

# VISION 2020

*Ideas for Procurement in 2020 by Industry-Leading Procurement Executives*



# Introduction

Welcome to the Vision 2020 Project!

Starting in late 2010, Ariba joined forces with leading procurement practitioners and influencers to begin a dialogue with two intermingled sets of procurement executives:

- The first represents a visionary and highly seasoned set of procurement executives — the people who first rolled up their sleeves in the early 1990s and conducted the arduous work of leading procurement from tactical paper pushing into things like spend management, strategic sourcing, supplier collaboration, electronic commerce, sourcing and procurement process automation.
- The second group represents today's vanguard — Chief Procurement Officers in charge of high-performing spend management organizations — who will lead procurement to new and innovative kinds of value contribution over the coming decade and beyond.

The objective is to initiate a dialogue on the future of procurement and to create a roadmap for how to get there.

The pages of this eBook contain ideas about the future that have emerged from the early rounds of discussion. Consider the contents of these pages to be one part prediction, one part hopeful thinking. And while there is surprisingly strong consensus among project participants around the essential ideas presented here, not everyone agrees it all can or will be accomplished — by every organization — in just 10 years' time. Nor does everyone claim to have all the answers for how they will get to each of the aspects presented herein.

Of note is that some of the ideas presented in these pages have been kicking around for quite some years, although the conditions under which they might flourish have yet to materialize in more than a handful of enterprises. The hope is that — with all that has been accomplished in the past decade — the time for these ideas may finally be coming.

The report is intended not as an end, but rather as a point of departure for much discussion and debate around where procurement can and should be setting its sights for the year 2020 and beyond.

We urge all readers of this report to join the debate and to extend the discussion with new ideas by joining the conversation at:

[www.futureofprocurement.com](http://www.futureofprocurement.com)



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# Procurement Devolves

*The procurement function — as you know it — will  
no longer exist in 2020.*

# Spend management shrinks

Companies will still care about managing their spending in 2020; they just won't have large, discrete, enterprise-level organizations dedicated to doing it.

“The spend management function will be very small by 2020,” says Larry Welch, former Vice President of Indirect Procurement with Hewlett-Packard. “You will see a strong central core that does horizontal work — ensuring that all the right processes and tools, skills, relationships, templates, and performance metrics are in place across business lines and functions.”

But, while enterprise-level spend management functions shrink in the coming decade, Welch and many other project participants see more supplier-facing positions being created at high levels in the strategic lines of business that comprise a corporate enterprise.

“Professionals with supplier-facing responsibilities will be in the business lines, will know the business lines, and will participate in business lines’ strategic planning processes,” Welch predicts. “They will be responsible for developing — with suppliers in mind — all the strategies that help the business organize, design and execute processes,

outsource (or insource), assure supply, innovate, and manage costs.”

While the people staffing these new supplier-facing positions may have web-like linkages to core enterprise spend management organizations, their interests, activities, and allegiances will be heavily oriented to driving success at the business line level.

“The business line leader will no longer have the experience of someone knocking on their door, saying ‘It’s time to develop a spend or supplier management strategy.’ It will be more organic than that,” Welch says. “They will have people embedded in their organizations, working as dedicated members of their teams, who will be part of their businesses in every aspect.”

“Functional procurement is something that should disappear by 2020,” agrees Javier Urioste, former CPO with several non-IT organizations.

“However, enterprises will need to

think very carefully and thoroughly about how to embed the disciplines of procurement into business processes. If you are going to eliminate the function of procurement, you need to have some very clear resolutions — perhaps coming from the Board of Directors — to ensure that there is a clearly articulated procurement policy and strategy and that the disciplines of procurement become a routine part of the way the business operates.”

# 2 Profits replace cost savings

Today's focus on cost savings will give way to a broader, more balanced emphasis on profitability, leaving open the question of whether supply management concentrates on cost savings or revenue growth to get there.

There are two general points of consensus around performance management for supply and spend management in 2020:

- Money — be it savings, revenue, or profitability — will always be a piece of the performance picture, and
- Metrics will direct supply and spend management professionals to focus their efforts on both the top *and* bottom lines.

Henrik Larsen, Vice President of Procurement for Maersk, sees it this way: “There will still be some overall metric in place in 2020, but it will be less focused on savings. I see metrics around things like spend coverage — as an indicator the company is staying focused on the right things — but also around things like innovation, collaboration, internal and external stakeholder satisfaction, and competitive advantage, which includes getting to new markets and bringing out new products.

“Somebody will always be accountable for controlling costs,” agrees Larry Welch. “But, I am hopeful we will see a shift to supply management being more accountable for costs as they relate to sales or revenue. It will become more of a standard to see supply management being held accountable for delivering value and not just lower costs.”

“Supply management goals in the future,” adds Roy Anderson, Vice President of Procurement Services for Metasys Technologies, “are going to look a lot more like the goals you see in marketing — where they are at risk for growing the market — or the goals you see in operations — where they are geared toward profitability. I expect to see procurement goals starting to follow those types of solutions, where it is not just about cost savings but, rather, about how supply management helps marketing drive customer acceptance or helps operations drive profitability.”

By 2020, agrees Dawn Evans, President and CEO of the Sourcing Interests

Group (SIG), most procurement organizations will be working on top-line growth and product innovation as well as bottom-line impact and total cost of ownership. “All of the forward-thinking CPOs I work with are talking about the top and bottom lines and that is very different from what we have seen in the past.”

Tim Cummins, President and CEO of the International Association for Contract & Commercial Management (IACCM), suggests that it will be up to procurement to drive this desired change in performance management approaches. “We must take responsibility for changing the circumstances under which we operate and there are steps procurement can take to demonstrate why the narrowness of today's measurements inhibit opportunities to create business value through trusting and collaborative relationships with suppliers. There is a growing body of evidence to document this problem and an urgency to finding ways to solve it.”

# Budget fuss fizzles out

There is plenty of effort today around trying to drive sourcing cost savings into budgets. But that is also a function of having discrete enterprise spend management organizations and heavy emphasis on cost savings, which are both supposed to go.

“We struggle with this today because finance has been unwilling to shift from its traditional bucket-based method of budgeting,” observes Roy Anderson.

But, in 10 year’s time, project participants expect supply management to have become so embedded, so early in business strategic planning that no one will ever think to ask a question like: Does procurement have a seat in the budgeting process?

As Ann Oka, Chief Procurement Officer for Sodexo, sees it, “Supply management will be heavily embedded in strategic planning for the business as well as budget and financial planning.”

Already, Oka says her organization is deeply involved in flowing information to strategic business units for use in their planning cycles. “We have a process for mapping our activities and expected benefits and then articulating them to our strategic business units so they can incorporate them into their planning. We include both cost of goods

and expected overhead savings.

“Because we are already so integrated in the budget process, it is hard to say we will be integrated more in 10 years, but I believe this will become the norm for most companies by 2020.”

Adds Debbie Manos-McHenry, Chief Sourcing Officer for Huntington National Bank: “When you get to a point where you are well respected within the business segment, and you are conducting a series of projects that are expected to have significant impacts for the business, not just in terms of expense take out, but on the revenue line, then you will be working with the business through the course of each year and helping them to make their plans.”



# 4 So long, sourcing geeks

While valued highly in today's marketplace, people who excel at sourcing processes or at being power users of procurement and sourcing automation technologies will find themselves working for third-party services firms — or not at all — in 2020.

“We either have to train people or exchange them,” says Dr. Heinz Schaeffer, Chief Procurement Officer, Northern and Central Eastern Europe, for AXA. “We will need people who are customer- and business-centric, not people who like procurement processes the most. Nor will procurement in 2020 require people who are experts at using procurement and sourcing software. Rather, we will require people who are experts at using technology to move businesses in certain strategic directions. We need systems supporting our businesses versus asking our businesses to support our systems.”

