2025, procurement risk management will be very different, and will look very much like the two fields that are the most advanced in this dimension: financial services and global disease control. In these disciplines, risk management is (a) based primarily, though not exclusively, on complex quantitative models and techniques and (b) focused on day-to-day risk monitoring and evolution as much as on disruptive, low-probability scenarios.

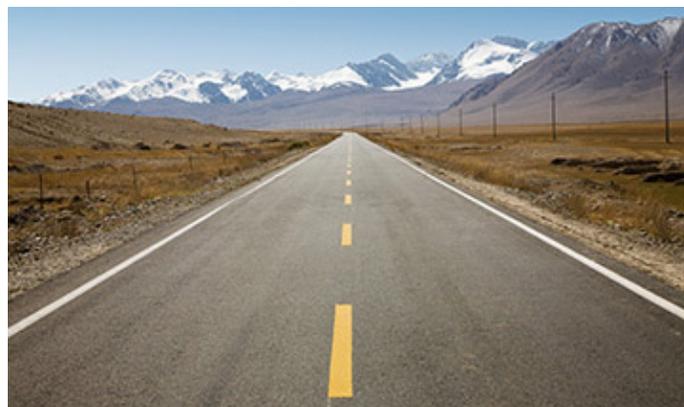
Ten years from now, procurement management teams will be able to calculate the following quantitative risk metrics with fluency:

- ▶ Total cost of risk at the supply chain, category and supplier level
- ▶ Total risk mitigation investment across the supply chain
- ▶ The right price of risk transfer to suppliers, customers and third-parties such as insurance companies

Aiding the evolution described above will be financial services companies (insurance, banking, hedge funds, etc.) that will bring to market new risk transfer products that will give CPOs many more options than exist today to transfer out unwanted or inefficient risk positions and exposures. Some of these early products are already on the market in 2014, and by 2025 these will be a standard part of category management in the best procurement organizations.

The people implication of the dimension described above is that procurement specialists will have to become much more familiar with quantitative risk tools and techniques – much as supply chain professionals had to learn about IT in the 80's and 90's. This will mean that an already complex role will become more challenging and more finance-focused in the future. What's more, in the largest companies, dedicated quantitative risk management teams and/or Centers of Excellence will be much more common. Again, this evolution is already visible today, as many leading companies import commodity hedging and foreign exchange hedging expertise into their procurement teams.

Present implications: In 2014, procurement leaders should begin to understand higher-order risk management tools and techniques and select a small team of quantitatively trained sourcing professionals to spearhead the development of the next generation of supply and supplier risk management approaches.



Change dimension 2: Sustainability

Functional challenge: Enabling sustainable procurement in a “Circular Economy.”

Evolution projection: Stable  Disruptive

Bottom line: The next ten years will see the transition from transactional procurement in a linear environment to procurement in a circular economy where procurement organizations have to balance the creation of economic and social value in equal measure.

Discussion: By 2025 procurement functions will be asked to move beyond cost management and to create economic and social value. This change will be a consequence of the generational shift in the understanding of sustainability that will take place as the last of the “Baby Boomers” retire. As the post-2000 generations come into economic power, the idea of an economy where economic growth is decoupled from resource exploitation will take hold. This psychological shift will result in a movement from a “linear economy” of consumption and disposition to a “circular economy” of continuous use and reuse.

As the CEO of a consumer products major recently noted:

...building a circular economy would require a fundamental restructuring of global value chains. Instead of selling products, businesses would retain ownership, selling the use of the goods they make as a service. Selling a product's benefits instead of the product itself would create a powerful incentive for producers to design for longevity, repeated reuse, and eventual recycling, which would enable them to optimize their use of resources.

Key characteristics of the circular economy will be customer access to a good versus actual ownership, business model evolution from individual transactions to managed relationships; reverse distribution cycles; innovations in material, component, and product reuse; and products designed for disassembly and serviceability. This evolution will also result in a major reevaluation of comprehensive sustainability risk identification/mitigation.

A decade from now, the best procurement organizations will employ sustainability as a lens with which to identify environmental and social risks. This is because risks associated with environmental factors will increase in the next ten years, from resource and raw material scarcities (e.g., high quality water) to operational interruption (e.g., storm events). Risks associated with social factors will also become more visible and less acceptable as a younger generation of consumers enters prime purchasing age.

