



THE RISE OF PROCUREMENT'S CHIEF VALUE OFFICER

FIVE DEVELOPING TRENDS SHAPING THE
LANDSCAPE OF THE SOURCING INDUSTRY

INTRODUCTION

Procurement has been an important business practice for over a century, but that doesn't mean it's a settled field. Quite the opposite: new innovations in technology and business culture require procurement departments to keep pace and prepare for impending change.

Today, we're in the moneyball era of procurement, where data-driven insight is everything, and new technologies are being constantly developed to make that insight as immediate and transformative as possible. We aspire to optimize our procurement by leveraging data to anticipate needs in our supply chains more proactively. Procurement officers must start envisioning themselves as "value officers," a broader term that underlines just what drives this work in the first place.

As procurement roles and responsibilities continue to evolve, what does the future look like in the coming years? There are five trends developing within this era of procurement that teams must embrace to stay at the front of the pack. Some of these trends are simply new realities in age-old practices, while others are on the horizon.

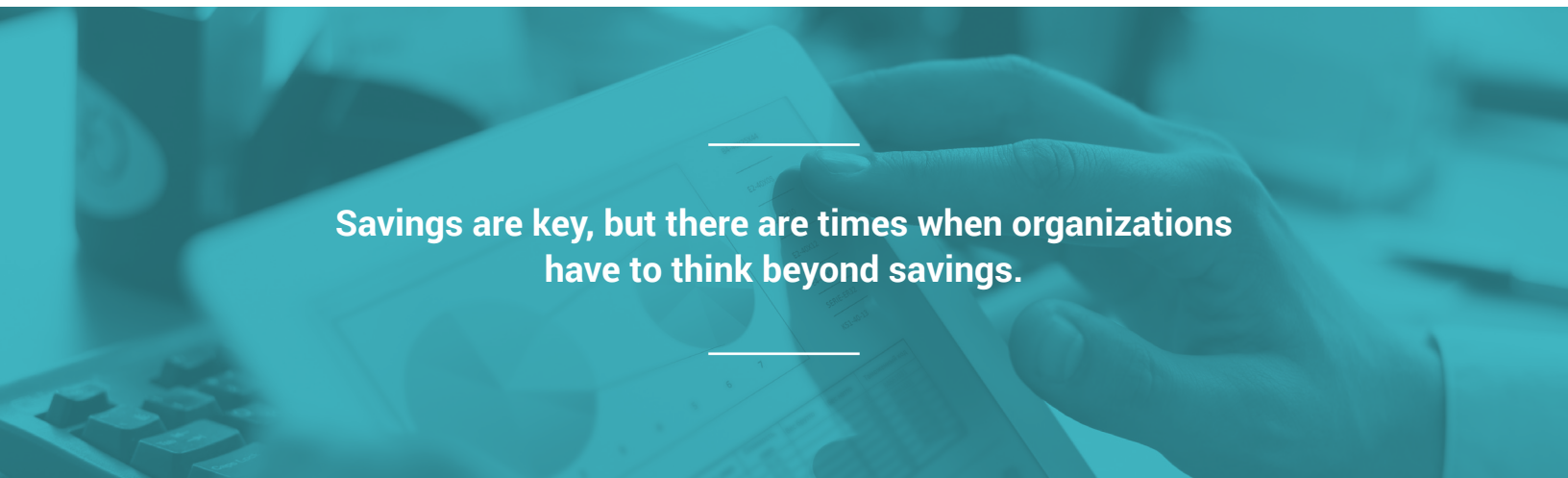
01 LEVERAGING ANALYTICS TO THINK BEYOND SAVINGS

It's no secret that the obsession over data analysis has transformed business (and society) from the top down, and procurement has not been immune. In the most basic sense, procurement helps the organization ensure that expenditures are optimized for value and aligned with objectives of the organization. The performance of many CPOs is measured against their ability to generate cost savings, and finance departments and C-suite executives have more tools than ever before to scrutinize those savings.

Luckily, procurement departments can exploit these same tools as well.

How can you tell if there is a particularly volatile or uncertain link in your supply chain, or a market that you're not reaching as quickly as you'd like? Predictive analytics can help you find the answers to these questions before they become real problems – providing a confirmation of trends and beliefs rooted in statistics – but you have to be creative and proactive in order to know which questions are most urgent to ask based on the data at your fingertips, and curious enough to know which questions to ask. By practicing strategic sourcing, organizations can ensure they're generating the most value in all aspects of purchasing.

