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THE FUTURE OF PROCUREMENT IN 2030

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Leading procurement expert Jonathan O'Brien provides a thought-provoking insight into the future of procurement and what we must do now to secure competitive advantage.

LIKE NOTHING WE KNOW TODAY

2030 seems like an age away, yet it is just around the corner, the same time frame from now into the future as back to when Apple launched the iPhone, which is not long at all. Between now and 2030, Procurement has the potential to undergo a dramatic transformation beyond that we might imagine. This will not be automatic. Some of it will happen all around us and sweep us along. However, the true potential will only be realized by those organizations capable of envisioning the possibilities we can only glimpse today and going after them. Procurement 2030 is nothing like it is today. It will require a different set of skills, a new type of agility and a new mindset regarding what procurement is and how it operates. Data will be central to driving everything we do. Yet procurement 2030 has the potential to create unprecedented competitive advantage, but only for those organizations that start working towards this new state today.

HASHTAG MARKET-INTELLIGENCE

Of course, the world is changing at an ever-increasing rate – that's old news. Political uncertainty, volatility, climate change, shifts in the territories where the wealth or the willing workforce of the future reside and unprecedented levels of migration of people will continue. Today, these changes are well understood, they exist within organizational consciousness and figure in the determination of good sourcing approaches. Yet there remains a human tendency to view change as an event, with an end when things will settle back down. They will not. And whilst we don't know what the future holds, we can be certain that things will be ever changing all around us and if we find ourselves in a steady-state situation we have probably been left behind.

Procurement 2030 will need the ability to navigate through the changing landscape with a new agility, responding in as close to real time as possible and adapting fast to stay ahead. Access to new and vast sources of data and insight will be key here. The rigorous process of gathering supplier, market and external environmental information to develop a good sourcing strategy will be replaced with new data-driven approaches that enable us to identify the optimum sourcing approach for key areas of spend at any given point in time. It is not the data itself that will do this as much of this is available today, but how different and enormous sets of data and information sources get combined in real time to inform and shape sourcing decisions. Procurement teams will 'connect' to the a new 'global business consciousness'. Just as social media created a new collective consciousness where everyone has a voice and where trends and occurrences are shared globally in a heartbeat, the same concept will emerge in business communities. Procurement teams will be part of the conversations about real-time trend information and potential supply base impacts to create a new agility.

SUPERSIZED SUPPLIERS AND NETWORKS OF TALENT

Where and what the organizations and suppliers of the future are will be very different to those we know today, driven by geographical shifts in where wealth and power reside as well as the use of technology, and in particular the use of data. We will see shifts in how organizations are structured and operate and there will be greater polarization in terms of size.

At one extreme we are witnessing the dawn of the 'network of talent.' A shift away from the traditional model of companies being 'housed' in one entity, perhaps having people based in one or more physical locations, is under way. Changes in organizational thinking and modern technology mean that both our organization and our future suppliers are likely to be more like connected global networks, made up of agile individuals and groups, together with key nodes where physical goods get produced or services get

performed, all working together as one. This highly efficient operating model means companies can place each component or contributor to the network in the optimum physical location and move things around as needed. It also enables companies to tap into and embrace the talent potential from the small or individual providers or simply the brilliant mind of a data specialist working out of his or her bedroom in Bangalore.

Realizing future innovation from the supply base will demand new procurement approaches to drive a new type of strategic collaborative relationship, whilst ensuring fierce protection of data and IP. There will be less scope to rely on traditional 'penalties and remedies' contracts for protection; these will fail to have adequate teeth or value in a dispersed global and cultural network. Instead, procurement will need new ways to protect the business whilst ensuring we get what we want. New digital/data-driven approaches will help both to monitor performance and limit data exposure - never letting any single entity access all the individual elements (in much the same way as KFC protects the Colonel's secret recipe).

At the other extreme we are witnessing another dawn of the supersize corporate - companies that amass incredible wealth, size and, crucially, power by how they position themselves. Apple was the world's first trillion-dollar public company followed closely by Amazon and beating the likes of other giants such as Alphabet (who own Google), Microsoft, Facebook and Alibaba. More giants will emerge and whilst it is easy to understand how these gain their power and position through brand and creating dependency, the giants of the future will also secure their position by controlling routes to and from marketplaces and knowing how to use data to their advantage. We may have no or little choice but to use these supersized suppliers of the future as they will be of strategic importance to our business demanding a new form of relationship management; one that seeks to maximize our value where we lack any real power.

THE RFP IS DEAD – LONG LIVE THE RFP!

