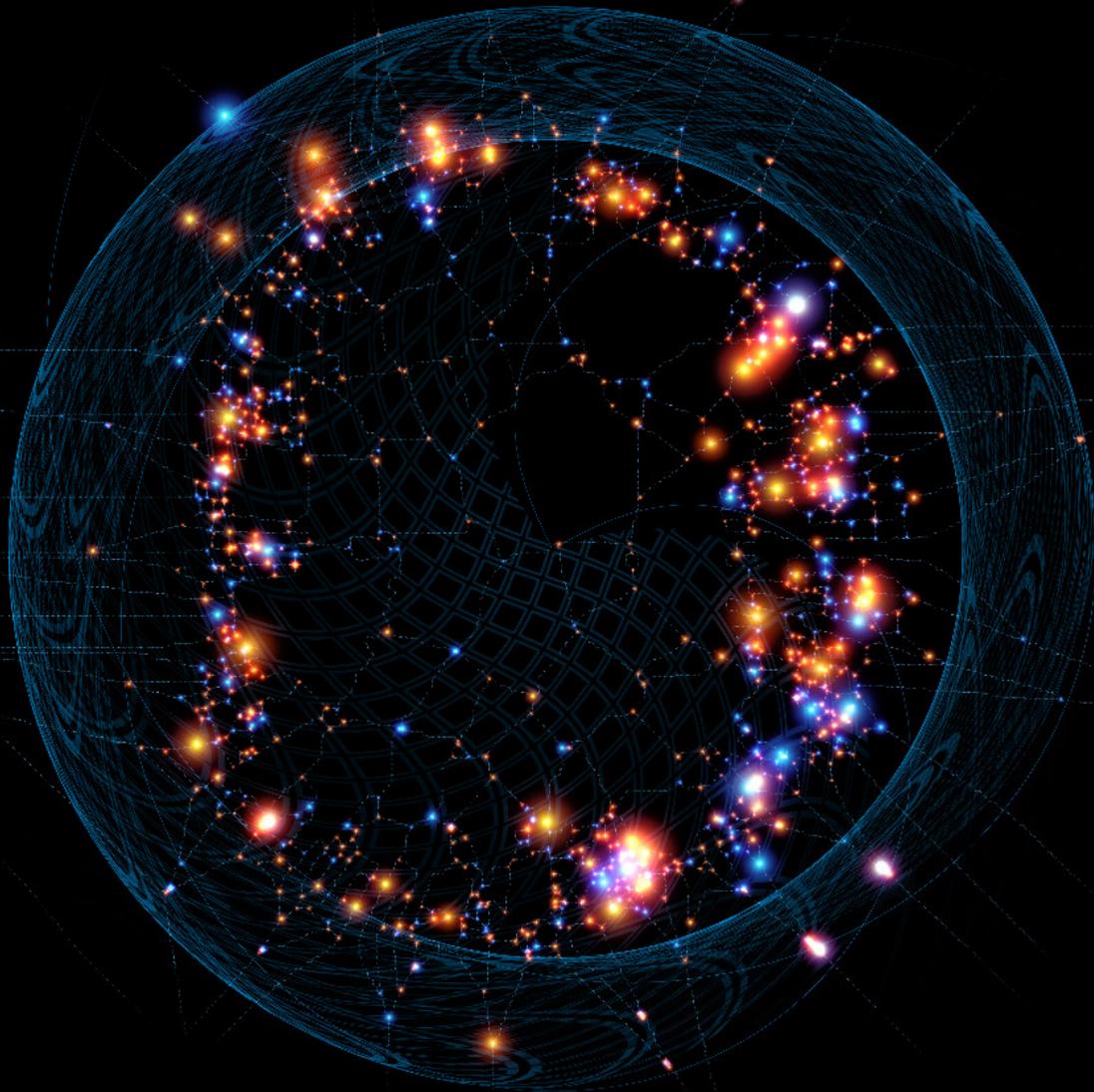


Deloitte.