The implication is that procurement tools will become so intuitive by 2020 that even untrained professionals can be guided through the processes of executing successful sourcing and procurement activities. In many cases, systems will execute, without any human intervention, such tasks as:

- Sourcing based on market dynamics and predefined negotiation strategies,

- Ordering based on minimum-maximum levels, and
- Invoice, reconciliation and payment.

“People are not going to need to know how to write purchase orders,” adds John Campi, former CPO with DuPont, Chrysler and The Home Depot. “They will need to be able to support supplier relationships that provide their companies with continuous strategic advantage in their niche markets.”

“A person who understands contract provisions or how to execute a seven-step process is not going to be very important in 2020,” agrees Debbie Manos-McHenry of Huntington National Bank. “Nor will we need people who are great number crunchers and analysts. We will be automated to an extent that the information we need is always at our fingertips. What we will need in 2020 is people who can take information and proactively develop strategies that advance our business segments’ priorities instead of

waiting for the business segments to come looking for help with particular problems or ideas that have already been formulated.”

Tim Cummins, President and Chief Executive Officer of IACCM, agrees: “It is clear that many of today’s basic procurement activities can be automated. What we really need are skills associated with driving economic contribution for the business. That involves financial assessment, relationship skills, the ability to coordinate teams and ensure collaboration internally and externally. The harsh truth is that these skills are not particularly associated with the function today. A very big challenge is to turn that perception around for 2020.”

# 5 SBUs absorb procurement

The vision for 2020 sees a loose network — vs. tight function — of supplier-facing professionals embedded into strategic business lines, communities, and processes wherever needed, constantly moving and reinventing their roles as needs shift.

One outcome of the emerging 2020 vision is that the functional ‘procurement’ label fades from the corporate lexicon over the coming decade. “My personal point of view,” says AXA’s Dr. Heinz Schaeffer, “is that procurement will no longer be called procurement in 2020.”

‘Embedded’ in this context can mean either physically or virtually with the central idea being that the new spend management professionals get involved only where they are needed and move on once the right supplier relationships, processes, information flows, KPIs and performance metrics, technology tools, and so forth are in place and running both smoothly and predictably.

“Great companies transform themselves continuously to evolve with their markets,” observes Huntington National Bank’s Debbie Manos-McHenry. “Sourcing organizations absolutely have to do the same. It won’t be about sticking to that seven- or eight-step strategic sourcing process in

2020. It will be about thinking outside of the box to do things much differently as the business itself transforms. Tools, strategies, and information sources that make sourcing organizations incredibly nimble are going to be important in 2020,” she adds.

“As companies go forward in 2020, as consolidation occurs, there will be a need to engage end customers more and more and that will require a relook at the centralized or center-led structure [for procurement],” adds Sodexo’s CPO Ann Oka.

“We will leverage and centralize where we create value — that’s the sourcing side — and we will constantly reinvent our customer response group to get as close to and as intimate with our internal and external customers as possible.”

Donald Ferguson, Head of Procurement Operational Excellence at AstraZeneca, shares a similar vision for 2020: “I see procurement professionals working

more in a ‘design-to-value’ concept, participating as one part of a much bigger thing the business is trying to achieve, which is innovation. Critical spend categories will gravitate much closer to and become much more integrated into the business lines. They will be driven much less by cost management and much more by innovation and contribution in terms of selling the products we are trying to create.”

# **The New Supply Management Emerges**

*After a big wave of procurement outsourcing, a  
different animal will be left standing.*

# 6 Outsourcing explodes

Many current procurement and sourcing activities — the ones that do not get redistributed to internal end users of goods and services — will be outsourced by the year 2020.

John Campi, former CPO with DuPont, Chrysler and The Home Depot, puts it quite simply: “If it’s not critical, it will go to third parties.” Traditional procurement activities that the executives envision outsourcing by 2020 include:

- Virtually all transactions processing including POs, invoices, and payments
- All noncritical/nonstrategic spend category management, including supplier catalog, contract management and sourcing event execution
- Most data gathering, structuring, storing, analysis and reporting activities, be they for spend analysis, external market intelligence, risk intelligence, supplier performance management, and so forth

Donald Ferguson, Head of Procurement Operational Excellence at AstraZeneca, suggests that, “By 2020, procurement of the more traditional commodity, leverage-type categories will exit the

company and be sourced by people who specialize in sourcing them. The skills that go outside will be around creation of standards, specifications, performance management, and cost reduction. The skills we retain will be more focused around strategic influence and business acumen.”

“We are spending a great deal of time today looking at what is core and not core for us,” agrees the procurement executive for a major U.S. insurance company. “We have seen this happening in the last five years, but I think the trend is going to get much bigger in the coming five years.”

The first stage, this procurement leader says, will be companies figuring out what they can move outside and finding partners on whom they can rely completely for service support. But, as procurement outsourcing matures, he expects to see a second stage of development where companies begin to innovate within outsourcing relationships, exploring creative ways

in which their partnerships can drive competitive performance improvements and business success.

As Dawn Evans, President and CEO of the Sourcing Interests Group (SIG), sees it, “If we can outsource transactional procurement and bring in more strategic thinkers — people who are not afraid to drive innovation — then we can build a mindset that is dramatically different than the one we have now.”

Nonetheless, Evans thinks, “we still need a huge amount of education for corporate leaders to understand the best uses of supply management and why a majority of the tactical procurement and sourcing work should be outsourced.”

# Service providers excel

With fast-growing demand for procurement outsourcing, both the quantity and quality of third-party procurement services will increase dramatically by 2020. Their performance in many spend categories will surpass what can be done in house.

“Procurement is core in that we need to have the right strategies,” says the procurement executive for a major U.S. insurance company. “But it is not core to the extent that we can leverage service providers who have developed exponentially better capabilities than we have in particular commodities or spend categories because they source them on a more regular and broader basis than we will ever do internally.

“We have seen this developing for a number of years but, if you look back, you see the service providers really fighting with their offerings, building their business models, tying in the technology, and so forth.

“Today, we are seeing service providers getting to the point where they do things better than we can do them. Looking out 10 years, I see us moving first to leveraging that expertise and excellence and then to developing relationships with the service providers that put them completely into synch with our business models. We will

extract more and more value from outsourcing relationships as the decade progresses.”

Another factor in play is that high-performance enterprise procurement organizations — those that began their strategic transformations 10 or 15 years ago and have attained high levels of spend management maturity — will continue to spin out discrete business units that offer procurement and sourcing services often geared to specialized segments of industry.

This is already happening in sectors like healthcare, hospitality, and food services. For example, Ann Oka, Chief Procurement Officer with Sodexo, says: “Procurement services account for half [of Sodexo’s U.S.] volume today.

“We do not specialize in procuring highly engineered items, so we would not offer our services to manufacturers for their direct materials. We do, however, offer procurement services to firms within our industry or in

industry segments that are closely related to ours, for example, lodging, leisure, camps, and some multi-unit restaurant chains.”

“Today, we are seeing service providers getting to the point where they do things better than we can do them.”

# Strategy scope widens

Much has been done in the past decade to transform procurement from tactical to strategic. But the idea of 'strategic' remains hemmed inside the function, the process, or spend category. By 2020, the meaning of strategic gets much bigger.

In essence, all strategy will tie directly to an enterprise's end customers and it will be more cognizant of the diversity of desires and requirements within the customer base. In the beginning, the strategy scope will expand to include an enterprise's existing customers; over time, it will shift to helping the business acquire new customers and, perhaps, entirely new lines of business.

"Right now," remarks BYU professor and former Varian, Inc., CPO Kevin Castle, "we treat all products the same within our buying functions and in terms of supply chain design. In 2020, supply management professionals will capture and quantify unique customer requirements, all the way from marketing, through R&D, operations, and other parts of the enterprise. Rather than treating all customers and all products the same, we will construct supply chains, procurement processes and functions that meet unique customer and product requirements."