Issues that are of secondary importance to many procurement and executive teams today – from unsafe worker conditions to child labor/human trafficking to the sourcing of raw materials from conflict areas – will rise in importance as a generation raised to a higher standard of global social connectivity begins to drive major purchasing decisions. Increasingly, companies will be driven to consider environmental and social risks by laws demanding greater transparency of supply chains. By 2025, the act of purchasing products or services whose impacts have been found to be less damaging to the environment, human health, and society – when compared to competing products or services – will be the rule rather than the exception.

As a consequence of a more comprehensive and intense social focus, sustainability methodologies will be much more imbedded into the procurement process ten years from now. The use of Total Cost of Ownership analysis, Life Cycle Analysis, and the use of third-party environmental certifications as a weighted screening methodology for selecting products and suppliers will become standard practices. Likewise in the acquisition of services, procurement organizations will employ sustainability screens at the vendor level rather than at the product level in the same way the financial industry uses credit ratings in 2014.

Sustainability's heightened priority in business operations as a result of this generational value shift will set the stage for a truly circular economy where the starting point will be economic value creation aligned with environmental improvement, not degradation.

Present implications: In 2014, procurement organizations need to strengthen their capacity to realize the value of utilizing sustainability strategies in how they do business. Integrating sustainability will entail building performance-based metrics into each phase of the procurement process: pre-sourcing, sourcing, and implementation. For example, incorporating sustainability into the pre-sourcing phase may require sending a chemical or mineral disclosure questionnaire; and sourcing phase might require a broader definition of product requirements to include sustainability attributes.

Change dimension 3: Globalization

Functional challenge: Managing a rebalanced global supply and supplier base.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, the traditional demand and supply poles that have shaped global commerce over the last fifty years will have changed dramatically, and emerging markets will have redefined go-to-market and sourcing strategies on a global scale.

Discussion: The rise of China, Brazil and India as global economic powers has been well-documented and is under constant scrutiny by procurement professionals. Indeed, the emergence of China as the world's largest consumer market has unknown implications for all product and services companies and therefore for the procurement organizations that support them. By 2025, it is highly likely that many procurement leaders of Western companies will be physically located in China and will base a much larger share of their sourcing and supplier selection decisions on the needs and tastes of Chinese consumers. Furthermore, the strongest Chinese brands will wield extensive leverage in specific domestic and even international markets, causing Western firms to base their procurement strategies on standards, designs and strategies set by Chinese market leaders.

In addition to the Chinese dynamic, a second significant factor is the rise of western/central Africa as a manufacturing hub. For a variety of social and demographic reasons, this part of Africa is attracting an increasing amount of foreign investment in 2014, and, if favorable social conditions continue, this trend will only increase. This means that an area long ignored by most global sourcing organizations will receive increasing focus and investment. As one major high-tech CPO put it, "you have to put aside old ideas look at western Africa as a potential global manufacturing hub in the future."

The third dynamic is the rebalancing of economic power in the American continent with the rise of Brazil, a country that has shown much promise in the preceding decades but is only now coming into its own as a global economic powerhouse. It is difficult to make definitive predictions about Latin American economies, but Brazil seems to have finally stepped off the economic roller coaster that continues to define economic cycles in countries such as

Argentina and Venezuela. Should Brazil finally take its rightful place as a solid economic counterpart to the U.S. and Canada, it will have major implications for immigration and investment flows in the Americas. For procurement organizations in the Americas, this means that a market largely unknown to North Americans will become increasingly important, as a source of both demand and supply. Brazil has a well-established local and regional manufacturing base that could scale to support all of the Americas. Consequently, procurement organizations will have to shift their focus to the South as well as East in the decade to come.

Moreover, as bi-lateral trade arrangements between these new powers are signed and go into effect, economic trade dynamics will also change, shifting tax, logistics, and sourcing strategies in ways that are just beginning to be studied by the most far-sighted procurement organizations. Also interesting is the return from Asia of many manufacturing activities to the U.S., Mexico and Eastern Europe. This trend is already underway, and, though many analysts downplay the impact of this phenomenon, a serious political disruption in China, Russia or India could significantly change the impact scale of this global shift.

Present implications: In 2014 procurement organizations should start to develop their expertise in local emerging market sourcing, especially in markets such as China, Brazil, Russia, India and Western Africa that will define the high-growth areas of the world in 2025.