But looking at the bigger picture, you have to know when it's time to completely reevaluate your contracts and priorities altogether. Maybe savings isn't your organization's most important goal. Maybe you'd be better served by partnering with small or disadvantaged businesses, or maybe your customers would respond positively to increased environmental sustainability. A "value officer" doesn't just find deals and cut costs, they reassess the wider market to determine what values their company should prioritize, leveraging the insights the data available to them to validate their convictions. Savings are key, but there are times when organizations have to think beyond savings; the best ones exercise broader thinking to turn data-driven insights into action.



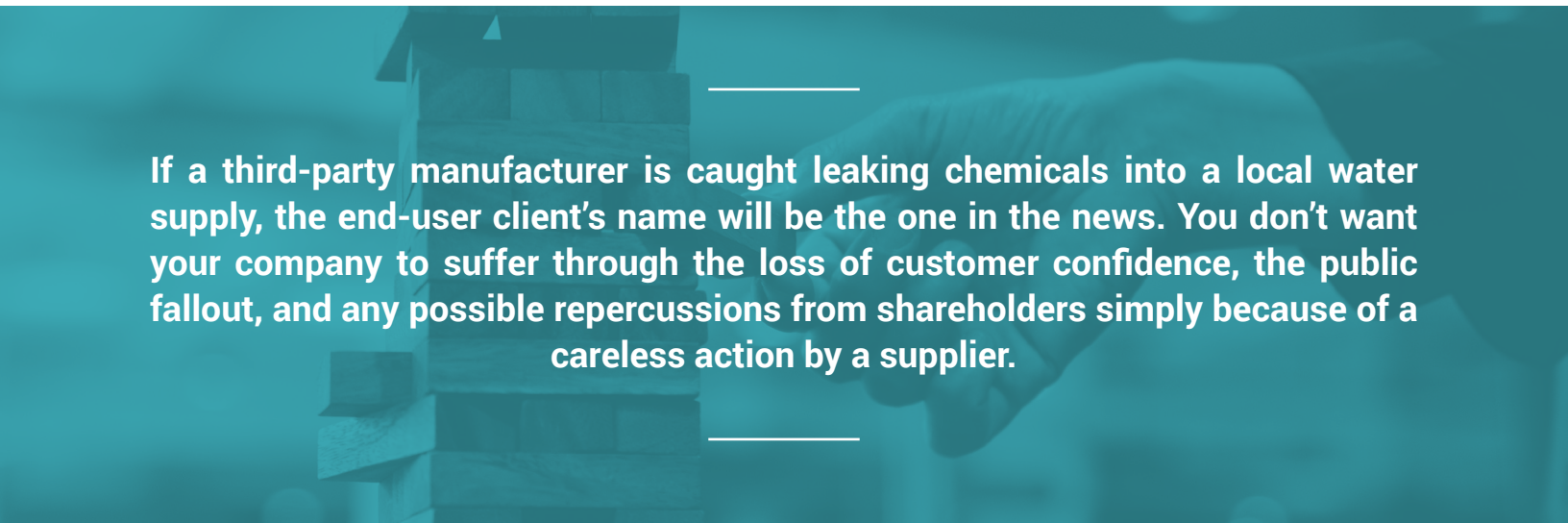
**Savings are key, but there are times when organizations
have to think beyond savings.**

ENHANCING THIRD- PARTY RISK MANAGEMENT

In our increasingly globalized business world, everyone outsources. Employing third-party contractors and suppliers is a crucial way for procurement officers to keep margins low and increase the bottom line. But while a company can outsource work, it can't outsource accountability.

If a third-party manufacturer is caught leaking chemicals into a local water supply, the end-user client's name will be the one in the news. You don't want your company to suffer through the loss of customer confidence, the public fallout, and any possible repercussions from shareholders simply because of a careless action by a supplier.

So how can procurement officers guard against these kinds of inevitable third-party complications? Contracts are the major safeguards that every company has with third-party partners, but as outsourcing grows more prevalent and complex, your contracts need to follow suit. These agreements need to reflect the evolving nature of third-party risk, and they need to be backed up with actions. Do your contracts stipulate insurance and SOC Type 2 requirements? Hopefully so, but don't forget to request and obtain copies of auditor reports to ensure compliance. The same goes for data privacy and security: your contracts need to require it to the utmost degree, and you can't take anything for granted.



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More broadly, your contracts should be only one part of a robust third-party risk-management framework. Your entire business model needs to reflect the growing tendency towards outsourcing, and preparation for those related problems needs to be built in to every aspect of your organization.