"We are already well integrated in

strategic, budget, and financial planning for the business," adds Sodexo's Ann Oka. "But, as companies go forward into 2020 — becoming more complex and diverse through mergers and acquisitions — those planning processes will require much greater engagement with end customers, meaning we will need to relook at our centralized structures." What is more, as procurement professionals engage with end customers, Oka suggests they will step beyond the boundary of merely discovering and contracting with suppliers and into the realm of identifying merger or acquisition candidates for their companies. "As we move forward along this path, we will encounter more things that we do not have the competency to do ourselves. In those cases, we will either procure from outsourcing partners or will purchase companies outright; either way, supply will play a role in those decisions."

"I believe that procurement will add much more value in 2020 than it does today," agrees KeyBank Chief

Procurement Officer Jean-Jacques Beaussart. "Procurement will be involved in strategic planning for the enterprise and also in identifying, implementing, and delivering value through mergers and acquisitions."

"Even our concept of innovation will expand beyond just the creation of new products with suppliers," adds Donald Ferguson, Head of Procurement Operational Excellence, AstraZeneca. "In pharmaceuticals, for example, which is very high margin, adding just 1% on the sales line can be worth a fortune, far exceeding anything we can do on the cost line. So, we will be looking for suppliers who can help us innovate the ways in which we go to market and sell our products, especially in emerging markets where traditional sales models don't scale. Instead of sales representatives going out to meet doctors, we will use innovation and technology to enable influencers and consumers to interact with and obtain information from us by the means and at the precise times *they* choose."

# Let's get financial

While still focused on physical supply chains in 2020, procurement will also become more strongly linked to financial supply chains, optimizing cash flow and working capital, implementing dynamic discounting, supply chain financing, and so forth.

“As we shift our focus to concentrate on the commercial consequences of supplier relationships,” says Dr. Heinz Schaeffer, Chief Procurement Officer, Northern and Central Eastern Europe for AXA, “I believe the procurement function will come to be called something like ‘financial supply chain management.’”

“Today,” observes Henrik Larsen, Vice President of Procurement for Maersk, “we are just pushing money over the border; either it belongs to us or it belongs to our suppliers, but we are not really leveraging based on who in the trading relationship has the greatest ability to optimize the financing and cash management pieces.

“If a supplier is better positioned to leverage, we will take advantage of that. And there will be value to the supplier and vice versa in taking that on.

“Trading partners need to get past their fears of digging into these areas,” Larsen continues. “Of course, they also

need financially astute people directing these kinds of activities, so I see much greater integration with finance as well.”

Barbara Whittaker, former Executive Director, Global Purchasing with General Motors, agrees and believes that technology will play a big role in shaping the transformation. “Right now, we cannot possibly look at each condition on its own, so we are forced into saying things like ‘Every supplier needs to be at a payment term of 60 days’, or ‘Every invoice needs to be handled this way’, or ‘All of our cash flow needs to be pushed one way.’

“I believe there is opportunity for technology to come along that enables us to measure and look at financial supply chains in more discrete ways. We could have multiple action streams based on market conditions, on what is going on with particular suppliers, or on the different kinds of relationships we have with suppliers. I see technology enabling us to say things like, ‘Supplier X will be on a 30-day term because

the model, which derives from live intelligence about our cash flow and other current market conditions, says it makes sense to pay them sooner.’ The model becomes real time and selective, so we can capture the best value — by supplier — leading to greater total value.”

Dawn Evans, President & CEO of the Sourcing Interests Group (SIG), believes new skill sets will be needed as well. “We need people that really understand finance and accounting and the impact that decisions in procurement have on financial statements. Things like total cost of ownership (TCO) are well understood in procurement, but true financial acumen is not really being taught in the supply chain schools.

“There needs to be more cross-pollination between these two functions,” Evans adds. “I would love to start seeing CFOs from Fortune 1000 companies becoming CPOs of Fortune 100 companies. That would be dynamite in this respect.”

# **Skill Sets Change**

*Think broad, deep, global industry expertise. Finely tuned business acumen. Sales, marketing, communications, performance management, and networking.*

# Supply pros get savvy

Professional. Polished. Intelligent. Respected. Influential. Persuasive. Visionary. Strategic. Sharp. Global. Collaborative. Executive. Savvy in business. All are terms used by project participants to describe the new supply professionals of 2020.

This set of characteristics feeds four essential sets of activities for spend management professionals in 2020:

- Strategize for the business with end customers in mind,
- Track and capture innovation already happening in and around the critical supply base; proactively drive innovation where it may be needed in the supply base,
- Relate with and integrate critical suppliers and service providers wherever appropriate and as thoroughly as possible in the business lines,
- Sell positive change within the enterprise and sell the highest-performing, most innovative suppliers on why they should invest in driving one company's success to the exclusion of its competitors.

Says KeyBank Chief Procurement Officer Jean-Jacques Beaussart: "If I had to choose key elements of success for

2020 supply management organizations, I would choose innovation, integration, strategic planning, thought leadership, and a real understanding of how to manage third parties."

"Part of supply management in 2020," adds Roy Anderson, VP Procurement Services, Metasys Technologies, "is going to be about demonstrating unequivocally that changing — to the new solution, to the new supplier, to the new approach — is not only valuable, but easy and fast and reduces risk to the greatest extent that is possible.

"The CPO is going to have to be a real salesperson — one capable of selling both internally and externally. It is going to be a very strategic position, where people have clear understandings of what the supply base can do in terms of supporting the company."

Maersk's Vice President of Procurement Henrik Larsen suggests that, by 2020, "Deep category expertise will not be enough. To succeed and work in

procurement and supply management, you will need to be a consultant, a networker, a relationship builder."

*The CPO is going to have to be a real salesperson — one capable of selling both internally and externally.*

# A new definition for 'expert'

A significant characteristic of the new supply professional in 2020 is the extent and depth of his or her knowledge. They will know everything, from the science, to the economics, to the laws and politics of their supply markets on a global scale.

John Campi, former CPO with DuPont, Chrysler, and The Home Depot, says supply management professionals in 2020 “will be capable of analyzing and understanding the worldwide dynamics of markets on a variety of fronts. For example, it may be prudent in some countries to pay people to witness your containers being loaded onto ships while in other countries you do not need to make that investment. Supply management professionals of the future will have that kind of deep, detailed insight into the markets that matter most to their enterprises.”

As Debbie Manos-McHenry, Chief Sourcing Officer for Huntington National Bank, sees it, “No company can afford to be surprised by one supplier leapfrogging past another. Supply management professionals will be like investment analysts, possessing both deep and broad knowledge in and around their supply markets and industries.”

“Supply management’s job in 2020 will

be to maintain a constant understanding of the marketplace,” agrees Roy Anderson, Vice President, Procurement Services for Metasys Technologies. “Supply management professionals are going to spend much more time understanding markets from longer-term perspectives rather than always looking through the lenses of sourcing events or transactions.”

What is more, Anderson believes that understanding will extend down into the lowest tiers of the supply chain. Our job will be to understand how we can build a product or service as effectively as possible by taking knowledge that is inside the supply chain and bringing it forward to the designers within our own companies.

“With technology innovating at such a rapid rate, supply management will be expert enough to understand if a supplier is staying current, innovative, and creative in its marketplace or if there are new players coming along to unseat them.” But Anderson does not

necessarily believe that deep expertise always needs to exist in house or with direct employees. “Very often, it is going to make more sense to source industry or market expertise from outside.” Sometimes that expertise will come from professionals, but increasingly it will also come from communities that share and aggregate information among themselves.