2020 Chief Procurement Officer Flash Survey

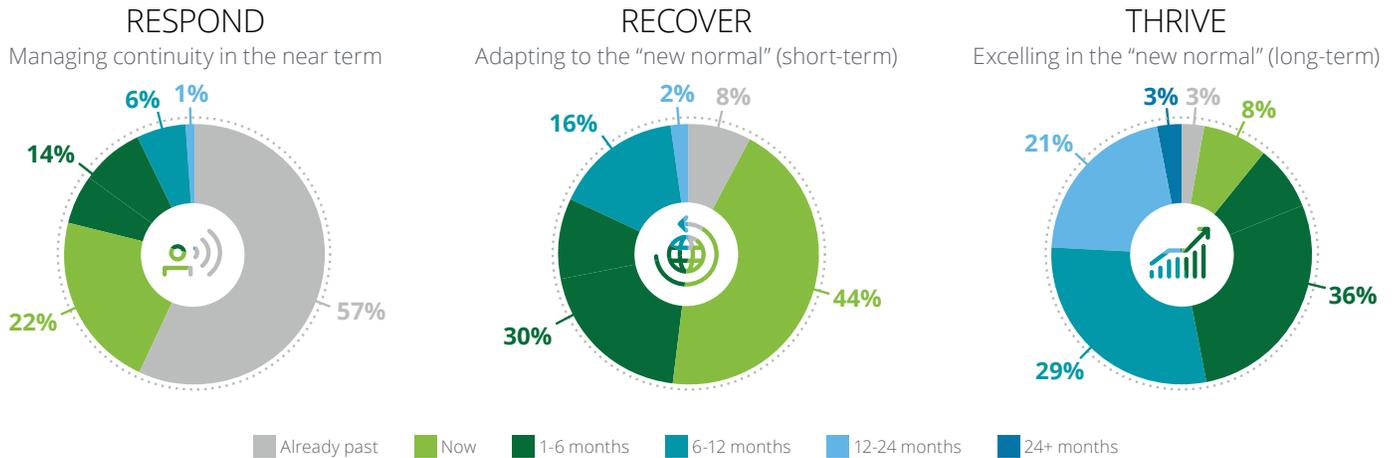
Pandemic procurement: The stakes are raised
and complexity grows

Survey findings at a glance

Top takeaways from Deloitte's 2020 Chief Procurement Officer Flash Survey

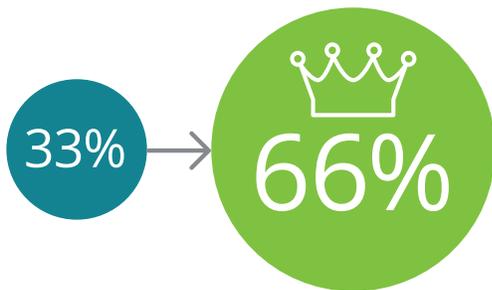
"Next normal?" #VirtualProcurement

A vast majority of CPOs (80%) believe that the period of rapid response to maintain supply continuity has passed or will end soon. Further, 64% of respondents have shifted from defense to offense by focusing on adapting their supply chains to thrive in the "next normal."



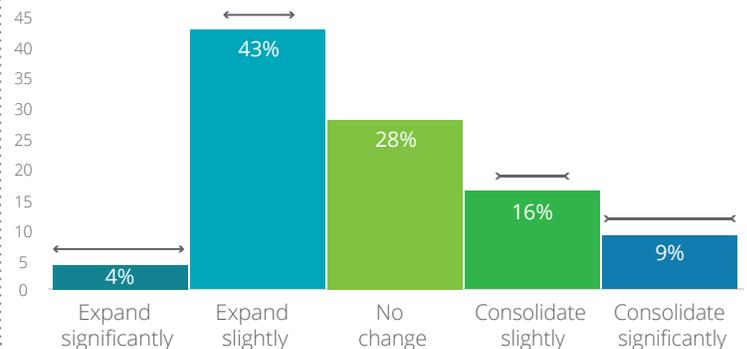
Cash is king

CPO respondents identified cost management as their top priority right now, commanding nearly 8x more focus in day-to-day operations. This aligns with additional survey findings, showing that two-thirds of organizations are planning to pursue cost reduction strategies post-COVID-19, compared to just one-third pre-COVID-19.



