

2019 CPO Agenda: Building Next-Generation Capabilities

By *Laura Gibbons and Christopher Sawchuk*

Executive Summary

The four most-feared words in business – do more with less – are losing their power for procurement organizations taking steps that enable them to become strategic digital transformation partners to the business. Digital technology promises to help procurement advance its service offering while keeping a lid on operational costs. In fact, procurement expects its budget to grow at a much slower pace this year than in 2018 (1.3%, versus 2.7% last year). Still, it remains critical to stay closely in tune with the needs of the business to ensure the digital transformation strategy is in line with future needs. Data from The Hackett Group's 2019 Key Issues Study indicates that procurement must become fully dedicated to advancing its capabilities in analytics, customer-centricity and agility, while also investing in the right talent to help lead those changes. However, there is still a mismatch between what procurement considers to be most critical for success and what it is able to address.

About this research

For the 2019 edition of The Hackett Group's annual Key Issues Study, executive management and leaders of finance, HR, IT and procurement organizations at a global set of midsized and large enterprises were asked in late 2018 about their strategic priorities and initiatives for the coming year.

The study results, which are analyzed in separate reports for each function, also guided the creation of our 2019 research agenda. Issues cited by participants as top priorities or challenges will be addressed in our research, webcasts and other Advisory Program

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Procurement's Critical Development Focus Areas

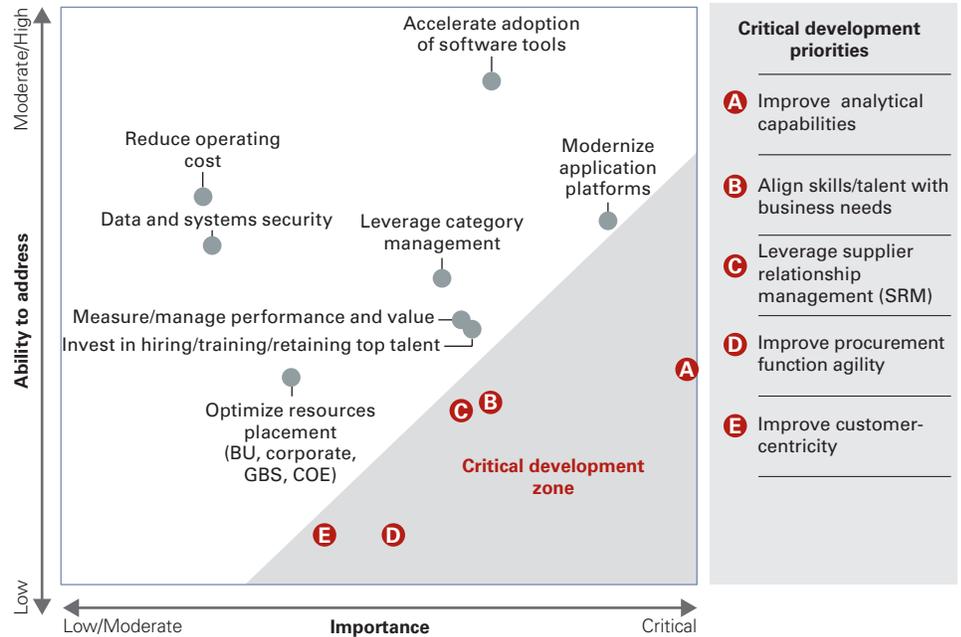
In 2019, procurement organizations must focus on five critical development areas. These were determined based on data from The Hackett Group's Key Issues Study and the size of the gaps between the stated importance of these procurement capabilities and organizations' current ability to address them (Fig. 1).