“I believe we are going to see more, better sources of third-party market intelligence and we are going to have more resources to invest in routinely acquiring that intelligence by 2020,” Anderson adds.

# Talent competition heats up

There is a strong feeling that the talent pipeline is too sparsely populated to meet the demand for strategic supplier-facing professionals that will develop by 2020. The outcome will be intense competition to attract the best and brightest on their terms.

“We have always been extremely successful in procurement when we have the right talent in place,” observes Jean-Jacques Beaussart, Chief Procurement Officer, KeyBank.

“By 2020, it will be the CPO’s job to be a magnet for talent. We will accomplish this by promoting global talent, employing state-of-the-art technologies, training people consistently and broadly, and ensuring they can leave our organizations for bigger corporate roles.

“When you focus on talent, you become known as an organization that can be trusted. It is a brand you can use to attract more business, more projects, and more talented people to work with you. There is no doubt in my mind this will be a number one priority in 2020.”

“What motivates the emerging workforce will be very different from what has motivated people in the past,” suggests Sodexo Chief Procurement Officer Ann Oka. “What makes people feel successful will no longer be steady

progress along a linear path. Companies will need to find innovative ways to allow the newer generations the latitude to pursue all of their interests.

“Already, we (Sodexo) are offering flexible work arrangements, telecommuting, job sharing and other employee value initiatives to keep this new generation engaged. We believe that creating a flexible culture will help us build employee engagement and capacity for business problem solving. But that raises new challenges around such topics as how to ensure people remain visible in a large corporation, how to ensure they are developed to be promotable.”

From a compensation point of view, Beaussart believes: “We will need more nontraditional compensation models, bigger bonuses with variable versus fixed compensation increasing.

“I would see a bonus structure, where the bonus has two parts. The first is linked to performance of the team and

the other to individual performance. The team bonus comes from a scorecard developed at the beginning of the year saying, ‘This is what we are going to achieve for the corporation.’ It can be linked to savings, how you manage business relationships, adoption of automation technology, whatever it takes to manage success for your area.”



# **Instantaneous Intelligence Arrives**

*Information gets better, faster, more networked, more forward-looking...and available right when you need it.*

# Prices go transparent

Market pricing for goods and services will become so transparent — due to e-sourcing, global trading networks, online communities, and procurement's intrepid scrutiny into still-cloaked categories — that negotiation will be a lost art.

“The value proposition,” says Debbie Manos-McHenry, Chief Sourcing Officer with Huntington National Bank, “will be much more about speed-to-market, exclusivity, innovation, and gainsharing in supplier relationships than about harvesting 3-5% savings from contracts coming up for renewal.”

Replacing the old price negotiation focus will be much greater emphasis on:

- Assembling the correct portfolios of suppliers,
- Rapidly extracting innovation and other value from supplier bases, and
- Building exclusive commercial relationships with leading suppliers that share both risks and rewards.

“We spend so much time today trying to obtain fair prices for the goods and services we purchase,” says Roy Anderson, Vice President of Procurement Services with Metasys Technologies. “That has to go away

because it is such a small piece of the whole effort and it is a piece that can be driven by the marketplace.

“The cloud,” Anderson predicts, “will force price transparency. Savings will be tied to things like discounts and rebates for reaching certain volumes or paying early. Meanwhile, in services categories, such as consulting, we will continue to gain visibility into things like labor and overhead costs, so transparency will come to those categories and we will be able to shift the conversation to how suppliers create value for us.

“We need to get more focused on making sure we have the right supplier portfolios to bring innovation and value to our companies, which has a tenfold improvement over getting another dollar off their unit price.”

Maersk Vice President of Procurement Henrik Larsen suggests that transparent, open-book trading relationships will be the key that empowers procurement to move beyond the “very tedious” things

that procurement does to add value today. “Transparency will enable us to get our teams interacting with suppliers’ teams and working to find bright new ways of delivering competitive advantage to both sides.”



# Risk info catches up

Alongside the general awakening around supply-related risk comes more agreement around how to measure risk, more standardized, more readily available third-party info and networked communities where people pool data for operational risk assessment.

“We expect to be leveraging portals of industry and supplier data to detect control failures early,” says Debbie Manos-McHenry of Huntington National Bank. “We will access operational risk data captured through industry portals and will see more shared assessments, standardized among buyers and sellers, with one-to-many sharing by members through communities.”

“Supply management will have responsibility for third-party risk management, centralized governance and control over third-party risk, providing business segments with the tools to assess and monitor risks together with oversight and reporting on the entire portfolio of suppliers to identify undue concentrations of risk within a segment, process, or supply industry.”

With such rigorous information assets and tools in place, Manos-McHenry also expects to see risk management

practices become more embedded into sourcing and contracting routines. “We will assess and rate supplier risk early in our due diligence process, enabling segment leaders to make informed decisions.”

“Our RFP process will identify alternative sources of supply and we will see more stringent contract language, requiring strong security, disaster recovery, and third-party risk management programs to be in place with suppliers.”

Roy Anderson, Vice President of Procurement Services, Metasys Technologies, believes that acquisition, aggregation, and management of risk-related information will transition fully to third-parties and networked communities in the coming decade.

“We see an awful lot of work being done today on the risk side, but we are never going to be risk experts, so it is a waste of time to create our own

supplier-risk profiles.” In 10 years’ time, Anderson believes, suppliers will be scored independently and collectively on a variety of factors: financial, ethical, and operational performance, creating 360-degree performance ratings and providing greater transparency into market dynamics, potential supply disruptions, and supplier capabilities.

# 15 Data predicts the future

Procurement has spent the last decade looking backward in time — at money spent last year, supplier performance in the past week, month or quarter. The coming decade will bring information and models that look forward.

“We have all this data at our fingertips in procurement,” says Kevin Castle, professor at Brigham Young University (BYU) and former CPO with Varian, Inc., “but it is data that tells us what already happened, how many defects we had in the last month, how many shipments were late, and how much savings we achieved (or did not achieve). In the future, I believe procurement will focus more on forward-looking, predictive analysis.

- We will use models to project where supplier defects are most likely to occur.
- We will have KPIs for suppliers that measure the discrete pieces of their processes that are most likely to affect our end customers.
- We will prioritize supplier processes according to *our* customer requirements and measure them.
- We will establish upper and lower process control limits and work

proactively to improve processes to point where we are confident that a supplier’s performance will always fall within our own customers’ specific requirements.”

While the ability to execute predictive performance management is elusive today, Castle feels strongly that procurement needs to push in this direction if it wants to become more deeply ingrained in such functions as business strategy development and new product design, development, and launch. “We need to be able to predict how a product will perform from both quality and total cost perspectives. We need to know rapidly and be able to react immediately when changes in the data predict a problem in the future.”

Supporting and reinforcing predictability will be business communities trading information in real time in much the same way that communities such as,

- LinkedIn enables one to obtain

predictive information about how a person is likely to perform on the job,

- eBay gives one information about how a particular seller is likely to behave, and
- Amazon can suggest books one is likely to enjoy by comparing searches and purchases among people with similar habits.

Depth and value of predictive information being exchanged among trading partners will grow in the coming decade as participation in networked business communities expands exponentially.

# 16 Intelligence moves into context

Full visibility — into spend, risk, performance — will be a given in 2020. Ready access to accurate, timely, structured internal and external business intelligence will create unprecedented abilities to synthesize info in support of decision making.

“My hope,” says Dawn Evans, President and Chief Executive Officer, Sourcing Interests Group (SIG), “is to see automation technology with leading market and economic intelligence built in, alerting procurement and sourcing professionals in real time — within the context of their business processes — to the risks as well as the opportunities they have to achieve benefits.”