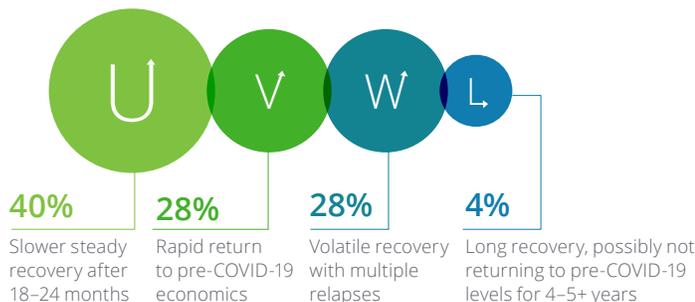
To consolidate or not to consolidate...

Forty-seven percent of respondents said they are planning to expand their overall supply base, while 25% of respondents plan to consolidate. Nearly all respondents suggested they are looking to either shift their global supply base footprint and/or activate nearshoring.



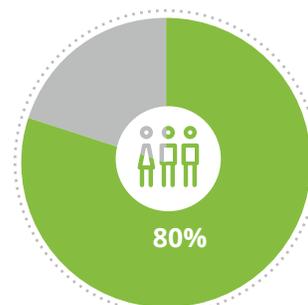
The not-so-passing storm

Only 28% of survey respondents expect a quick return to pre-COVID-19 economics, while the majority, around 70%, expect and are planning for a much longer economic downturn (either U- or W-shaped) that will likely last into Q2 2021 and beyond.



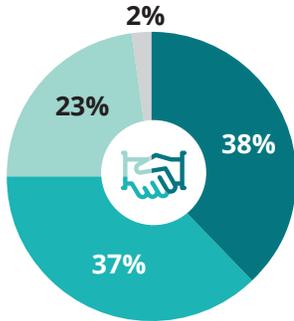
The team matters

Two of the top three most critical success factors for procurement organizations to navigate the pandemic concern employees and teams.



80% of organizations identified worker well-being as "important" or "very important" for their success over the next 12 to 18 months.

Hand-to-hand combat



38% of top-ranked procurement strategies were short-term and tactical, including activating alternative sources, increasing inventory levels, and injecting capital into their supply chain to quickly respond and prevent further supply disruption.

■ Short-term, tactical ■ Long-term, strategic ■ Short-term, strategic ■ Other

Fighting fires

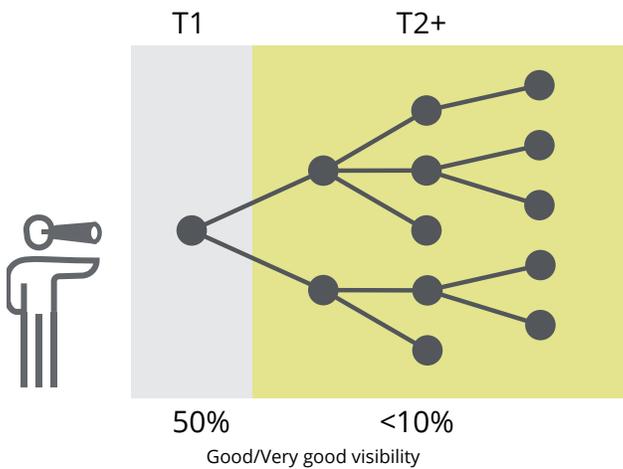


During these unprecedented times, enabling effective remote working and virtual working environments were the fires that had to be put out, seemingly pushing data quality and visibility, digitization, and analytics down the priority list.

