

PROCUREMENT 2020 - A LOOK AT THE 'MEGATRENDS' IMPACTING ON OUR FUNCTION

OVERVIEW

In collaboration with German consultancy firm h&z, the Procurement Intelligence Unit (PIU) has recently concluded a series of executive level international events discussing the megatrends likely to impact on procurement over the coming decade. The events, held in Munich, New York and Shanghai, brought together the top procurement executives, as well as leading academics to discuss the topic. Attendees came from numerous industries with representation from globally recognised brands such as IBM and Alcoa.

The events were a great success, with insightful participation and feedback from all attendees. While most topics were hotly debated and there were some geographic disparities that emerged between the different events (discussed in detail later in this paper), one thing that all attendees - regardless of geography, industry or organisational complexity - could agree on was the fact that megatrends are impacting on our function and that these phenomena would continue to have a bearing on the ways in which we do business in the future.

This white paper is designed to introduce readers to the concept of 'procurement megatrends', highlight current events impacting on the procurement landscape and discuss the different tactics being implemented by leading procurement teams in order to manage the impacts that these megatrends are having on their business. These concerns will be discussed against the backdrop of our recent events, sharing the experiences and challenges faced by procurement professionals from the world's leading economic regions (the US, Europe and Asia).

DEFINING THE TERM

Before engaging in further discussion on megatrends, it is important to outline exactly what the term refers to. A term with a prefix such as 'mega' is generic in nature and thus easy to confuse or misquote. To this end, and for the purpose of this paper, the PIU has defined megatrends in the following way.

"Megatrends are broad movements in economic social and cultural tendencies that take place across international boundaries and have an effect over more than a decade."

Perhaps the key takeaway from this definition is the fact that megatrends are determined and defined more by their degree of distribution than their severity or short-term impact. From a procurement perspective, it is important to differentiate megatrends from short-term supply shocks such as natural disasters or short-term currency fluctuations.

PREDICTING MEGATRENDS

As the following graph shows, megatrends are an amalgamation of smaller trends. As these trends compound one another, broad economic or cultural pictures begin to emerge.

As mentioned in figure 1, most event attendees accepted the fact that megatrends were having an impact on their business and in turn the procurement function. However, after this acceptance, came the questions: "are these events predictable?" "how do we know what's coming?" and questions of this nature were common among events attendees across the three locations.

In reference to these questions, the PIU suggests that procurement megatrends are indeed predictable, at least to some degree. If we revisit figure 1 we see that a megatrend is comprised of a number of smaller trends that, when considered in their entirety, represent a megatrend. If we follow this logic it is apparent that the megatrends that will impact on our function for the coming decade have already begun to have some effect on today's social and economic frameworks. Figure 2 helps to illustrate this assertion.

FIGURE 1

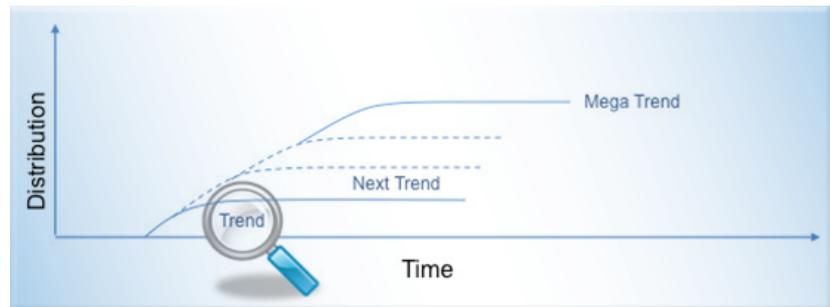
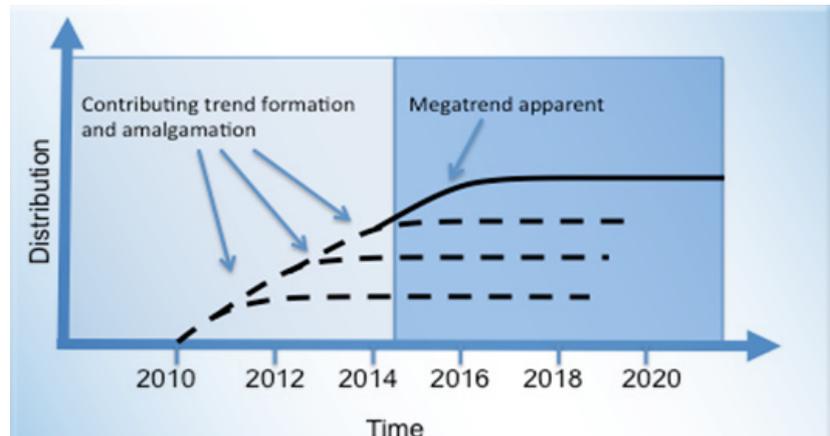