Debbie Manos-McHenry of Huntington National Bank believes that, “By 2020, it will be normal to reach into your system and pull out all the information you need, be it internal spend data, external performance benchmarks, market intelligence, emerging technologies, new products, best management practices and processes, and so forth. Similar to the way investment analysts use Thompson Reuters or Bloomberg to manage investment portfolios, procurement will have immediate access to everything it needs to manage supplier portfolios.”

Other project contributors agree

that both the quality and depth of third-party information will continue to improve and costs to acquire it will decline. What is more, they say, companies will turn increasingly to external market intelligence gleaned through digitally networked communities of suppliers, peers, and experts. Real-time intelligence will be delivered via the web at the precise times when buying and other decisions are being made. And, while these networked communities will share roots with business and social networks such as LinkedIn, Facebook and Twitter, they will deliver information within the context of business processes and their supporting applications.

“As information quality improves and real-time delivery of information to business processes becomes more commonplace,” says Henrik Larsen, Vice President of Procurement at Maersk, “I expect negotiations and other interactions with suppliers to go in very different directions than they do today.

“Imagine being able to understand the effects of particular decisions on your company’s bottom line and your suppliers’ bottom lines instantaneously. People are starting to do this today, but I see it becoming much more commonplace in the coming decade. We will create transparent views together with our supplier networks. We will be able to see and understand what is happening at any given time.”



# Collaboration Reigns

*Companies will dramatically increase their dependence on suppliers for products, services, manpower, expertise, and new ideas.*

# Innovation comes from without

2020 will see a big emphasis on driving and taking innovation from the supply base. However, the supply role will be less 'person-who-brings-innovation-in' and more 'person-who-assembles-innovation-communities-and-gets-out-of-the-way'.

“We already have a goal that some 40% of what we create should come from outside companies. That target is only going to increase as we move toward 2020,” says Donald Ferguson, Head of Procurement Operational Excellence for AstraZeneca. “Having an ability to screen the entire global population of suppliers, universities and research institutions will help us to identify not only the next generation of medicines but also the best ways for getting them to people all over the world.”

Roy Anderson, VP Procurement Services for Metasys Technologies, suggests also that supply managers will need to go beyond merely looking for innovation in the supply base. “Our job,” he says, “will be to drive innovation where it is needed in the supply base.”

An important role for supply management pros will be to segment and formalize innovation relationships in ways that protect intellectual property, manage risk, and ensure the competitive advantage flowing from

customer-supplier innovation always stays with the parties who drive it.

As Sodexo’s Chief Procurement Officer Ann Oka describes it, “Our supply chain comprises many consumer packaged goods (CPG) and finished product manufacturers. We rely heavily on their insights into consumer trends and their innovation to develop new products and offers for clients. But, in a world where we are taking down barriers, we need to be very good at mapping where things are proprietary. The challenge for supply managers is to get much better at segmentation and really formalizing these relationships to ensure they create and sustain competitive advantage for our company, our suppliers and for our diverse and unique clients.”

“If you are working to find a new product or co-developing with a supplier,” adds Huntington National Bank’s Chief Sourcing Officer Debbie Manos-McHenry, “you have several jobs as a sourcing pro:

- You need to ensure all the appropriate intellectual property (IP) protections are in place,
- You need to be abreast of *all* the potential suppliers, what they have to offer, and how they might help to get your people thinking out of the box on new product development, and
- You must be able to weigh the risks and rewards of working with a more established supplier — who may carry less risk — versus a startup, who might be riskier but offers you an opportunity to move past your competition in the market.”

Sourcing Interests Group (SIG) President & CEO Dawn Evans suggests that procurement must also be fearless about selling innovation and influencing for change. “Suppliers have so many great ideas that we stop at the door because they require us to implement changes in our own organizations; we don’t capitalize on their R&D and all they observe in other organizations.”

# Enter the extended enterprise

OEMs have been on a 'buy-more, make-less' path for many years; they intend to stay there while services companies will join the outsourcing fray. The expanding trend to extended enterprises promises exciting times for supply pros in 2020.

“What we do today is very high cost,” says Dr. Heinz Schaeffer CPO, Northern and Central Eastern Europe for AXA. “So we are thinking about how to outsource activities that are not among our core competencies. Importance and complexity are the two dimensions we will use to evaluate outsourcing,” Schaeffer continues. “If a process or activity cannot be described easily or happens infrequently, we will probably keep it in house. But if an activity is repetitive and we can give clear instructions, we will give it to the external market.” And that outsourcing is going to happen, Schaeffer suggests, whether or not the marketplace is ready. The reinvented procurement, he says, will “play an active role in determining if it is possible to buy or if we need to define something with potential suppliers so we can buy instead of make.”

“As supplier-facing personnel begin to sit with the business lines,” says Larry Welch, former VP of Indirect Procurement for Hewlett-Packard, “as

they start to really know the businesses and become part of strategic planning processes, the result will be different decisions about what gets done in house and what is done outside and how you will bring suppliers inside to help innovate the business.”

Adds KeyBank CPO Jean-Jacques Beaussart: “We are focused on increasing variable versus fixed costs, which means we must work more with business partners. We need different business models and we need to integrate business partners within our organizations. Innovation will come from our business partners. We need to leverage innovation to make sure we continually create efficiencies.”

AstraZeneca’s Head of Procurement Operational Excellence Donald Ferguson agrees that, “There is definitely a move to externalize the expense side of the equation, to create flexibility in the cost base so we can turn our investments on and off much more quickly.”

“I am a great advocate of outsourcing,” says Tim Cummins President & CEO for IACCM, “but I believe the process will need to become more thoughtful in the coming decade. We need to see three levels of thought and assessment:

- One, can we reduce costs purely from a labor arbitrage point of view?
- Two, can we add expertise incrementally? (this should not be confused with the low-cost discussion)
- Three, are we being honest about our own corporate culture and behaviors?

“For example,” Cummins says, “autocratic organizations will never be particularly good at managing or deriving benefits from outsourcing relationships, which need to be driven and valued on the basis of outcomes. For some businesses, using all three levels of assessment would lead, rightly so, to the conclusion they have outsourced things they should not have done.”

# Bye products, hello solutions

Suppliers in the coming decade will continue to take on bigger pieces of things they already do for customers. Think of it as ‘integrated supply on steroids’ where suppliers step out of their comfort zones to drive customer performance.

“I expect to see a lot more total solution-type relationships with suppliers, whether it’s an OEM, a third-party distribution partner, or a marketing partner,” says Larry Welch, formerly of Hewlett-Packard.

So, for example, a supplier of printing hardware for the office will either morph into — or be replaced by — a supplier of total print management solutions. The solution provider will take on the responsibility for things like,

- Optimizing office productivity in the placement and quantity of printers,
- Reducing total printing costs from a 360-degree perspective, covering costs and total consumption of printing supplies, costs associated with service, support, equipment upgrade and replacement, and so forth, and
- Developing and implementing printing best practices within the customer’s organization, for example, two-sided printing, black and white versus color

printing, copy-center versus individual printing, and so forth.

Where end-to-end supplier solutions do not already exist, suppliers are expected to develop them. And where the solutions already exist, project participants expect customer enterprises to become much more receptive to sourcing them in the coming decade. “There is a need to find creative solutions in just about any of the work that we do,” observes former GM Executive Director, Global Purchasing Barbara Whittaker. “Take an example like call centers, which so many companies use. Finding the right creative solution around call centers is something that can bring tremendous value to our end customers.”

However, finding those creative solutions relies on developing new models for buyer-seller relationships and for creating direct connections between solution providers and internal stakeholders. “When we allow the people bringing solutions to talk

directly to our internal stakeholders — to sell the benefits of their solutions directly — you see internal resistance breaking down,” Whittaker adds.

*“I expect to see a lot more total solution-type relationships with suppliers, whether it is an OEM, a third-party distribution partner, or a marketing partner.”*

# Early is the new black

Timing of customer-supplier collaboration will shift by 2020 as well. Where, today, suppliers may be asked to contribute ideas to existing designs or to help fix existing processes, in 10 years' time they will be more consistently in on the ground floor.