Enabling teams

You can't manage what you can't see

Only 50% of procurement leaders surveyed had high or very high visibility into their tier 1 suppliers, while 90% of organizations rated their visibility into their extended supply networks as moderate to very low.



Thriving

Organizations that are thriving had higher visibility into both tier 1 and tier 2 suppliers, were twice as likely to prioritize digitization in their day-to-day operations, and seven times more likely to expand their supply bases in response to supply-side vulnerabilities.

- High visibility into suppliers
- Prioritize digitization
- Expand supply base



Enhancing business performance

Enhancing supply management capabilities, as well as adopting and investing in advanced technology, emerged as the two primary themes among CPO respondents.



27%

Supply management

- Explore alternative/onshore suppliers
- Deepen supplier partnerships



25%

Advanced technology

- Use technology to increase visibility
- Monitor risks with new technology platforms

Hindsight in 2020

Approximately 18% of respondents regretted not accelerating digitization fast enough through investments in upgraded systems that enhance visibility and analytics capabilities.

Investing in:

- Accelerating digitization
- Upgrading systems



Introduction

As we manage through and learn to cope with the challenges presented by the COVID-19 pandemic, we thought it was important to dig deeper to understand the mindset, strategies, and challenges that are facing CPOs and procurement leaders. This report brings together findings from our *2020 Chief Procurement Officer Flash Survey*, in the context of recent events and thought leadership, to provide insights on the future of procurement and shifting procurement strategy as leaders navigate these unprecedented times.

The *2019 Global Chief Procurement Officer Survey*¹ highlighted the ever-increasing complexities that procurement leaders are facing. Customer expectations are rising, internal stakeholders are increasing their demands, markets are becoming more volatile, technological advancement requires significant attention, and accessing talent with the right skills at the right time is an ever-present challenge. Navigating these internal, external, digital, and talent complexities did not get any easier with the arrival of the COVID-19 pandemic. For many, the decades-long focus on reducing the supply base and driving cost reduction while streamlining procurement strategy has affected many organizations' ability to react swiftly and confidently in these challenging times.

With the pandemic and associated economic slowdown, nearly all industries are viewing cost and cash management as essential. In addition, organizations are addressing and managing extreme risk and supply continuity issues. While many companies weren't adequately prepared for widespread disruption of this scale, some may not feel the full effects of the crisis upon their business yet.

The COVID-19 pandemic has created a "black swan" environment for organizations to navigate, requiring many to rethink the supply chains they have built over decades. For example, hospitals have adjusted their capacity of personal protective equipment (PPE) for spikes in infection² and mortality rates as they continue to fluctuate. However, organizations will have to remain agile, as recent events suggest that the economy may worsen before it gets better:

- Some "unlocked" economies³ still have a high number of cases. In India, for example, new cases reportedly averaged over 90,000 per day in September.

- Unemployment in August stood at 8.4%, compared to its peak of 14.7% in April, but still not close to the pre-COVID-19 levels of 3–4%.⁴
- Given the current stalemate in Congress, it's unlikely that a second round of fiscal stimulus is forthcoming before the U.S. presidential election, increasing the likelihood that personal spending cratered.
- Credit card balances fell sharply in the second quarter by \$76 billion, which was the steepest decline in the history of the data.⁵
- The U.S. trailing-12-month speculative-grade corporate default rate is likely to reach 12.5% by June 2021 from 5.4% in June 2020.⁶
- It is unlikely for GDP to fully recover in most major economies for the foreseeable future, with the United States projecting at least the end of March 2022 or beyond, even if a COVID-19 vaccine becomes widely available prior.⁷

In a recent statement, released after a meeting at the end of September, the Federal Open Market Committee is quoted saying, "The path of the economy will depend significantly on the course of the virus."⁸

At a macro level that may be true, but the real answer is more complex. As was reported in our recent CFO Signals™ Survey,⁹ that answer also looks different by industry. Both the transportation and hospitality sectors are expecting revenue declines of 61% and 60% respectively, as their operations have been significantly curtailed by consumer demands and public health measures. On the other hand, the medical technology sector is anticipating revenue growth of 63%, followed closely by telecommunications (58%), pharmaceuticals (58%), and software and information technology services (57%).