- 1. Improve analytical capabilities:** As the role of procurement changes, analytics accounts for one of the biggest changes in necessary capabilities. Core activities like spend analysis are moving toward real-time, custom and predictive analytics, while less-mature analytics functions like risk management will join procurement's list of fundamental responsibilities.
- 2. Align skills and talent with business needs:** A rising topic over the last few years, in 2019 procurement must enforce a new talent profile or risk falling behind the curve in critical capabilities. "Must-have" skills include advanced analytics and data modeling, business acumen, relationship management, strategic thinking and risk-management expertise.
- 3. Leverage supplier relationship management (SRM):** While SRM has long been a core capability for procurement, it is due for a major shift in approach. Relationships between procurement and its suppliers must become much more strategic, particularly as it relates to collaboration and innovation, not just on product design, but also in the way they communicate and interact.
- 4. Improve procurement function agility:** Agility is an important factor in all areas of business, a direct reflection of the changing market and technology advancements. For procurement, this means faster decision-making enabled by efficient technologies and adaptive staff who possess a variety of skills and competencies.

membership deliverables in the months to come, along with related best practices; empirical data to assist in building a business case for change; time-tested and emerging solutions; and case studies.

5. Improve customer-centricity: Prioritization of customer needs and expectations is now a critical capability for procurement's success. Most importantly, procurement must become a partner for the businesses it supports, making it a priority to develop a deep understanding of business needs. And secondarily, it falls on procurement to make customer processes fast, efficient and easy to understand through means such as self-service, 24/7 support and process automation.

FIG. 1 Procurement critical development priorities in 2019



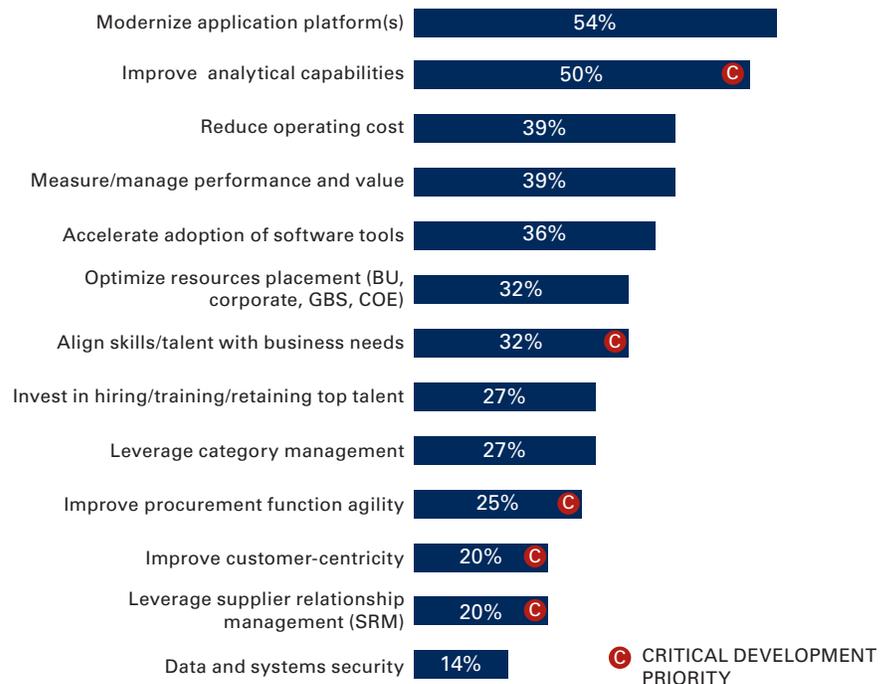
Source: Key Issues Study, The Hackett Group, 2019

Unfortunately, procurement's transformation agenda is poorly aligned with its most critical development priorities (Fig. 2). With the exception of improving analytical

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FIG. 2 Procurement transformation focus in 2019

Percentage of procurement organizations with major improvement program planned or ongoing