“Customer-supplier relationships are going to get very, very integrated going forward,” says Sodexo’s CPO Ann Oka. “For example, when Sodexo determined that our strategic evolution was to branch out from food service management into facilities and comprehensive service solutions, I chaired a group to look globally at what it would mean in terms of building the supply chains to support it.

“The strategy is based on the belief that we have developed such intimacy with our client base, we know so clearly what problems they are trying to solve that we can offer solutions to solve these problems rather than simply providing services.

“In the case of hospitals, for example, a key challenge is a worsening shortage of nurses going forward. So, we asked, ‘What are the programs that we have in place that enhance the environment for nurses so the hospital can become an employer of choice?’

“We begin to think about what services might be added to the solution. Some of these could end up being outsourced or acquired. In that case, supply has a critical role in terms of identifying and developing the partners or acquisitions that can provide the services on regional or national levels.”

“With critical suppliers,” adds John Campi, former Chief Procurement Officer with DuPont, Chrysler, and The Home Depot, “we will commit to working with them at the very inception of our product development cycle. The future is where suppliers’ engineering teams sit down with our engineering teams and the supplier team has an opportunity to say, ‘Here is the optimal way to get our subassembly for your product made. Now how can we manage that within the construct of how you want to build your new product?’ What I am suggesting is not new. It has been done successfully, but not by many.”

*“With critical suppliers, we will commit to working with them at the very inception of our new product development cycle.”*

# Buyer-seller lines blur

Spend management pros will look to extract more value from suppliers in 2020. But it won't always be about improving processes. Rather, it will be about leveraging supplier resources and integrating supplier functions 1-to-1 with their own.

“We have an essentially unlimited amount of talent and knowledge sitting out in our supply bases,” says Roy Anderson, VP Procurement Services, Metasys Technologies. “Let’s say your company has a 30-person marketing department. Each one of your suppliers also has a marketing department. Some will be larger and more sophisticated than yours; some will be smaller but they may have expertise in certain areas or methods that you need to tap into.

“Even if they each have only 3-5 people, if you have 100 suppliers, that’s 300-500 marketing people in your supply network that you don’t even touch. If you can utilize even a small piece — just 10% — of that, you can virtually double the size of your marketing resource. We will spend the next decade focusing on how to bring that talent and knowledge to bear for our companies. We are going to have suppliers working inside our companies and it may be difficult to tell the difference between who is an employee and who is a supplier employee.”

“It is a better world for suppliers in 2020,” agrees Larry Welch. “When you have supply professionals who are partnering directly in the business, who represent the business to the supply side, the whole concept of front- versus backdoor selling disappears.”

And embedding supplier personnel will become much easier, suggests John Campi, as the lines separating corporate functional silos continue to dissolve. “Today, you have to think about getting engineering on board, and sales on board, and marketing on board. It is always difficult to get those functional silos to agree. But, I see a movement in corporations becoming more cross-functional in nature. That paves the way for getting suppliers more involved in strategy development, both for your firm and for theirs.”

Sodexo’s CPO Ann Oka notes that, “We already are looking for ways to integrate functions from upstream in our supply chains with our own internal functions, for example, marketing. I see

this evolving to something we are doing much more effectively by 2020.

“Right now, we are on the emergent side of achieving collaboration with multiple suppliers on a development project. In some cases, this involves competing suppliers, so it gets a little interesting when you have to map the field for who gets to own what portion of the portfolio and then you bring them all in a room together to start innovating for the future.”



# It takes a network

Instead of enterprises charting their own courses in innovation, a transition from 'buyers and suppliers' to 'integrated supplier networks' will enable greater coordination of innovation roadmaps across connected businesses and industries.

“My thought,” says Javier Urioste, former CPO with several non-IT organizations, “is that by 2020, or perhaps a bit beyond, the world will evolve to be less about buyers and sellers and more about integrated supply networks serving marketplaces.” One outcome, according to Urioste, will be innovation that is more synchronized across industry segments, more finely tuned to the total customer experience. So, for example, innovation among makers of electric cars, makers of electric car batteries, and the entire infrastructure of service stations that support electric car drivers will be coordinated and driven simultaneously to the same objectives.

“This will depend on having very open-book relationships,” Urioste says. “We will define together where we intend to arrive in 10 years. We will collaborate simultaneously to develop, to prepare, and go to market with the exact same strategies.”

Urioste notes that while a handful of

companies have already succeeded in doing this kind of thing, “It requires complete transformation of the procurement organization. It means establishing highly skilled technical entities that can be embedded with engineering. It forces companies to open their books and their patents to suppliers who could be supplying their competition, so understandably, it is a very difficult thing to accomplish.”

“We are in a transformation,” remarks Henrik Larsen, VP of Procurement with Maersk. “In the same way that Apple has thousands of developers worldwide creating applications, I see us and our suppliers building loose networks where relationships are fluid and production moves out to a much broader spectrum of suppliers. We will be fighting over the same pools of supplier and customer resources.”

Urioste agrees that, within these supply networks, there will always be competition for dominance. “We will need to work very closely with suppliers

within the networks, while also trying to dominate and to optimize our own companies' business objectives. But domination of the networks has to be such that it puts us in a position of becoming the customer of choice with suppliers. It is a dilemma we need to solve in the next 10 years: how to evolve from confrontation or two different worlds to a single networked entity where we dominate but are also loved by our subjects.”

AstraZeneca's Donald Ferguson says, “We are very interested in the kind of networking technology that enables us to push our ideas out to the global supply base and see who responds. At the same time, I foresee technology that enables suppliers to put their ideas *forward* more easily to potential customers. Rather than buyers saying, ‘Here are the problems we are trying to solve,’ it will be suppliers saying, ‘Here are solutions we have.’ In the coming 10 years, I see us creating networks in which ideas and propositions get shared very quickly and widely.”

# Suppliers gain power

An outgrowth of more outsourcing, tighter integration, and heavier reliance upon suppliers is that they will gain substantially more leverage in buyer-supplier relationships by 2020. Instead of them selling to you, it may be you selling to them.

The idea of working to become a supplier's most favored customer has been around for a long time and tends to fade and gain strength as market pricing leverage swings back and forth between buyers and sellers.

But participants in the Vision 2020 Project believe procurement executives will need to take the concept up a notch in the coming decade as the leverage shift to sellers will be more structural than it is cyclical. In addition to being focused on getting the most competitive performance from suppliers, they expect to be out actively selling their companies as the long-term *exclusive* business partners of choice to the best, most innovative suppliers in the marketplace.

"At the end of the day," says Sodexo's CPO Ann Oka, "it will be suppliers who are in the power seat in terms of deciding who they are going to partner with for the kind of collaborative innovation we are talking about. If there is to be competitive advantage,

they cannot join forces with everyone. Even if they were to partner with two or three customers within an industry, there would be no competitive advantage; we wouldn't be placing ourselves ahead if we were one of three." The challenge, then, Oka says will be to "drive our supplier relationships in critical areas to the point where we are their most desirable customer out there."

"Very few companies have the luxury of being merely demanding customers," agrees Henrik Larsen, Vice President of Procurement for Maersk. "If you are not number one or the most sexy, then you need to be able to show that you are a willing, capable and attractive customer if you are hoping to persuade the most innovative suppliers to work with you, to develop their businesses through you."

Donald Ferguson of AstraZeneca sees two distinct buckets of activity. The first is the commodity or leverage-type bucket where power will

continue to ebb and flow, depending on supply-market economics. "In the commodity land, it will always be about simplification, standardization and performance to contract. There is a brutality to that type of buying because it is not really what interests us as an organization. It will always be just about performance to the contract."