Our *2020 Chief Procurement Officer Flash Survey* strives to help procurement leaders navigate the ongoing pandemic and prepare for the future of procurement by exploring what the survey results mean for you and your organization and how you can position your teams for success in the near and long term.

Cash is king

With the August 2020 speculative-grade corporate default rate expected to reach 6.2% and 3.8% in the U.S. and Europe respectively,⁶ many organizations are still very much in “crisis management mode” and don’t have incremental bandwidth to actively manage residual effects on the business. Our recent report, *COVID-19: Managing cash flow during a period of crisis*,¹⁰ highlights the importance of cash flow management and recommends it serves as an integral element of a company’s overall near-term COVID-19 risk assessment and action planning effort.

According to a recent [Deloitte survey of global executives](#),¹¹ two in three companies globally now expect to pursue cost reduction efforts over the next 12 months, compared with 38% before the pandemic began. In addition, the percentage of respondents pursuing cost reduction targets greater than 10% increased to 66% from 41% compared with pre-COVID-19 levels. This is echoed in the Flash Survey findings, showing cost management as the greatest priority for CPOs right now, with approximately eight times more day-to-day focus than other areas. Procurement’s contribution to the organization has never been more critical, whether supporting survival or enabling investment for the future.

The team matters

Two of the top three most critical success factors for procurement organizations to navigate the pandemic revolve around employees and teams, including workforce safety and effective virtual working. Importantly, the overall effectiveness of teams and their ability to sustainably deliver on the organization’s biggest priorities, such as cost and risk management, requires CPOs to build and deploy effective talent strategies. Deloitte has written extensively about the future of work, and COVID-19 has accelerated the need to understand and evolve toward that vision. Deloitte’s [2020 Global Human Capital Trends Survey](#)¹² found that 80% of organizations identified worker well-being as “important” or “very important” for their success over the next 12 to 18 months. So, while CPOs must equip and train their teams and leaders to manage in this new world, they must also foster a culture that empowers and supports employees to be their best while working remotely and remember that working from home doesn’t equate to always working.

Fighting fires

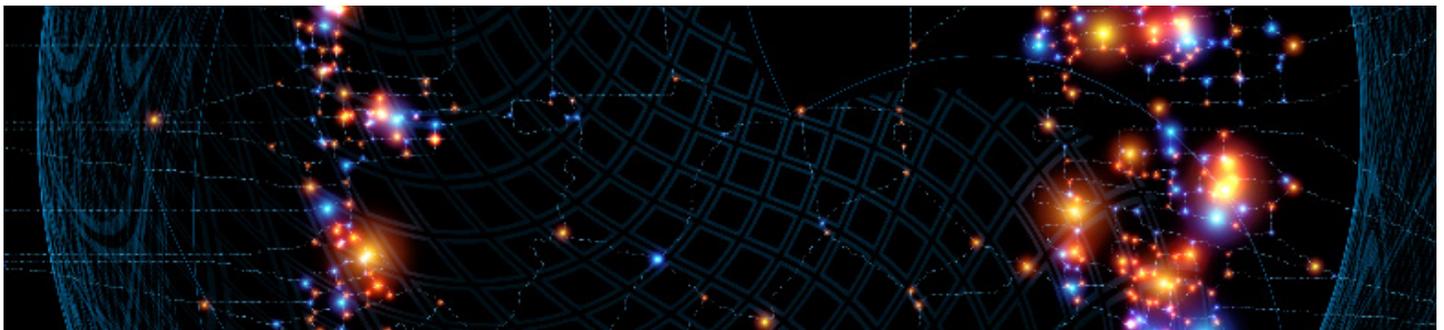
In the Flash Survey, data quality and visibility, digitization, and analytics were respectively ranked as the 8th, 9th, and 11th most critical success factors to navigate the pandemic. Given how important these next-gen capabilities are to effectively navigate disruptive events and quickly respond to risks within the supply chain, it is surprising that these aren’t perceived to be more integral. This may, however, point to how procurement organizations have focused their efforts primarily on addressing pressing concerns presented by the pandemic. After all, it is an even greater challenge making use of good data when teams are not working effectively in a virtual environment or cross-functionally to address immediate problems.