Change dimension 4: Integration

Functional challenge: Managing procurement as the hub of inbound material and outbound information flows across all enterprise functions.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, the leading procurement organizations will serve as a central connecting point among all corporate commercial, financial and supply chain functions. As such, they will be the critical information hub for supplier and supply market information flowing into the enterprise and for enterprise demand and product data flowing out to collaboration partners.

Discussion: One of the most dramatic differences across procurement organizations in 2014 is the huge variance in the role that they play in channeling information to and from the various parts of the enterprise. In some global firms, the procurement organization plays a critical role in moving information about internal and external costs throughout business leaders. Similarly, in other organizations information about supply market innovations and even competitor strategies enters through the procurement channel. In still other organizations, the procurement team is often the scorekeeper of record for corporate sustainability and social responsibility commitments. What is common in these scenarios, however, is that the information gathering and sharing role that procurement plays tends to have developed organically over time and is not consistent across a specific sector.

By 2025, this inconsistency in the information hub role at leading procurement organization will have changed dramatically. As one leading consumer products CPO put it, "my vision is that in ten years my organization, working side by side with finance, is the source of record for all external supplier and supply market information entering our company and for all company information going out to our suppliers. We want to be the 'Google' of the supply base to our company and the 'Google' of our company to the supply base." For this CPO, the transformation will be significant, since it will force his organization to become experts in gathering, arraying and managing all relevant information and making it readily available to whoever needs it. This will be a new role for procurement organizations, and this evolution will force them to become not just a passive information hub for engineers, marketers, and legal teams, for example, but integral partners who understand all aspects of the corporation and what external data should flow in/out to keep key business functions working optimally.

Moreover, at the process level, procurement organizations will in many cases become the owners and managers of critical processes with strategic implications. Process models such as Integrated Business Planning and Collaborative Product Design often depend for their success on the accuracy and timeliness of external supplier and supply market data. Only recently have many of the leading procurement organizations taken on the responsibility of being the conduit for that information. This role will change in the future, and by 2025 the best procurement teams will define and fully enable many supply-driven processes that are performing sub-optimally in 2014.

Present implications: In 2014, procurement organizations can examine their efficacy as agents of business integration across the enterprise and begin to strengthen their information management and process/function integration capabilities.



Change dimension 5: Finance

Functional challenge: Increasing the financial expertise and sophistication of the procurement function.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, the leading procurement organizations will be much more integrated with finance and the financial skills of the best procurement managers will increasingly resemble finance professionals as much as traditional “buyers.”

Discussion: Across many of the best companies the next evolution of supply chain and procurement concerns the role of the chief financial officer (CFO) in helping guide supply chain and procurement strategies. To date, the finance function has typically played a limited function in procurement within large companies. While most firms have teams of cost accountants and others who measure factors such as inventory and sourcing costs, these roles are often insufficient to deal with the complex challenges involved in managing today’s global supply chains. Thus, in some of the best companies in 2014, there is expansion the role of the CFO in SCM generally and in procurement specifically. This expansion tends to focus on these three areas:

- ▶ Capital allocation
- ▶ Performance management
- ▶ Risk management

This evolution is important to procurement finance strategists for a simple reason. Procurement’s core mission is to acquire the goods and services needed to create the firm’s products and maintain ongoing operations, so it typically spends between 40-70% of all funds that leave the enterprise. Because no single function spends more of the firm’s capital, CFOs are starting to understand that finance and procurement teams need to be intimately connected in most sourcing decisions. In 2014, the reality is quite different. Buyers typically are driven not by a strategy based on the optimal use of capital, but by narrow unit-cost and spend goals that are often shaped by the chief procurement officer (CPO) in response to (sometimes arbitrary) budget targets. Many procurement organizations spend sub-optimally not because they do not understand their jobs, but because they are measured by a narrow set of financial criteria, such as year-over-year spend savings. The impact of this approach is at best inefficient and at worst damaging to the company’s long-term health.

Buyers are often given cost targets (an initial and a typically linear year-over-year cost reduction formula) that drive many the sourcing decisions, even very complex ones. Buyers often admit that they would prefer to conduct a multi-dimensional cost analysis, but that the finance organization will not support such an effort because its own goals are budget-based and typically focused solely on the current fiscal year.