The second bucket, according to Ferguson, will contain all the critical strategic categories. "Our objective will be to access the largest possible set of information and identify the few really great ideas among the millions out there. In the current model, you pay to access an entire library of information. But, we don't want to pay for a hundred thousand pieces of information. We will pay handsomely, though, for the five or so ideas that are really worth something to us. The objective of isolating those truly great ideas will drive us toward gain sharing. So, in some years, you may get nothing in payment but in others you will be paid quite handsomely."

# Firms share risks and rewards

As the new spend management pros get better at segmenting, defining, and measuring value, they will begin to incorporate both gain- and risk-sharing into commercial relationships with suppliers.

“We have seen an enormous erosion of trust,” remarks Tim Cummins of IACCM, “as procurement has driven strongly to allocate more risk to suppliers. We have seen in our data that many in procurement believe they are becoming more collaborative, while suppliers claim just the opposite. We need to create new instruments that foster trust, at least in the relationships where innovation and creativity matter. It goes back to the issue being able to look at the supply base and recognize the sources of real value.”

“In a world that moves faster than ever — where volatility is a fact of life — there is no such thing as an optimal contract,” says Maersk’s Henrik Larsen. “And, while we obviously cannot rewrite contracts on a daily basis, we can write contracts that share both the good and the bad things that happen. We will get to those kinds of contracts by changing our mindsets, by being more open with suppliers.”

“We do benefit and penalty sharing

with certain key suppliers today,” says Sodexo CPO Ann Oka. “We have open book relationships that say ‘If I win, you win’ and we map the ways in which we will share benefits and penalties. If our own behavior starts creating cost in the supply chain, we share in the negative impact of that behavior. Still, in the future, we need to be much better at articulating the value we bring to the top line through collaboration with suppliers. It is very difficult — and I believe it will always be difficult — to segment and identify how much of our success is due to our own brilliance and how much is due to a supplier coming into the process. It will be a key challenge for us moving forward.”

“We conducted a study,” adds AXA CPO Dr. Heinz Schaeffer, “to find business partners that could work according to our concepts. We came to the conclusion that those business partners do not yet exist. Companies pursuing typical outsourcing models want to charge either for hours or transactions. But that is not what we

have in mind. We are looking for real partners with whom we can run the business together. So we have to define a new way of interacting with our external partners and new kinds of contractual relationships to support that interaction. The new business model will be something that evolves rather than being stable over time. It will develop according to the level of maturity in the relationship.”

“Price should be the last thing we care about,” suggests Anderson of Metasys Technologies. “We want results. We want overall value. So, we are going to see the emphasis in contracts go from price to fairness and value. There still has to be a unit of measure, but it doesn’t have to be a dollar. It could be effort. It could be something else. We will say to suppliers: ‘Show us that you are giving us better value than someone else and then break down the value so we have transparency, so we can work together on how to tie it in to a compensation structure.’”

# Contracts motivate

Beyond sharing risks and rewards in contracts, some project participants suggest they will accept greater risk in commercial relationships with critical suppliers by leaving out all the classic kinds of legal protections that can de-motivate suppliers.

“Suppliers create and sell their solutions,” observes Roy Anderson, VP Procurement Services, Metasys Technologies, “but there are hundreds of suppliers out there with the wrong solutions. They might be good — or even great — solutions, but they are not the right solutions for you. Likewise, we have all seen situations where suppliers come in to sell with their best and brightest people. They make the sale and then their best and brightest disappear. You end up with their second team supporting the relationship and you don’t always get the value or the results you anticipated because their best and brightest people are out earning big commissions on winning the next sale, not on keeping the old business.”

“We have to change this around entirely in the coming decade. We have to understand the full scope of how to motivate suppliers. As soon as we understand motivation, it will be a different world. Our contracts in 2020 will be based on a better understanding

of what motivates companies to always offer the solutions that are best for us, to invest in creating the best solutions for us, and to give us their best support — their best and brightest people — for the long haul.”

Classic demotivators — such as 30-day escape clauses — need to disappear, Anderson contends. “How can you ask a supplier to invest in people, talent and innovative thinking, to put money into the development of your relationship when you can leave the relationship in 30 days if you feel like it? With every critical supplier we work with, we have to make sure that we are brought into their success and they are brought into ours. We need to be willing to show that, if they are going to invest millions of dollars or thousands of hours and lay open their core competencies to us, it is going to be a win-win scenario. We will be making sure they survive and earn a fair profit for the work they do and the value contributions they make.”

Javier Urioste agrees: “I see momentous

change in how we relate to suppliers, but our contracts must be balanced with no ‘not-for-cause’ exit clauses. Those who have done this already have enormous advantage over their competition for reaching end customers first with innovations and assuring supply when there are shortages or other problems.”

On a global scale, observes Tim Cummins of IACCM, contracts are a relatively new phenomenon. “If you were to track the number of contracts most organizations had 20 years ago compared to today, you would see a dramatic increase, so I think we are at the beginning of an evolution in the role of the contract. We will see companies discover how to use contracting less as a way to shift risk and more as a way to ensure there is mutual understanding and genuine alignment. Our contracts will let us know we are on track and managing change effectively. Contracts will show that we understand and accept the differences between issues of competence and of honesty or ethics.”

# **Risk Management Capacity and Demands Soar**

*Work environments are mobile, virtual and highly automated, freeing supply management pros to wrestle with rising complexity and risk.*

# Everything is automated

Procure-to-pay (P2P), sourcing, contract management and other automation engines will be *de rigueur* in 2020; they will be integrated up and down supply chains, fully adopted, providing full transparency and real-time insight.

As Debbie Manos-McHenry, Chief Sourcing Officer for Huntington National Bank, envisions it:

- “Procure-to-pay systems will be open architecture, web-based, and able to interface with many systems within an enterprise and among its supply base,
- Routine purchase transactions will be done by end-users with little to no involvement from sourcing; systems will enforce appropriate compliance, workflow, and rules,
- Contract management and administration will be highly automated, using templates and collaborative tools in traditional red-lining of agreements between buyers and sellers,
- Workflow will enable end users to produce agreements that meet minimum criteria while exceptions will be escalated to sourcing, and
- Risk evaluation and assessment will

be built into systems and processes (versus being *ad hoc* activities).”

“Managing purchase orders and invoices will be fully automated by 2020, even in the least developed companies,” agrees Javier Urioste, former CPO with several non-IT organizations. “So, too will processes for competitive sourcing and contracting. There will be certain exceptions, but, in general, all nonstrategic, highly critical elements of the sourcing process can and should be automated.”

Roy Anderson, VP Procurement Services, Metasys Technologies, who has made a career of automating procurement, sourcing and supply chain operations in both manufacturing and services environments, agrees emphatically: “For the portion of the supply base that is not critical, procurement will put automation engines into place, get them working properly, and then get out of the way. Buying will be completely

decentralized to the people who need goods and services.”

Where it makes sense, Anderson says, items will be available in catalogs. But other situations may require access to markets for real-time competitive bids. “End users will execute their own bids. Procurement’s role will be to set the automation engines up, then monitor and manage to make sure they continue to run.”

And while he believes there will always be value in procurement seeking creative ways to manage noncritical spending categories, Anderson expects that efforts in those directions will be “kept in perspective.”

# Work goes mobile

Smart phones, tablets, embedded chips, and not-yet-imagined devices will create a massively mobile work environment for procurement and suppliers by 2020.

“We have not fully engaged the idea that almost every smart phone already has voice-to-text recognition and two-way video,” remarks Roy Anderson, VP Procurement Services, Metasys Technologies. “That means you can sit in your office and observe a manufacturing process in real time on the other side of the world or you can capture supplier performance data instantaneously in a voice-to-text message from a person who is standing out in the middle of nowhere.”