Hand-to-hand combat

Procurement leaders have had to focus heavily on ensuring continuity of supply. Business impact from the first wave of COVID-19 infections took effect between May and early July. Supplier bankruptcies, cybersecurity breaches, and general market volatility presented challenges that were difficult for procurement organizations to keep up with. As expected, most responded with a mix of tactical and strategic measures, as about 40% of top-ranked strategies were short-term and tactical: activating alternative sources, increasing inventory levels, or injecting capital into their supply chain to quickly respond and prevent further supply disruption. An additional 37% of strategies were also somewhat tactically driven, with potential to become strong foundations for more strategic plays, such as enhancing supplier relationships and supplier collaboration. Building supplier relationships enhances a procurement organization’s ability to be agile and flexible in the face of disruption. Taking action to make robust supplier networks more robust will have a big impact in the long term.

You can't manage what you can't see

An interesting finding from the Flash Survey shows only 50% of procurement organizations surveyed had high or very high visibility into their tier 1 suppliers, while 90% of organizations rated visibility into their extended supply networks as moderate to very low. This is potentially very concerning for boards of directors and CEOs, 55% of whom are now held accountable for risk. Most supply continuity



failures are attributable to issues beyond tier 1. Additionally, a recent [Deloitte Risk Management Report](#)¹³ found that half of survey respondents suggested that third-party risk incidents have at least doubled in the past five years. CPOs must understand their suppliers and the risks they pose while having risk mitigation approaches and plans in place.

The not-so-passing storm

Only 28% of survey respondents expect a quick return to pre-COVID-19 economics, while the majority (about 70%) expect and are planning for a much longer economic downturn. With second quarter real GDP declining 40% in the European Union and 33% in the United States, along with a July Purchasing Managers' Index (PMI) of 50.3, indicating sluggish growth in the global manufacturing industry, expectations of prolonged economic uncertainty aren't surprising. This likely explains why 44% of CFOs are planning for a "return to normal" in Q2 2021 or later, and why cost reduction was the No. 1 priority for nearly all CPOs. But it is not all doom and gloom. The crisis has to some degree accelerated the pace of digitization and a number of innovative tools and solutions have been developed to enhance companies' ability to manage the volatility, with the potential of giving some a competitive advantage going forward. One example of this is Deloitte's own D.Smart solution. D.Smart reports real-time projections of COVID-19 infection rates at the country level (and by country globally) using a simulation-based modeling technique. The platform combines a variety of public and private data sources, to, at the simplest level, lay infection transmission data over population contact modeling to produce a forecast with high levels of accuracy up to three weeks out. The reality of a crystal ball edges ever closer and there are many use cases. Solutions, like D.Smart, enable organizations to better:

- Deploy sales teams
- Adapt and introduce workforce safety measures where it matters
- Enhance and better prepare workforce deployment strategies (e.g. informing temp agencies early of potential additional needs for workers)
- Project potential supplier disruption
- Redirect inventory
- Adjust manufacturing plans to redirect production to alternate facilities

This is not just short term planning, but it also models potential long term financial scenarios to enhance business planning and cash flow management. D.Smart, and other advanced analytical capabilities like it, can be repurposed to other medical situations, such as the flu, or even more frequently occurring major weather events. The possibilities are endless and the potential impacts can be significant.