FIGURE 2



PROCUREMENT'S MEGATRENDS

As well as inviting procurement professionals and supply chain academics at the events to forward their own megatrend suggestions, the PIU predicts that the following megatrends, based on extensive research into the topic, will have the greatest impact on our function over the coming 10 to 20 years.

Despite some debate around the implications and various degrees of importance of each of these proposed megatrends, event attendees tended to agree that these phenomena would be key to governing and determining the shape of the procurement function over the coming decade and beyond.

Most professionals that attended these events suggested that their organisations were aware of these global trends and that they were already taking steps to prepare for and manage the outcomes. With that in mind, we have chosen to analyse the findings from our megatrends events against the responses that the procurement community gave to our annual CPO survey to determine whether procurement teams are in fact concentrating efforts on these key areas of change within our business environment.

The CPO survey gives an annual overview of the goals and challenges for leading procurement professionals across the globe. The report combines a forward-looking analysis with a review of the changes that occurred in the function over the past year. The 2011 CPO survey has, for the first time, included questions pertaining to megatrends, essentially moving the scope of the research from a short-term, year-on-year procurement report card to a more holistic medium to long-term overview of where the function is heading.

TABLE 2

Procurement Megatrends	Responses
Sustainability	28
Collaboration	17
Commodity inflation	13
SRM	13
Talent	12
Procurement systems	7
Ethical procurement	6
Procurement outsourcing	6
Alternative functional design	3
Governance	3
Outsourcing	3
LCC Inflation	2
Access to technology	2

TABLE 1

Global Megatrend	
Socially responsible corporations	Consumers and investors will associate themselves with organisations that support their ethical ideals. The two main avenues for these responsibilities are human rights and environmental performance. It is procurement's responsibility to manage and own these relationships with a supply base that will inevitably come under closer scrutiny over the coming decade.
The rise of Asia	The rise of Asia will change the procurement function in two key ways. First - and we are already seeing signs of this today - countries such as China will move from being low-cost sourcing hubs to sources of innovation. Along with this we will begin to see Asian markets rise in importance with reference to their consuming power. In short, the Asian market will mature not only in terms of goods produced, but also goods consumed.
Persistent insecurity	borders opens procurement teams up to a greater level of risk in maintaining a secure supply chain. These risks can relate to terrorist threats, political instability and even environmental considerations. The fact that we have begun to operate in more geographies means that our operations now have a greater surface area, exposed to political instability and natural disasters. These events can have a significant impact on our supply chains, as shown by the recent uprising in the Middle East, the Japanese tsunami and the Icelandic volcano in 2010.
Scarcity of natural resources	As the world continues on its rapid path of development and modernisation, competition for natural resources will become so intense that we will move beyond straightforward inflation. The supply of critical resources will no longer be a question of money; securing the limited amount of natural resources available will become the key challenge for procurement teams. An early example of this megatrend is the current issue surrounding the supply of rare earth metals.
Diversification of offering	In order to meet evolving consumer needs, companies will provide ever more personal and customised services. This holds particularly true when we consider the growing markets of the developing world. It has been proven that organisations willing to modify or alter their products to cater to local tastes will succeed over those that refuse to alter their offering. This megatrend presents an interesting dilemma for procurement teams as it goes against the traditional procurement mantra of standardisation, consolidation and economies of scale.
Leading from the middle	As supply chains become more collaborative and complex the roles and responsibilities of middle managers will increase. It is likely that the role of the omnipotent CPO/CEO will diminish. It is simply not plausible for a CPO to have a granular understanding of a multinational, multichannel supply chain and as such some responsibility must shift down the corporate ladder from the CPO to middle management.

The feedback obtained from the responses of over 200 CPOs and senior procurement staff highlighted that procurement teams identified the following areas as the leading concerns for the function moving into the coming decade.