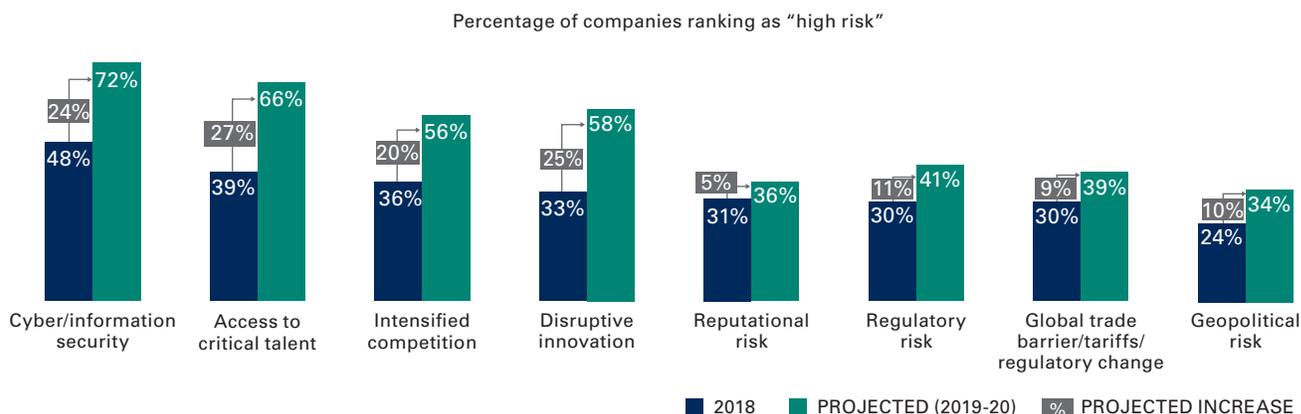
Source: Key Issues Study, The Hackett Group, 2019

capabilities, procurement's least-advanced competencies (in what we call the "critical development zone" in Fig. 1) are being addressed in under one-third of organizations. Worse, only 20% are focused on improving customer-centricity and leveraging SRM. Still, 50% of organizations currently have a major improvement program underway for improving analytical capabilities. Since this is the most critically important focus area, procurement organizations are clearly taking steps to address this need in 2019.

Understanding Procurement's Enterprise Context

Procurement operates in the context of evolving business demands and priorities. An important driver of such demands is business risk. According to respondents, cybersecurity and access to critical talent are today's two biggest risks. Further, the percentage of organizations citing each as a high risk is expected to increase substantially in 2019 (Fig. 3). However, as shown in Fig. 2, data and systems security, aligning skills with business needs, and investing in hiring and retaining top talent are not widely expected to be the subject of major improvement programs. This poses a problem for procurement, placing cybersecurity risk and access to critical talent in danger of not being fully addressed.

FIG. 3 Current and projected business risk



Source: Key Issues Study, The Hackett Group, 2019

Disruptive innovation and intensified competition are a close third and fourth on the risk scale, swapping places from last year. The reordering reflects the importance of finding a competitive edge to attract and retain new customers. In order to address these concerns, procurement will need to look to its agility and SRM capabilities.

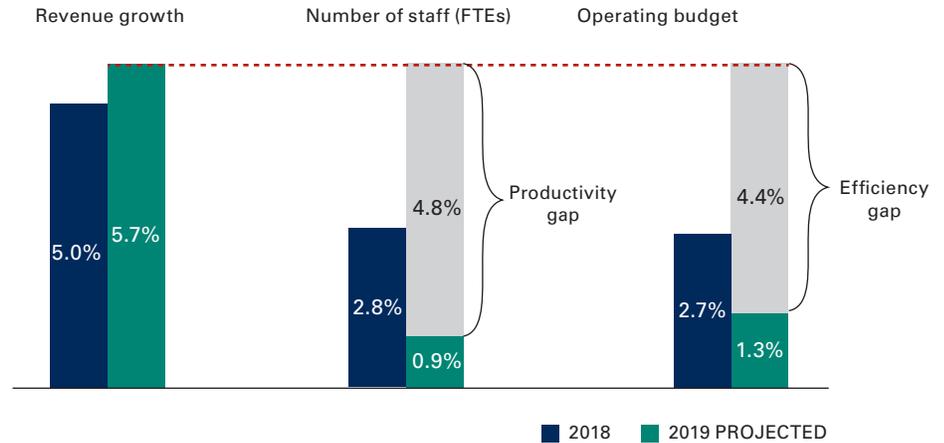
When asked about enterprise goals, respondents cited customer-focus improvement, cost reduction, and product/service innovation as their three major initiatives of 2019. For procurement, this means juggling customer-related and innovation priorities while also continuing to cut operating costs – or, stated simply, doing more with less.

Procurement Resources in 2019

While procurement stakeholders' expectations are rising, the enterprise emphasis on cost is affecting the function more than any other business services function. Procurement expects its budget to increase this year by 1.3%, half the amount allocated in 2018 (Fig. 4).