"Next Normal"? #VirtualProcurement

While recoveries will look different across industries and regions, there does seem to be a degree of consensus around the specific phase of recovery respondents perceive their organization to occupy. A vast majority of CPOs (80%) believe that the period of rapid response to maintain supply continuity has passed or will end soon. Further, 64% of respondents have shifted from defense to offense by focusing on adapting their supply chains to thrive in the "next normal." This raises the question: What does the "next normal" even mean?

Among survey respondents, virtual working and risk management were identified as the two primary considerations in a post-pandemic world. Thirty-five percent of respondents are focusing their efforts around virtual working and making permanent shifts to work from home with increased virtual collaboration. Given that digitization was ranked the 9th most critical success factor, it will be imperative for CPOs to focus on enhancing their organization's digital infrastructure to ensure their employees have the tools required to collaborate virtually.

CPOs will also need to focus on building a culture where employees feel empowered and equipped to deliver on the organization's priorities, even while working remotely. New ways to fund additional expenses incurred as a result of the COVID-19 pandemic (such as enhanced technology, dependent care needs, and home office improvements) will play an important role in attracting and retaining top talent and supporting the workforce to operate efficiently and effectively from their home offices.

Beyond virtual working and the need to provide additional support to employees, 25% of respondents noted risk management as a key consideration in preparing for the "next normal." A theme throughout the survey was that CPOs believe the impact of the COVID-19 pandemic will reverberate long into the future, making it crucial to rethink priorities regarding security of supply, risk mitigation, and supplier relationships.

The procurement leaders surveyed stressed the importance of risk management in their responses, as evidenced by several quotes:

- "We will be facing more uncertainties; hence, proactive risk management will be more critical than ever."
- "Risk mitigation will move up in the priority list for CPOs."
- "Supplier risk needs to be governed more rigorously and systematically through robust risk sensing and supplier monitoring capabilities in place."



To consolidate or not to consolidate...

In response to the supply-side vulnerabilities exposed by COVID-19, about 47% percent of survey respondents said they are planning to expand their overall supply base, while on the other hand, 25% of respondents plan to consolidate their supply base.

Of those looking to expand, 31% ranked "refining geographic supplier base" as the No. 1 approach to tactically implement the expansion, followed by 24% who ranked "shift to nearshore/regional" as their top approach. These findings suggest that a majority of organizations are seeking to increase their supplier numbers, potentially to reduce overreliance, while at the same time looking to locate suppliers in closer proximity to their operations, an effort to reduce pandemic- and global trade-related risk and ensure continuity of supply.

Sixty-four percent of those who are planning to consolidate also ranked "refining geographic supplier base" as their No. 1 approach. This infers one of two possible situations: Either these organizations will run global tenders to identify the optimal commercial arrangements, or they will strategically and tactically predetermine which suppliers they want to consolidate in regions that reduce potential risk exposure. Focusing on fewer suppliers will likely enable companies to increase visibility, enhance control, and develop deeper, more meaningful relationships with their supply base. This consolidation strategy is a clear attempt to address the reality that suppliers were forced to choose to which customers they should deliver limited inventory. CPOs must assess whether the delivery of supply was dependent on their organization's relative position with suppliers or if barriers were geographically related due to trade regulations or pandemic factors.



Thriving

One-third of respondents believe they will reach the Thrive stage and start excelling in the "next normal" within three to six months, while one-third believe this stage will occur within six to 12 months and one-quarter believe this will occur within 12 to 24 months. When we isolate those respondents who said they had already entered, or were about to enter, the Thrive stage (roughly 20%), there are clear differences in their strategies and priorities. These organizations had higher visibility into both tier 1 and tier 2 suppliers, were twice as likely to prioritize digitization as a day-to-day focus, and were seven times more likely to slightly expand their overall supply base in response to supply-side vulnerabilities exposed by COVID-19. This suggests that those organizations were able to react and adapt quickly, providing ample time to identify opportunities, think strategically, and execute against their priorities. Doing so allowed them to turn their supply chains into a competitive advantage.



