



## THE CHANGING SHAPE OF PROCUREMENT

### Abstract

This paper sheds light on one big question: What is the future of procurement in a more digitally enabled and globalised environment? Digital technology is not just speeding up processes and making networks more efficient -it can do much more than that. The Next Generation of procurement capability harnesses digital technology to create a new model of the procurement function, one that has a distinct focus on value creation.

## Procurement – where is it heading?

The future of procurement – this became increasingly relevant as the COVID-19 pandemic disrupted global supply chains. In a 2021 study, 61% of Chief Procurement Officers (CPO) and procurement leaders viewed the impact of COVID on their business as either extraordinary or significant.<sup>1</sup>

Inevitably, the focus has been on the potential for new technologies to solve current issues – whether using packaged software, predictive analytics, artificial intelligence, machine learning, blockchain, or robotic process automation. In the study,

34% of CPOs ranked automation and the need to drive digital procurement as their key strategic priority.

These technologies are important – no question at that. However, they are only part of the overall solution. Tools and platforms are often touted as transformational – but rarely, if ever, have they been demonstrated to provide a comprehensive solution to support the CPO's strategic and operational procurement ambitions. Nor is it yet clear, as to how emerging technologies will support

and develop the capabilities, processes, and value generation expectations placed on the function, which is increasingly challenging.

At the same time, it is essential to ensure truly supported with fit-for-purpose technology, processes and capabilities to deliver enhanced value in its broadest sense. And do it all sustainably.



Fundamentally transforming a procurement function, towards 'Next Generation Procurement', will require distinct re-framing and re-orientation of the function.

## Diamond-shaped function - the 'Next Generation' of procurement

The role of procurement evolved, as organisations realised the impact that good procurement had on their ability to do business or provide services to their customers. This increase in attention brought about an enhanced inclination for control – with the procurement team often being perceived as the 'corporate police' – slowing things down, being pedantic on compliance, and obsessed with pricing.

According to a 2019 study, 74% of stakeholders viewed procurement as a 'gatekeeper' (33%) or administrator (41%).<sup>2</sup> It

was thought that the focus and dedication of resources in procurement teams were directed towards transactional or operational activities (e.g., order processing, payments) as well as executing sourcing activities. The heavy emphasis on these activities created a pyramid-shaped organisation, where the bulk of resources sat within the base, or the operational layer of the function.

Whilst this structure has endured, we argue that today, it only genuinely works for organisations to the extent that they need to maintain the status quo. It certainly

isn't a recipe for innovation, growth, or creating transformation. Unfortunately, in today's dynamic market, it is unlikely that these activities will unlock breakthrough improvements in value delivery. Process, compliance, and controls are all still important – nobody wants these to go backwards – but these need to be matched with the bigger opportunities available, and for businesses to stay competitive, procurement functions will need to establish a new model to deliver them.

<sup>1</sup> Ardent Partners 'CPO Rising 2021 – The state of Procurement 2021' – May 2021

<sup>2</sup> Hackett: World-Class Procurement: Redefining Performance in a Digital Era – May 2019