As shown in figure 3 comparing the CPO survey responses with the findings of our megatrends research, a significant number of procurement teams are aware of the megatrends outlined in the PIU's research. However, after a closer look at the figures we can see that today's procurement leaders have overlooked two megatrends. None of the survey respondents identified 'persistent insecurity' or 'diversification of offering' megatrends, which were outlined

at the event. This could be due to one of two things. Either procurement staff have (rightly or wrongly) deemed these trends to be insignificant to their business and are focusing on other, more pressing matters, or perhaps these megatrends are only in their infancy and procurement professionals are not yet fully aware of their potential impact.

FIGURE 3



PROCUREMENT IN 2020

All of this bodes one question: once all of these emerging trends have become reality and their impact has played out across the business and the function, what will procurement look like?

In order to answer this we have combined the findings of the megatrends research with results of the CPO survey and come up with following overview for 'Procurement 2020'.

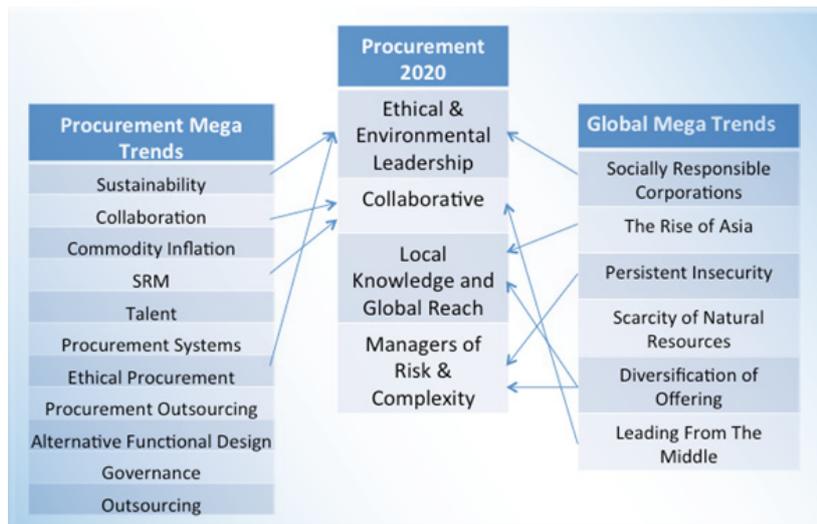
■ Procurement will take on an ethical and environmental leadership role within organisations. This will be driven largely through relationships with the supply base and ensuring that suppliers, both direct and indirect are 'playing ball' when it comes to CSR performance.

■ Procurement will continue to shed its image of a cost controlling or policing function. Results from the CPO survey and 2010 PIU executive research on organisational alignment suggest that procurement will be seen more as a collaborative, strategic function that engages not only with the supply base, but also maintains close collaborative relationships with other functions within businesses.

■ Procurement will have local knowledge, but a global reach. Essentially it will need to have a sound understanding of supplier markets across the world and be able to link their potentials and limitations to the increasing demand for product specifications and modification. It must act as a bridge between product development and the realities of the supply market.

■ Procurement will become managers of risk and complexity. As it begins to collaborate more closely with organisations and indeed the supply base, the level of risk and responsibility that procurement must take on inevitably increases. This risk is further magnified as we look to increase our organisations operations, both in terms of supply and sales to overseas economies and emerging markets. As our supply bases become more complex, it becomes essential that procurement teams forge close collaborative relationships with these groups in order to manage the potential risks that accompany this shift.

FIGURE 4



ABOUT THE PROCUREMENT INTELLIGENCE UNIT

The Procurement Intelligence Unit (PIU) delivers the fuel for procurement growth, helping sourcing professionals at both the executive and operational levels to make the right decisions for their business, through direct access to timely, expert and independent strategic research, intelligence and benchmarking services. Offering an efficient, vendor-free resource, the PIU leverages its access to, and expertise in, the market, producing specialist content supporting common and bespoke member priorities in a shared-first environment. In addition, the PIU brings together clients in a collaborative, members-only environment to share knowledge and experience. The PIU works with many of the world's largest corporations, helping them seize new opportunities and gain a competitive advantage.

For more information, visit www.procurement-iu.com.



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