If your supply chain is made up of dozens of entities spread throughout the world, you need to think big about potential problems, and incorporate new strategies like real-time monitoring and intelligent analytics to stay on top of these partners. Your data may be held or processed by third-parties of third-parties—do you know that it's protected? Your raw materials may be produced in locations that are susceptible to climate risks or other catastrophes—are you prepared to keep supply moving in the event of a halt to production? Once again, with these increasingly complex supply chains, "value" may sometimes be a matter of dependability and risk management rather than savings.

03 STAYING AHEAD OF M&A DEAL TRENDS

It seems like every day brings fresh news of major companies merging with or acquiring their competitors and suppliers. Whether it's Albertson's buying RiteAid or the proposed merger of T-Mobile and Sprint, every industry goes through this process and navigates the complications. Even those companies that aren't merging themselves have seen disruptions when it happens among manufacturers in their supply chains.

Mergers and acquisitions present huge business opportunities, but they're also stressful, and necessitate a whole suite of legal, contractual, and personnel considerations. And since the ultimate goal is always to build profitability and enhance efficiency, procurement officers have to stay on top of every aspect and ensure that those benefits come to pass.

Here, third-party audits are essential, but with the frequency of mergers and acquisitions these days, you simply can't audit everything. If your company merges with or acquires another, they may have dozens or even hundreds of existing contracts underway—how can you identify which of those is most amenable to your business and which need to be rewritten? A successful procurement officer of the future will need to be a gifted analyst of the ever-increasing number of moving parts that result from mergers and acquisitions. They will need to know where weaknesses in brand-new supply chains are most likely, and where contracts aren't strong enough to withstand the constant changes in the new global business reality.

You need to be organized and thoughtful in the way you approach a merger, just as you need to stay ahead of the curve in the industries you work with.



PAY ATTENTION TO INDUSTRIES THAT ARE GROWING INCREASINGLY CONCENTRATED:

If two of your suppliers merge, you may need to approach a third competitor to ensure that you still have leverage in your supply chain. As new businesses enter your network, you may need software that can analyze contracts for compliance with your own high standards for data security, sustainability, cost-effectiveness, and more.

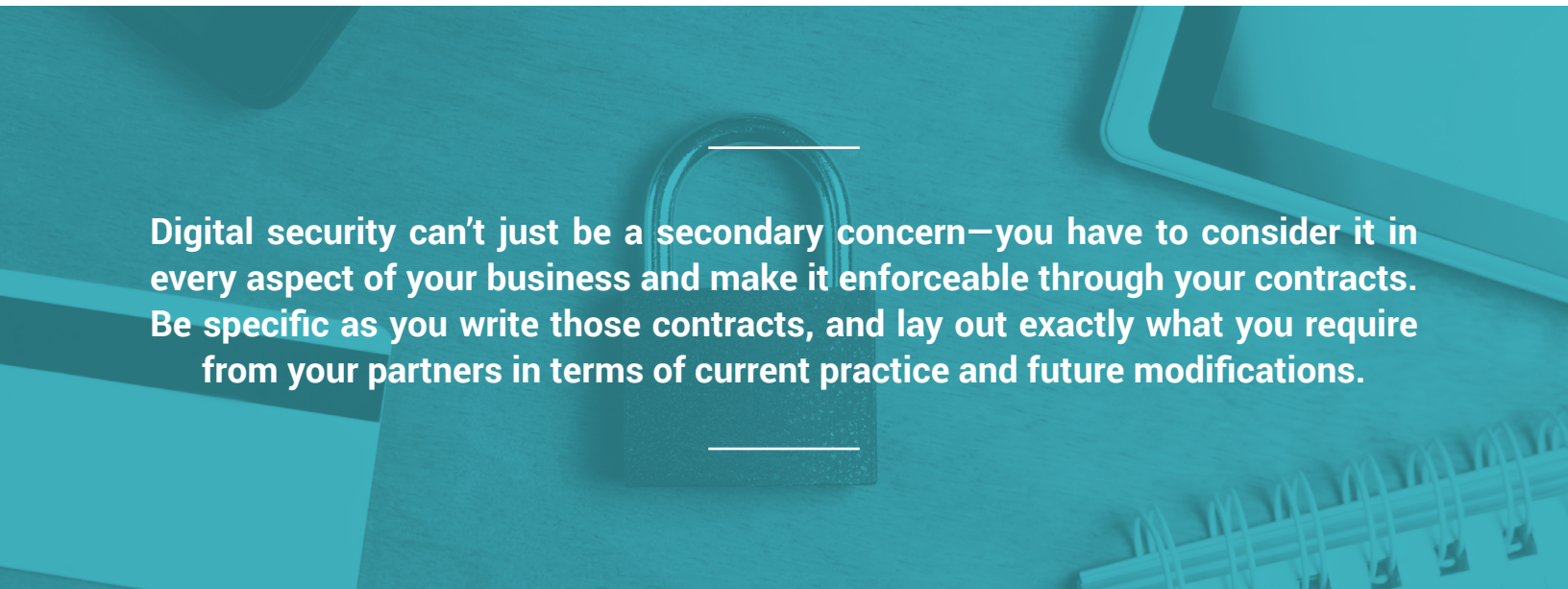


BUT ONE THING IS FOR SURE:

Mergers and acquisitions aren't going to stop or slow down, and procurement will largely be a matter of managing the increasingly complex, fragile networks that result.