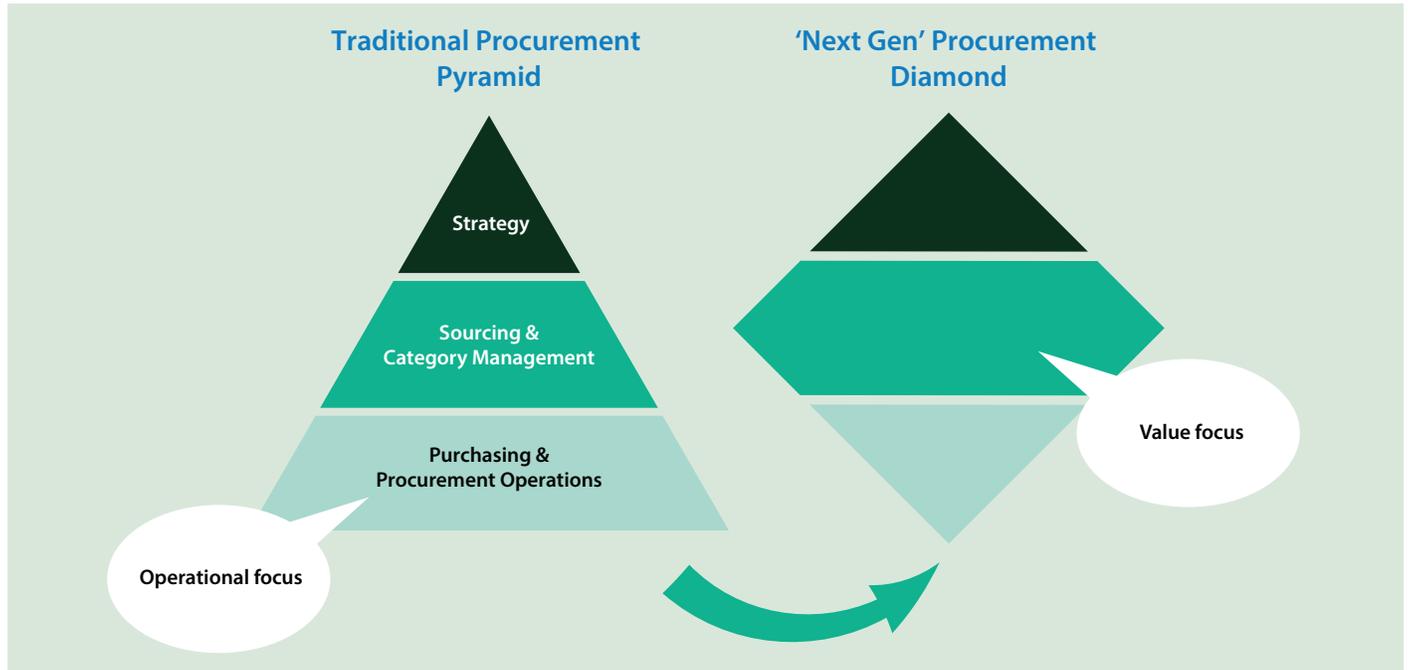
2017 Data are from Procurement Executive Insight: Management Issue 5/11/2017 – Raising the World-Class Bar in Procurement Through Digital Transformation

## Next Generation Procurement

Next Generation Procurement teams have a strong bias toward enhanced value delivery. They have a sharp understanding of their organisation's unique strategy, and that is reflected in procurement's strategic imperatives.

Next-Generation Procurement operations are automated and optimised so that resources can be redeployed to deliver value, as defined by the organisation and its internal customers. Importantly, Next Generation Procurement teams are appropriately

enabled with the right capability, process, data, technology, and operating structures, to succeed. Without the right mix of these enablers, the value delivery potential of procurement will be limited.



As a result of these changes in orientation, the Next Generation Procurement teams evolve from a pyramid to a diamond – as resources are re-focused on greater value-enhancing priorities, with operational activities progressively streamlined, automated or outsourced.



Next Generation Procurement teams are characterised by the following attributes:

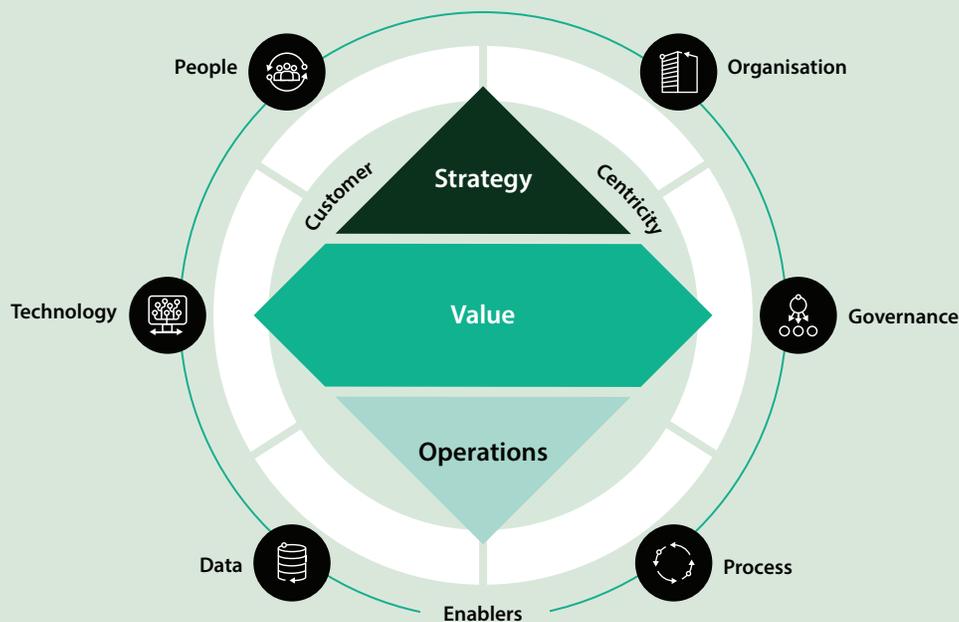
- Procurement strategies are linked directly to business goals
- Value is clearly defined and understood by the wider organisation
- Relationships have a strategic orientation, with procurement seen as

a trusted advisor

- People are highly capable and know their role in the organisation
- Processes are adaptive and responsive to changing needs
- Technology is fit for purpose; data drives insights and supports decision making

The result is a procurement function that is 'right-sized.' It can deliver broad and incremental value, and can be seen as a true partner for the organisation and its unique challenges.