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FIG. 4 Procurement resources



Source: Key Issues Study, The Hackett Group, 2019

Procurement’s Digital Transformation Imperative

As procurement considers how to advance its service offerings while cutting costs, one clear takeaway is that digital transformation will play a key part in successful strategies. The number of organizations that believe digital transformation has a high or very high impact on the achievement of enterprise objectives – 32% today – pales in comparison with the 60% that think it will do so within two to three years (Fig. 5). The jump in procurement organizations expecting a major impact on their own performance within two to three years’ time is similarly sharp.

FIG. 5 Impact of digital transformation on procurement organizations

	Percentage reporting “high” or “very high” impact	
	Current	2-3 years
Achievement of enterprise objectives	32%	60%
Performance (e.g., cost, quality, cycle time)	40%	73%
Service delivery model	31%	78%
Roles, skills profiles and needs	32%	56%

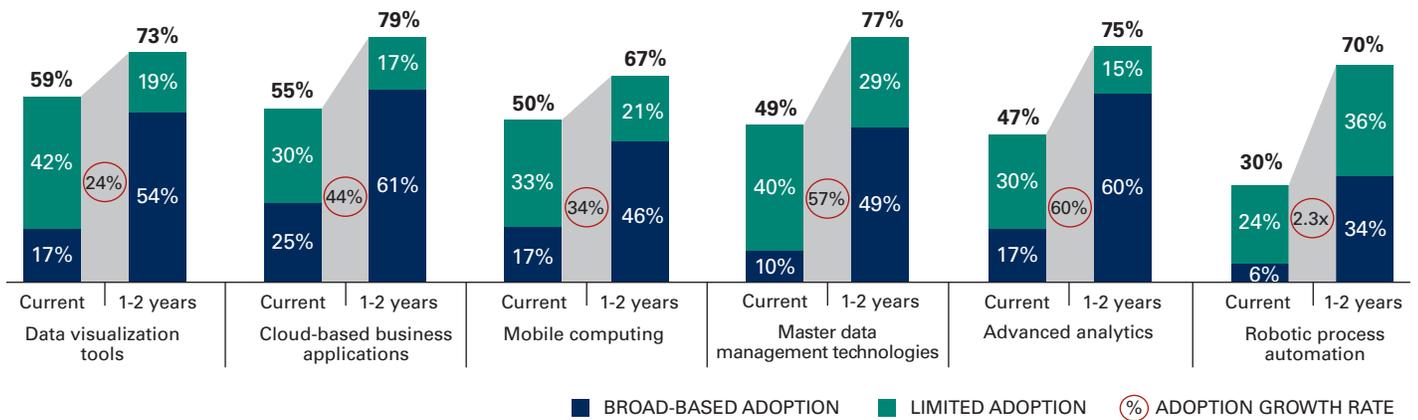
Source: Key Issues Study, The Hackett Group, 2019

Digital transformation and the alignment gap

Among digital tools, procurement expects to invest most heavily in cloud-based business applications, followed by a number of data management technologies: data visualization, master data management and advanced analytics (Fig. 6). Mobile computing and RPA are expected to be in use at 67% and 70% of organizations*, respectively, within the next year or two, indicating a focus on more efficient, agile processes across the procurement lifecycle.

Procurement’s biggest investments will be in cloud-based business applications in 2019.