By 2030, automation of routine, generic, non-differentiated and non-complex spend will be here and much of the 'buying' will simply take care of itself with the full support and engagement of the wider business. Why? At risk of suggesting yet another dawn, we will see the continued rise of virtual marketplaces (aka collaborative networks, B2B market solutions or commercial exchanges). These solutions, largely based around the Amazon.com model, are focused on specific sectors and, today, around a third of global procurement functions are implementing collaboration networks or business-to-business market solutions to some degree. Virtual marketplace platforms create easy routes to market with some clever algorithms that remove the need to shop around. Instead the best possible deal available from the widest possible marketplace is presented, together with rankings and ratings to help make a good choice. Framework agreements, catalogue buying, restricted source P-Cards, preferred suppliers

and other mechanisms used to drive spend compliance will give way to a new sourcing world where the virtual marketplace will do the work for us and can be accessed and utilized by the entire organization without concern.

The new role of procurement will be to tailor these new external platforms to our needs and manage how they serve our business ongoing whilst working to ensure as much spend as possible is generic and undifferentiated and so can be pushed to these platforms. We will manage a single arrangement with the platform provider - short term this will be several modestly sized organizations who will be replaced by a small number of supersized companies by 2030. Therefore we will manage one interface rather than lots of individual contracts so the need for ongoing supplier and contract management for routine spend disappears.

The RFP, along with the eAuction and traditional tendering or bidding processes, will simply not be needed. Integration with new cloud-based procurement and invoicing platforms using blockchain or distributed ledger to transform supplier payments will automate much of the P2P cycle, with full automation possible as we learn to combine customer demand and market condition data to what we buy and when.

A NEW DIGITAL AGE - DON'T BELIEVE THE HYPE!

If you believe what the purveyors of the latest digital thing tell us, we are all about to be left behind unless we are aboard the giant digital ship now sailing into the sunset. Indeed, it is hard to move without bumping up against some reference to artificial intelligence, robotics, big data, internet of things, machine learning and so on. All these things present the potential for procurement to take great leaps. The big question is how; and this answer is not so obvious. Today the providers in this space offer 'islands of technology' - specific solutions that represent the first baby steps to change how organizations do procurement. The future, however, is about how emerging technologies converge and, more than anything, it is about data - access to big amounts of good data derived from multiple sources; processed, combined and analyzed in highly creative ways to create unique new insights that drive tailored procurement interventions across the supply base – all in real time.

We can predict demand using artificial intelligence and predictive analytics on combined data about customer behaviour, world events, local events, political, sociological, economic, technological, weather etc. Similarly, we can understand everything about entire supply chains and raw materials. Combine all of this and we can create very agile supply chains and dynamically model and recognize the best price in the market, mitigate risks we might otherwise miss, and know everything there is to know about a supplier or an entire area of spend. We will remove the uncertainties that hinder us today, transform our negotiation strength

with our strategic suppliers and make sustainability and traceability a given where needed.

ARCHITECTS, ALGORITHMS AND AGILE

Digital will drive a return to organizations re-examining the 'make or buy' decision and considering what their core business should be, just as we once did when 'outsourcing' hit the streets. Now we are about to start a new cycle, only this time underpinned by data and the opportunities presented by the new global supply base of the future. Whilst some companies will secure confidence via backward or vertical integration to gain complete control over all its external contributors, others will begin to work out how the new global network of talent can contribute value and become extensions of the organization - whether as a third-party supplier or part of our business.

Procurement and supply chain will combine to create a single strategic function and its contribution in 2030 will be a strategic one led by a new generation of 'strategic architects' that determine and optimize how value flows into and through the organization to bring the greatest competitive advantage and/or connect customer needs and aspirations with supply base possibilities. Procurement will no longer have to work hard to win cross-functional 'support for a cause' because it will be part of an aligned, business-wide effort enabled through data and, more critically, digital tools that bring cross-company visibility and collaboration.

The dominance of using financial measures to gauge the contribution of procurement will give way to big data and new algorithms that allow us to measure things we can only dream of today, and new things we haven't yet started to dream of, that will be more potent than any financial measure.

New digital tools will continue to emerge in coming years, however there will be no single magic solution that will change our individual world. Instead, future excellence will depend upon procurement's ability to strategically determine new ways to access, analyze and combine big data from many sources and shape procurement interventions. To do this we will need a new generation of 'alchemists of the algorithm' – highly talented individuals with the skills to make data a key value enabler.

CALLING ALL MATHEMATICIANS AND DATA GEEKS...

The procurement professionals of tomorrow are more likely to be either highly talented mathematicians, digital experts, pioneers of AI, experts in cryptography and data security or strategic thinkers who understand and can connect with the entire organization. They will need the basic building blocks of the latest thinking on strategic procurement, supply chain and economics in order to know how to apply their talents. They will also need to be agile, unfazed by change and highly ethical - and many of them will need to be creative innovators.

Attracting the right future talent for procurement will be mission critical. Non-procurement people may well make the best future procurement people and organizations will need to invest in developing them into the function. What is clear is that the education routes for procurement professionals we see today are completely unsuitable for the future state and will have to change. Thankfully, the procurement of 2030 will offer great opportunities and can be a very attractive place to work providing the organization's recruitment policies and practice reflect this.

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