Ten years from now the finance teams at the best companies will work closely with the procurement organizations in a variety of analytical roles: from total internal and external product costing to supplier financing to, as noted earlier, quantitative risk management. Procurement specialist will work a much broader and sophisticated financial toolset such as real options, hedging and insurance valuation models and real-time financial risk analytics. This change will drive procurement organization to evolve in a number of key ways:

- ▶ Procurement leaders will need to borrow quantitative methods and tools from finance and financial risk management
- ▶ Finance teams will help drive financially optimal solutions to real and virtual procurement problems that may – or may not – correspond to the answers that traditional “buying-driven” solutions would have yielded.
- ▶ Procurement and finance teams will focus on understanding how the different ways of financing each aspect of a supply chain (e.g., self-funding, direct borrowing, third-party financing) can provide higher returns and/or operating flexibility, and impact risk profiles.
- ▶ CFO and CPOs, and their teams, will jointly manage the financial complexities and yield/risk aspects of their companies’ operating models

To accomplish this transformation, financial skills will be as critical to procurement professionals as category management and negotiating skills are in 2014.

Present implications: In 2014, leading companies can begin to change the relationship between finance and procurement and to significantly strengthen the financial skills of their procurement leaders and professionals.

Change dimension 6: Innovation

Functional challenge: Making procurement a channel for innovation to/from the supplier base.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, the leading procurement organizations will serve as a primary channel for driving innovation ideas to/from a global supply base, and procurement professionals will play a critical role in driving new product development and evolution.

Discussion: The last several decades saw an explosion in the use of outsourcing for engineering, manufacturing and even product design. Today, it is quite common in certain consumer industries for a “brand” to limit itself to managing sales, marketing and “directional” design activities, while leaving detailed design, manufacturing and other operational activities to others. In this environment the sourcing of these operational functions can often mean the difference between success and failure. Likewise, in certain telecommunications companies in emerging markets, most infrastructure and network services are outsourced, not built, which means that the procurement teams spend as much of their time monitoring operational performance as they do negotiating or running sourcing events.

This phenomenon – procurement as the source of operational skill and innovation – will increase dramatically in the coming decade, because the use of outsourcing and specialized partnering will continue to increase. The implication of this trend is that the best procurement teams will increasingly be seen as the experts in the leading technological and operational innovations in the global supplier community. As noted, this is already the case in industries such as auto, high-tech and fashion, but it will also become commonplace in other sectors such as healthcare, analytics and life sciences. The globalization issue discussed earlier will also drive this trend. As more and more markets demand specialized products tailored to their particular needs, it will be increasingly difficult for one firm to research and develop all the innovations needed to meet the needs of diverse regional and local markets. Consequently, global firms will have to continuously partner with outside specialists, and many procurement teams will have to transform their current role from passive buying agents to proactive innovation sourcing agents.

This transformation means that procurement teams will have to increase their engineering, design and innovation skillsets in order to accomplish the role that their business partners will demand. They will have to maintain a thorough and current view of what suppliers and academic institutions are good at what tasks, and they will have to help manage the risk of adopting the most promising innovations ahead of competitors. As with the risk issue noted earlier, this trend will require procurement teams to understand more sophisticated contracting models, such as real options models, that are common in only a few industries today. On the plus side, the procurement teams that are able to successfully accomplish this transformation will become not just “trusted partners” but true value-creation centers for the enterprise. Contrariwise, those procurement organizations that fail to make this transformation may find themselves increasingly bypassed by business units determined to stay at the forefront of technologies and design and unable to get the support they need to do so from their in-house procurement teams.

Present implications: In 2014, procurement organizations can examine their understanding of the role that outside entities play in driving innovation in their industries; if they find that this view is unclear or undefined, then this suggests that it may be time to start thinking about how procurement can be a greater conduit of innovation in the future.



Change dimension 7: Collaboration

Functional challenge: Developing new models for integrating and partnering with external operators and service providers.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, the leading procurement organizations will deploy external collaboration models that are far removed from traditional “buy and audit” models that have previously defined outsourcing and service management contracts.

Discussion: Increasingly, procurement professionals find themselves in the middle of complex outsourcing and service management arrangements with a wide variety of outside vendor firms. From contract manufacturing to IT infrastructure to analytics service providers, procurement teams are on the front line in selecting, contracting and managing these often critical outside entities. But as most CPOs will admit, the models that govern the selection and day-to-day working models in these arrangements are often based on thinking that is out-of-date at best and catastrophic at worst. As one industrial CPO notes, “we constantly say that supplier X is a ‘strategic partner,’ but at the end of the day we fall back into old adversarial modes, in which we each see the others as an opponent and not as a partners working toward the same goals.”