04 ENSURING DATA SECURITY AND PRIVACY

We mentioned hacking and data breaches in the section about third-party risk management, and there's potentially no greater, or less controllable, worry among companies in the current business environment. The horrible fact is, hacking is ubiquitous. No company size or type is immune. Cybersecurity and data privacy are the new coin of the realm in business—companies are all seeking the most trustworthy security measures in order to show their customers and shareholders that their data is secure. This is even more essential for U.S. companies with existing or potential buyers in Europe because of The General Data Protection Regulation (GDPR). GDPR applies to all organizations processing and holding personal data of individuals residing in the European Union, regardless of the organization's location.



Digital security can't just be a secondary concern—you have to consider it in every aspect of your business and make it enforceable through your contracts. Be specific as you write those contracts, and lay out exactly what you require from your partners in terms of current practice and future modifications.

And like so many other aspects of contemporary business, data security is typically managed by outside contractors. This means, once again, that contracts are your greatest asset. Have you chosen the most reliable contractor? Have you accounted for security requirements in every state and country where you do business? Are you certain that every link in your supply chain is equally rigorous and secure? You need to know where your suppliers are doing business and how thoroughly they monitor their own connections' compliance with local regulations in those locations. And since those regulations are constantly changing, you need to keep up with those changes and know how to identify weak or vulnerable spots in your data network.

Digital security can't just be a secondary concern—you have to consider it in every aspect of your business and make it enforceable through your contracts. Be specific as you write those contracts, and lay out exactly what you require from your partners in terms of current practice and future modifications. You can choose tools and partners that allow you to monitor security in your supply chain in real time. And you can familiarize yourself with global trends and requirements in data security, since chances are your partners will touch those international markets even if you don't already.

05 UTILIZING NEXT- GENERATION TECHNOLOGIES

It may sound like science-fiction, but in many ways the future is already here because of technologies such as Robotic Process Automation (RPA) and Artificial Intelligence (AI). RPA doesn't necessarily mean actual robots doing your work—it means software, and computer-enabled business processes that are faster, smarter, and less error-prone than human employees. Many companies across industries have already developed the ability to use software for data entry, customer service, currency conversions, and other entry-level or administrative tasks, and artificial intelligence is a heavily funded, growing field of innovation. Think of this as next-gen outsourcing: companies once gave these tasks to affordable outside services in markets like Asia, but it won't be long before 10 or more of those workers can be replaced by one computer. Digitalization is our business future, and digital procurement is the future of your field too.

When your company moves into this digitized space, procurement officers will have a whole new world of questions to answer. You're going to have to outsource aspects of your business that weren't outsourced before. You'll have to decide whether it's more cost-effective to buy computers and software for in-house automation or let contractors handle it all offsite. How do you account for security or risk management when your "employees" are software? Will you have to attend to a public relations crisis if you let go significant numbers of employees in favor of machines? Your key data points will be delivered in real time, or even predicted by software. The procurement officer of the future will be one who adapts to this fast-evolving landscape and assesses the value in leveraging these new technologies and business practices, and its ROI on the business.



THE FUTURE OF PROCUREMENT WILL REQUIRE YOU TO BE A SOURCING SUPERHERO:

Supply chains have become more volatile, number-crunching has become more sophisticated, and third-party contractors are an increasingly essential and complex part of every enterprise.



BUT THE CHALLENGES BRING OPPORTUNITIES:

If procurement is all about maximizing value for your organizations, then these new realities offer the chance to reassess the whole idea of value in the first place.

A little savings in one department isn't worth much if a data breach endangers your customers' identities and creates a PR nightmare. A cheaper supply of one material might not create the same value as an eco-conscious decision for your company to find a more sustainable provider or even remove that material from your supply chain altogether.

The idea of "value" is shifting rapidly, and the most successful procurement officers will find ways to help their organizations constantly reassess their priorities to suit short- and long-term goals in this new era of procurement. It won't be simple, but by embracing these five trends, you will have the chance to put on your cape and make a bigger impact than you ever thought possible.



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