As such, Anderson sees more procurement and supply management work being done in the field with real-time access to business data and the ability to execute processes — whether to approve purchase requests or check the status of invoices or auctions — from any device, anywhere.

While mobility will enable procurement professionals to work from anywhere in the world, project participants expect it will also enable them to bring far greater numbers of people,

from far greater distances, more easily into critical sourcing and supply management processes and into other strategic information gathering and analysis exercises.

“...you can sit in your office and observe a manufacturing process in real time on the other side of the world...”

# Communities collaborate

Forget jumping on planes and sitting at conference tables. Buyers and sellers will increasingly rely upon digital trading networks and communities that allow them to quickly and easily discover each other, connect, and collaborate.

Discovering, evaluating, and interacting with suppliers will be a virtual experience. Digital trading networks will yield a wealth of real-time intelligence on trading partner qualifications and performance, market intelligence, and other services — for example, payment mechanisms, logistics visibility and execution, tax data, and so forth — that will make it easy to engage, forge trading relationships, and collaborate with suppliers.

Procurement's job, Roy Anderson believes, will be to direct and observe the flow of information and to take meaning from it rather than being the creator or conduit for information moving between and among internal personnel and suppliers.

And, while Anderson expects there to always be a necessity for in-person encounters, the real obstacle to more virtual collaboration, he says, is that “so many procurement professionals still want to serve as barriers between suppliers and internal customers. We

need to rip the barriers down. Our objective should be to let people do their own work with suppliers. Our job will be to create the contractual environments that enable them to be effective and innovative in the collaboration they undertake.”

Barbara Whittaker, former Executive Director, Global Purchasing with General Motors, offers a similar vision: “Technology will improve the flow of communications between buyers and sellers. I can see more information moving securely, in real time and in both directions between buyers and sellers. This has the potential to raise the level of trust between buyers and sellers, but it will depend on how it is crafted to guard against information leakage or loss.

“We want to get to the point where suppliers understand customers better and more deeply so they can bring forth solutions for all kinds of things that improve the business. Today, this is a long dance when it should be a sprint.

“Technology,” Whittaker continues, “will make collaboration faster and more secure. Information about customer requirements will flow from internal stakeholders directly to suppliers and there will no longer be a procurement professional filtering the flow of information.”



# Offensive line takes the field

The last 10-15 years have seen intense inward cost focus. The coming 10 years will see attention turn to growth via digitally connected networks that empower buyers to discover, qualify, connect, and collaborate with suppliers, peers and partners.

Analyzing spending to the Nth detail. Fixing and automating processes. All that inward-looking, intense focus on cutting costs is going to end. Replacing it will be a new outwardly pointed focus on driving growth and expansion through exclusive and integrated supplier relationships and innovation.

“Much of what procurement does today is driven by spend management, but I think, in 10 years, those disciplines will be much more integrated into the normal ways of doing business,” remarks Larry Welch, former Vice President of Indirect Procurement for Hewlett-Packard.

“We have seen procurement adopt an aggressive role in executing massive cost reductions,” agrees Tim Cummins, President & Chief Executive Officer, International Association for Contract & Commercial Management (IACCM). “And, while this has been seen as fundamental to business competitiveness, we all know it is not an endless opportunity.

“I think we are probably coming to the end of the cost-reduction trend that has been very much with us for the last 15 or 20 years.”

In lieu of that intense focus on reducing costs, the procurement executive for a major U.S. insurance company sees life for procurement becoming much more outwardly focused and collaborative. “We will ask:

- What are the core capabilities suppliers have?
- What are the core capabilities we need in order to do our business well?
- How can we align and link our business strategies with suppliers’ business strategies? and
- How can we drive to best-in-class performance with the suppliers that are best positioned to help us execute our business strategies?

“In the shorter term, it will be all about

defining how this is going to work,” he says. “When you look out 10 years, it is going to be all about execution.”

And while, due to performance gaps, the executive sees some hesitancy to pursue deeply integrated supplier relationships today, he believes it is more important to identify suppliers with the greatest potential for long-term alignment than it is to find perfect performance in every aspect.

“In the end, you need supplier relationships that are tied to your goals. If you can find those, you will have little difficulty working with them to close performance gaps.”

# It's complicated

As emerging economies place successful, fast-growing, and culturally different companies onto the global playing field in the coming decade, the process of selecting suppliers will become riskier, more complicated, and more fluid.

“I believe we are going to see a significantly more diverse and complicated business landscape emerge in the coming decade,” observes Tim Cummins, President & Chief Executive Officer of the International Association for Contract & Commercial Management (IACCM).

“We are already beginning to see some of that complexity as companies from emerging economies — Mexico, India, the Phillipines, for example — succeed at moving into the global trading arena.

“These companies are not coming to the global economy with the same business models as Western companies,” Cummins notes. “Their expertise, for example, is quite often around building brands in emerging markets. In a sense, they are attacking the big Western players from very different directions.

“Many of the emerging global players are, in fact, conglomerates. And, while that business model went out of fashion some years ago in the West, it appears

to be giving newer global players some very real advantages particularly in areas like innovation and cost control.”

For procurement, Cummins suggests, this will dramatically affect commercial relationships with suppliers. “The range of supplier choices is going to get much broader, so we are going to have to become a lot more sophisticated in our supplier discovery and selection processes. We will still look for opportunities to lower costs, but I believe we will become far more focused on quality and innovation.

“We will also emphasize versatility, agility and flexibility in our trading relationships, dispensing with older business models in which we sought to guarantee supply or prices in return for committed procurement timeframes or spend volumes. For example, the whole idea of long-term commodity supply agreements has already disappeared from global metals markets.”

Greater supply-market complexity and

less stability in trading relationships is going to demand more creativity and different thinking from procurement, Cummins suggests. “Procurement will need to rethink how it hedges and manages volatility and risk. With some suppliers, it is going to mean we go for a greater degree of collaboration. And I think—for some businesses—the trend may lead them back to more vertical or horizontal integration. We have seen it happening already in areas like mining.

“As we become more sophisticated in our supplier selection processes,” Cummins adds, “we will get much better at understanding the importance of things like cultural fit between organizations. Far too many sourcing decisions have been made on a cost-only basis without considering the importance of cultural fit. The result has been far too many important relationships that fail.”

# Firms wake up to supply risk

Converging trends will make supply relationships even riskier in 2020 than they are today. Project participants expect to see big increases in companies' awareness around supply risk and also an expansion in their perceptions of where risks lurk.

“We are going to see a big awakening around supply risk in the coming decade,” says former DuPont, Chrysler and The Home Depot CPO John Campi. “Today, when supply management organizations are challenged on risks in their supply chains, they generally look at suppliers' financial stability, which is only one element and not a very significant one compared to continuity of supply.

“What is more, many companies treat all suppliers on equal footing, which is unacceptable from a risk point of view. Some suppliers are truly critical to the continuity of your business, while most are not. Those critical suppliers need to be treated very differently.”

Dr. Heinz Schaeffer, Chief Procurement Officer, Northern and Central Eastern Europe for AXA agrees there will be a big expansion in the kinds of risks companies address in their supply chains, considering, for example, such things as suppliers' sustainability, social responsibility, physical and information

security practices, to name just a few.

A particular challenge, according to Schaeffer, will be for supply management to transition from generic to more dedicated and customizable risk management approaches, depending on spend category, region of the world, and so forth.

Meanwhile, KeyBank Chief Procurement Officer Jean-Jacques Beaussart suggests that, “Complexity is a risk that most companies will be addressing in 2020. They will need to be agile and they will be looking to transition away from very complex and inconsistent processes to processes that are simpler and more easily controlled.

“I do believe that in 10 years, or even before that, we will have simplified our processes for managing supplier relationships and that simplicity will enable us to have KPIs or metrics that measure our success in very efficient ways.”



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