The good news is that the hard lessons learned in sectors such as high-tech and auto have been well documented, and the best procurement organizations are already re-thinking how they engage with and co-manage operations that are executed for them by external vendors. In the coming decade, by drawing from benchmarking studies, their own experience, or the work of academics, leading procurement strategists will redefine collaborative relationships with outside vendors. In doing so, they will base these new models on a few fundamental pillars of engagement:

- ▶ Information transparency: data is shared as much (not as little) as possible
- ▶ Virtual joint venturing: operating as a JV even if the contractual structures are outsourcing or managed services-based
- ▶ Labor and process fluidity: moving people and processes within organizations as needed without penalty
- ▶ Operating/collaboration model fluidity: moving from static operating model/service level agreement contracting to variable models

The seeds of this transformation can already be seen in 2014. But for procurement organizations to fully embrace these new collaboration models, a radical change in the view of outside vendors will have to take place. Critical performance information, which today is often kept from vendors, will be shared continuously and used to jointly drive high-performance operations. “Co-management” teams will share financial and operational targets, as if operating under JV structures. The idea will be that without joint benefit, success will not be a reality for either contracting party – something alien to many service contracts today. Furthermore, labor and manager roles will move more fluidly from buyer to seller, and they will shift as skills and market needs change. This will be a radical departure from today’s view that “poaching” talent is a serious offense that can lead to contract termination.

What will be most important in these new models in 2025 will not be “who beat whom” in the negotiation stage but what is the best structure and contract to drive service/operational success, regardless of who benefits financially at any given moment. As one leading academic in this space put it:

As companies strive to transform their operations through outsourcing or seek innovation from their suppliers, they will most certainly need to better understand their business environment and the various sourcing business models that are available. It is important that today’s businesses leaders understand that the fundamental differences of each type of sourcing business model and consciously strive to pick the right model for the right environment, ultimately picking the right approach to use for the right job.¹

In 2025 the goal for the best procurement teams will be to understand all the collaborative model options and to create financially beneficial models, in the long run, and not just when fees and service level agreements are reviewed.

Present implications: In 2014, procurement organizations can start to consider whether their outsourcing and service acquisition models drive truly collaborative models or whether they are, when all is said and done, adversarial constructs that create zero-sum behavior under stress.

¹ Kate Vitasek, Bonnie Keith, Jim Eckler and Dawn Evans, “Unpacking Sourcing Business Models: 21st Century Solutions for Sourcing Services” (white paper, University of Tennessee, 2011), <http://www.vestedway.com/vested-library/>.

Change dimension 8: Transparency

Functional challenge: Managing procurement in the age of social transparency.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, procurement managers will have to operate in a social environment that was almost unimaginable ten years ago. The rise of social media, and the increasing acceptance of information transparency as the social norm, will change the degree of scrutiny on procurement organizations. This disruptive change, coupled with the adoption of real-time social technologies such as Google Glass, will make procurement one of the most visible functions in corporations to the outside world.

Discussion: The last ten years have seen the rise of two seriously disruptive, and deeply related, social phenomena. The first is the arrival of social technologies, such as Twitter, Facebook and the iPhone. The second is the decreasing importance that most people (but especially the under-20s) are placing on personal and institutional privacy. With the arrival of Google Glass, and its “always on” social interaction capabilities, corporations are about to enter a new and unknown stage of social transparency where all information is shareable and personal privacy is a largely alien concept to both emerging demographic groups and even entire nations.

As one consumer CPO put it: “Today’s youngest kids in China and the U.S. will grow up with no hang-ups about sharing their life stories with the outside the world, and they will expect the outside world to return the favor.” In this society, the corporation, which to many outsiders was often thought of as a “black box” will find that the box suddenly has several windows and that outside those windows is a curious world looking in. Questions about supply source location and pricing that, to be honest, are often annoyances to many procurement organizations, will become a normal part of the conversation with consumers, regulators and activists. Moreover, the idea of a “corporate secret” will itself seem increasingly archaic. If people will be willing to “live life out loud,” then corporations will be expected to do the same. For example, Google Glass will enable supplier inspections and negotiations to be seen in real time by outsiders. Is it that hard to imagine a world in which regulators force procurement teams to “broadcast” specific activities in real-time to ensure compliance?