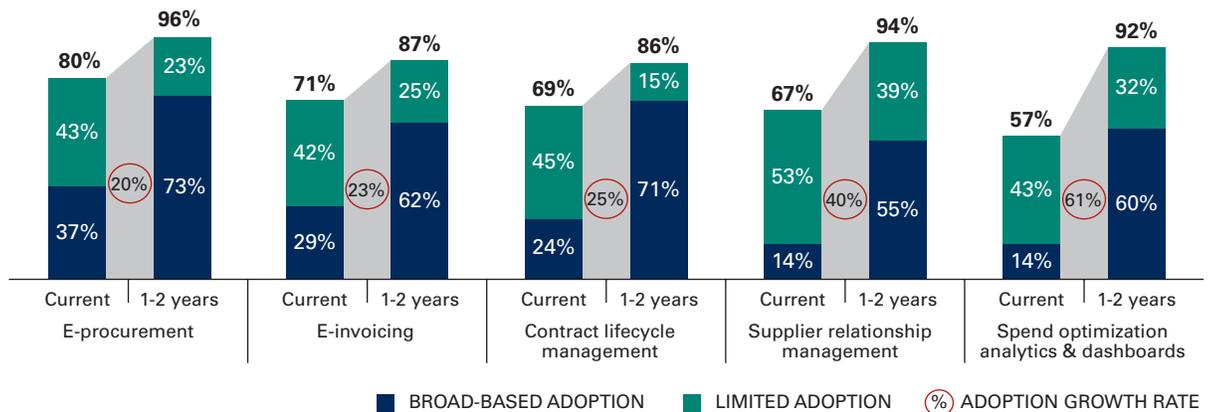
FIG. 6 Adoption of digital technologies in procurement



Source: Key Issues Study, The Hackett Group, 2019

Procurement-specific technologies are expected to become far more broadly adopted in procurement organizations over the next two years (Fig. 7). E-procurement, unsurprisingly, will be in use at 96% of organizations (either broadly or in specific processes). And newer technologies, like spend optimization analytics, will be adopted by 92% of organizations. This represents a major shift toward customer-centricity. Similarly, the focus on SRM technologies aligns well with procurement’s need to address that area. Overall, investing in procurement-specific technology will enable organizations to achieve simpler, more agile processes, making room for the new talent pool to focus on more strategic, value-adding work.

FIG. 7 Adoption of procurement-specific technologies



Source: Key Issues Study, The Hackett Group, 2019

Action Items

To meet the challenges of the digital era, procurement must target its improvement initiatives to narrow or close the gap between their importance and its ability to address them.

1. To improve analytical capabilities, procurement must:

- Lay the foundation for sophisticated capabilities by standardizing master data definitions, frameworks and KPIs.
- Work closely with IT to upgrade the data management architecture to support greater accessibility to more reliable enterprise data.
- Invest in staff by providing internal and external training on critical thinking and complex methodologies such as data modeling and predictive analysis.
- Pilot and scale the adoption of big-data analytics tools that can identify performance patterns to predict future outcomes and offer actionable recommendations.

2. To align skills and talent with business needs, procurement must:

- Invest in the hiring, training and retention of top talent with skills including business acumen, relationship management and strategic thinking.
- Collaborate with the human resources organization to create comprehensive talent development programs to remedy known deficiencies.
- Leverage automation to reduce time spent on low-value tasks and redeploy capacity to strategic activities such as supplier innovation and relationship management.

3. To leverage SRM, procurement must:

- Assess existing SRM activities to identify areas for improvement and design a program to focus on supplier collaboration and innovation.
- Leverage digital tools to streamline the supplier process and enhance collaboration between buyers and sellers.
- Invest in supplier training and information-sharing to enable supplier effectiveness.

4. To improve procurement function agility, procurement must:

- Apply design thinking to processes to develop customized services and deliver useful information to procurement's customers.
- Leverage new technologies (e.g., RPA) to reduce response time by eliminating manual processes.
- Modernize core systems that can assist procurement in delivering timely insights drawn from both complex data modeling and predictive analysis.

5. To improve customer-centricity, procurement must:

- Leverage customer journey mapping to understand the impact on customers when designing the digital transformation strategy.
- Cross-train procurement talent in the business lines to develop a deeper understanding of business needs and to lay a foundation of partnership with procurement.
- Create an omnichannel experience for all customer interactions, including an online portal and a 24/7 phone/email help desk as well as in-person support.

About the Advisors

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Ms. Gibbons has industry and consulting experience in areas such as purchase-to-pay, strategic sourcing, payment strategies, manufacturing operations, economic impact analysis, and organizational and process design. She previously worked in The Hackett Group's Strategy & Operations consulting practice, where she specialized in sourcing, procurement and supply chain. Before joining The Hackett Group, Ms. Gibbons served as Strategy & Operations Associate at Groupon.

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

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