### Diamond ring: Next-Generation Procurement framework



### Enhanced and unique value

Procurement professionals generally grasp the concept of value, as it is synonymous with the core facets of the role. In Next Generation Procurement, value extends beyond the traditional price or financial metrics familiar to many procurement teams. It instead entails a broader vision as to the role that procurement plays for the wider organisation. It is not simply the gateway to the external supply market and managing third party costs, but it is also a potential source of significant revenue growth.

What constitutes value is something

that is almost certainly unique for each organisation. In the future, enhanced value is increasingly likely to be derived not just from price, but from alternative sources, such as product or service innovation and new market opportunities, which can flow from collaboration and dialogue with suppliers and supply chain partners.

The procurement professional's ability and inclination to tap into these resources was historically very limited – largely due to the traditional metrics typically imposed by the business – with price savings generally front

and centre of attention.

Next Generation organisations move beyond these traditional measures of success. Instead, they are tuning into market trends, using data-led insight to sense and respond to new opportunities, monitoring competitor activities and applying laser-like attention to how they can support the strategic imperatives of the business. There will be a shift in focus away from largely bottom line, cost-oriented initiatives, to progressively using procurement as an engine for top-line growth.

The value can be defined in three levels:

1. **Value Core:** Typical procurement cost management drivers expected from a procurement function, including:

- Sourcing, negotiation, and price management
- Specification optimisation
- Supplier management
- Spend optimisation
- Policy and governance

2. **Expanded value:** Procurement delivers value through risk management and service delivery initiatives including:

- Service level improvement
- Process efficiency and design
- Improved staff experience (Sx)
- Supply chain resilience

3. **Organisational value:** Procurement delivers more strategic value to the business, such as increased speed, sustainability, innovation, topline growth, and strategic support. These include:

- Topline growth/work winning
- Supplier driven innovation and collaboration forums
- Increased speed to outcome
- Predictive analytics and real-time market insight to enable opportunity exploitation
- Transparent and adaptive supply chains

A Next Generation Procurement function will aim to address all three layers of value - and ensure they are recognised by the C-suite.

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## Value-driven transformation – the approach

Analysis of the procurement function should start with considering the business goals that the function needs to support and the current that the procurement function plays in the organisation.

However, it will invariably be the case that the future state vision of the procurement function will require an evolution in some or all the following:

- **Role of the function within the organisation:** A Next Generation Procurement team is easy to do business with and is seen to support the organisation seamlessly, with minimal friction. Team members are clear about the value they can provide and activities they undertake, and those they don't. The function supports innovation, provides unique insight and helps the organisation achieve its strategic objectives rather than just delivering cost savings.
- **People:** The shift from tactical, operations-

focused procurement into a more strategy-focused function requires a new mix of skills and a fundamental shift in the team's capabilities and orientation. Teams become multi-disciplinary, with a combination of dedicated roles and flexible resource pools.

- **Delivery model:** Now with a stronger focus on strategic activity, procurement teams deliver their more traditional activities via digital and automated solutions, or by outsourcing to external providers for whom such activity is core.
- **Process:** New technologies, such as process automation or AI/ML software, can support a shift towards self-service. The procurement function evolves from being a 'control' function into an 'enablement' function. The deals have been done, they are easy to access, and they are low touch.
- **Data and insights:** Procurement teams already have strong data literacy skills. The

focus moves away from data management and towards providing real-time insights. Systems are integrated to ensure high levels of data accuracy, velocity, and utility. Expenditure is tracked through the cycle from pre-contract through to purchase and payment.

- **Technology:** The procurement function has a deep understanding of the organisation's unique challenges and is best placed to solve them with best-of-breed technology solutions. These are likely to have been developed with user experience at the core, rather than attempting to force-fit the organisation's processes into unfriendly tools that are, or will be, shunned by users.

## Conclusion

A Next Generation Procurement team is likely to be smaller, more agile, and confident in using data to deliver strategic insights and value to the organisation. Together with being 'at the stakeholder table' as a true internal business partner, the procurement function takes on a more central role in helping the organisation to unlock growth opportunities whilst increasing profitability.

### About Author



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Rachel specialises in operating model design and working with procurement leaders to help drive an efficient and effective procurement culture. She is a procurement professional with 18 years' experience within Australia and internationally. Her industry experience spans across multiple industries including manufacturing, financial services, and FMCG and category experience across facilities management, professional services, and MRO.

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