Another social trend that has already started – the idea of preemptive action ahead of unwanted activity – has already entered the regulatory lexicon, and suddenly procurement organizations could find themselves having to show that their bidding and sourcing activities are transparent even where no suspicion of wrong-doing existed in the past. Indeed, where social transparency becomes the norm, any form of opaqueness will come to be seen as possibly suspicious. Along the same lines, the concept of governmental “nudging,” which has taken hold most famously in the Scandinavian countries and most recently in the U.K., will cross into the U.S. In this concept, the government does not legislate many social changes; rather, it “nudges” them along with via economic stimuli and penalties. As with people, corporations will find themselves “nudged” in certain directions by government and social agents, and procurement will once again find itself the recipient of many of these mandates.

The social evolutions noted above will also have significant changes in the role played by the CPO at the most famous (and infamous) corporations, since transparency pressures will increasingly make the CPO role a visible one in the social landscape. Historically, the role of procurement executive was an internal one, and few CPOs were public faces of the corporation. That model began to change in the 2000’s and will continue to change in the coming decade. By 2025 the best CPOs will be well-known corporate figures, able to lead discussions with consumers, regulators and the press on all aspects of procurement activities in the firm. For the teams that support these leaders, life and work will be very different, and they should expect that many processes and events that today are internal will, in the future, take place on a real-time social stage with millions of people watching.

Present implications: In 2014, procurement leaders can start to engrain a social mindset into their procurement teams and start to develop a social operating model that prepares for a world of increasing and, in many cases, disruptive transparency.

Change dimension 9: Analytics

Functional challenge: Increasing the analytical expertise and data management sophistication of the procurement function.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, the leading procurement organizations will be conversant with advanced data mining and statistical analysis technologies and techniques, and these skills will be integral to all high-performance procurement organizations in dynamic sectors such as consumer, high-tech, auto, fashion, etc.

Discussion: There was hardly a CPO in 2013 who did not have to sit through at least one presentation on “big data.” Amid the explosion in the advertising, marketing and hyping of this term, it’s easy to be cynical and dismiss this concept as yet another dream in the eye of technologists and consultants. That conclusion would be easy, but it would also be wrong. There is indeed a revolution taking place in the way data is managed and analyzed, and to ignore that change would be a mistake for any corporate leader but especially for CPOs.

As most people have come to understand recently, the world changed significantly as the U.S. called upon its resources to battle terrorism in the 2000s. One of the major challenges was the need to analyze and unprecedented amount of data streaming across networks around the world. Thousands of researchers and technologists answered this challenge, and a decade later the fruit of that work has started to enter the private sphere. Advances in super-computing, parallel and neural networks, “deep-web” analysis, and behavioral prediction have all started to change how data is collected, structured and analyzed. At the same time, a new generation of robotic/drone technologies – smaller, faster, smarter – have started to enter new fields such as health care, construction, real estate and, famously, military and law-enforcement. By 2025, these advances – both in computational process and in non-human mechanical entities – will radically change how many corporate activities are performed. Procurement is no exception.

It’s worthwhile to consider just two possible evolutions of the phenomena noted above. The first is to consider a world in which procurement teams have access to a comprehensive market analysis network that can provide real-time update on transactions and financial activities across a spectrum of categories. That network will probably be maintained by the financial services sector and rented by procurement specialists, much as financial traders use services such as Bloomberg in 2014. Such concepts are already under development today, since the rewards for the firm that develops the “procurement Bloomberg” would be enormous.

As one strategist in a financial firm working on his firm’s project noted: “we want to give category manager instant and total awareness of the buying terrain. Much the way military commanders can see the battlefield today, we want the same visibility to parties in business negotiations.”

Consider also that today procurement teams struggle with monitoring tens, thousands or even hundreds of thousands of suppliers. By 2015, the first on-site OEM-controlled robots will be in place at suppliers, and these machines will be able to provide real-time visibility and performance analysis to OEMs, thus making the traditional supplier audit/rate-readiness models practically obsolete. Again, this latter prediction may sound fanciful, but it is already under development by one high-tech major in 2014. In fact, as one aerospace Tier 1 CIO recently noted, “in ten years I want to be able to look directly into my Tier 2 and Tier 3 supplier’s factories, with or without them knowing; and I suspect that the OEM’s will want to do the same to me. The old days of hiding behind telephone surveys and periodic audits will come to an end in the next decade.”

When one considers the staggering change in the way society collects and manages data in the 2004-2014 period, it’s difficult not to wonder with some awe and trepidation, at what the next ten years will bring. By 2025, we will be living in a society with a much different and deeper understanding of data and meta-data, and the implications for procurement teams are hard to predict specifically but easy to predict generally. For example, there is already one leading consumer products company working on what it calls “Product DNA,” which will be a double-helix shaped stamp on every product that will replace the century-old “ingredients list.” The Product DNA symbol will provide sourcing information, manufacturing location, transport channel and even procurement team contact information. This technology is probably not more than five years away. At a more basic level, negotiation and leverage strategies will surely change, as will sourcing platforms and timelines. Couple these changes with the rise of social transparency described above and the CPO of 2025 will find a much different data-driven world than the one experienced in 2014.

Present implications: In 2014, leading companies can begin to assess their data management and analytical capabilities and ask how those skills and technologies need to evolve in the coming decade.

Change dimension 10: People

Functional challenge: Changing the profile and mindset of the procurement professionals to be able to excel in 2025.

Evolution projection: Stable  Disruptive

Bottom line: By 2025, the leading procurement organizations will be working in a new world, and the leaders in these organizations will be working with new social skillsets, global mindsets, and analytic technologies.

Discussion: The preceding nine sections attempted to make a case for a very different procurement function in 2025. Even if only half of these predictions fully emerge, it is clear that the procurement leaders of tomorrow will have to be different people in many ways than the procurement leaders of today. In considering this evolution, the best CPOs are already thinking about the need to change how where and how they build their next generation of leaders. These changes can be summarized in the following four people dimensions.

New Blood: There will be an increase in number of educational and professional backgrounds in procurement in the future. A field that already includes engineers and chemists, for example, will also add statisticians, financial risk specialists, social scientists and physicists. This influx of new backgrounds will bring new ideas and change to procurement teams, but it will also create a new people-management challenge for CPOs as procurement becomes the most intellectually diverse organization in the enterprise.

New Cultures: Just as new skillsets will enter procurement, the geographical shifts noted above will mean that a more globally diverse procurement workforce will also emerge. As one high-tech CPO noted, “future CPOs at global companies will be come from any field and any place. This will mean that buying strategies, which are often products of local social and cultural structures, will become much more diverse as well.”

New Mindsets: As noted earlier, the arrival of the under-20s into their first wave of business and consumer power in 2025-2030 will bring with it the emergence of the transparent society and the circular economy. These changes will require not just “corporate social responsibility” reports posted on corporate websites but, in many industries, a wholesale reevaluation of the corporate-social relationship. This mindset change will be forced on an older generation of managers by the new arrivals, wanted or not. Already, this change has started in certain sectors

such as entertainment and food, and it will expand as the social generation enters maturity.

New Profiles: There is hardly anyone working in procurement in 2014 who has not run into the “buyer profile,” which is a person focused solely on price and who considers all other factors to be secondary or even meaningless. This type of procurement professional, who sees all negotiations as zero-sum games and considers any “money left on the table” a failure, will leave the best procurement teams as the new century continues to evolve. This is not to say that cost will not always be a major consideration; it is to say that the way cost is defined will change and become multi-dimensional. This shift will require multi-dimensional thinkers and profiles in procurement leadership, and this change has already started to take place in the best procurement organizations today.

When taken together, the four new people dimensions noted above, plus the broad high-level social and technological dimensions discussed earlier, paint a future for procurement that is both exciting and challenging. Clearly, the models of the last few decades will not drive procurement leadership in 2025. What will succeed is a CPO and procurement team who collectively understand social changes, technological evolution and the multi-dimensional nature of the procurement challenges to come in ten years’ time.

Present implications: In 2014, leading companies can begin to assess their intellectual diversity and their recruiting sources and methods with the focus on shifting both as needed to prepare to bring the right people into their procurement teams in the decade to come.

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For further information about this report or EY's services, please contact:

David Brown

Supply Chain Lead, Ireland
EY Performance Improvement Services
DBrown@uk.ey.com

Frank O'Dea

Partner, Ireland
Head of EY's Performance Improvement Services
frank.odea@ie.ey.com

Herb L. Schul

Americas Procurement Leader
EY Advisory
Herb.Schul@ey.com

Jamie Hintlian

Life Sciences Supply Chain Leader, EY Advisory
Jamie.Hintlian@ey.com

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