Enhancing business performance

Given the importance of purchased spend on financial performance, it is key to understand the biggest challenges CFOs are facing when planning for the future. Our recent CFO Signals™ Survey⁹ highlighted:

- Inability to adjust cost structure to meet demand was the top internal challenge globally and across all regions
- Two in three companies were expecting to pursue automation in all three stages of the respond-recover-thrive framework

Interestingly, only 20% of CFOs are utilizing rapid economic modeling to identify the implications of their potential business decisions around their primary business concerns, including sales and revenue uncertainty (43%) and forecasting and planning (22%). A surprising insight: Roughly 40% of these companies are utilizing manual spreadsheets and/or offline modeling in their planning processes.

Enhancing supply management capabilities and adopting or investing in advanced technology emerged as the two key priorities among respondents. While CPOs leverage technology to secure their supply base, protect and enhance their supply lines, and reduce risk for their organization now and in the future, it is important to remember that these near-term actions can be a source of continued cost optimization. Building on a foundation of supply assurance, CPOs and procurement teams will need to work collaboratively with key strategic partners to drive inefficiencies and cost out of the supply chains to support their respective businesses without affecting daily operations.

Several respondents commented on this theme:

- "Procurement teams can focus on rationalizing their supply base while deepening the supplier relationships to drive improvements in rapid response during time of uncertainty and crisis."
- "Enhanced digital capability for collaborations will accelerate and enhance the business performance."



Hindsight in 2020

...or rather, 2020 could have been very different in hindsight. Unprecedented disruption could, and arguably should, have been better managed. If CPOs are to command a seat at the table, and their procurement organizations deliver their full value, supply chain visibility must be a priority. You cannot manage what you cannot see, and when asked what they would do differently knowing what they know now, many procurement leaders agreed. More than a quarter of survey respondents reflected on how they would have enhanced their risk mitigation strategies, namely improving business continuity and contingency planning and enhancing supplier risk sensing. Many also expressed regret in not accelerating digitization fast enough through investments in upgraded systems to improve visibility and analytics capabilities.

Conclusion

The COVID-19 pandemic has provided a unique opportunity to gain insight into what the most effective procurement leaders do to respond during times of uncertainty and thrive in the long term. While many CPOs have not had much time to pause and reflect on which systemic, long-term changes they will need to make in order to adapt and thrive, top-performing organizations were better setup to manage the volatility, as they simultaneously learned from managing the challenges faced during the pandemic and adapted more rapidly and effectively to the changes taking place.

Our survey¹⁴ findings suggest that these top-performing organizations were able to invest more time in thinking strategically, identifying opportunities, and executing against priorities during these volatile times. They turned their supply chains into a competitive advantage and were characterized by:

- Having higher visibility into both tier 1 and tier 2 suppliers
- Being twice as likely to prioritize digitization and a day-to-day focus
- Being seven times more likely to slightly expand their overall supply base in response to supply-side vulnerabilities

So, the question becomes: How can your organization unlock value during unprecedented times, where challenges differ across state, country, and industry lines and where suppliers are, in many cases, struggling to survive?

In a world in which uncertainty and disruption will likely remain a constant, CPOs will need to be even more resourceful to help their organizations manage cash, while limiting supply disruptions. A focus on the following areas will be critical for success:

- Developing smarter ways to illuminate and act on risk intelligence regarding suppliers (at all tier levels)
- Rethinking sourcing strategies based on risk and building more robust mitigation plans
- Increasing risk-sharing and/or performance-based contracting
- Enhancing value delivery from strategic partners through collaboration and supplier development programs
- Building a flexible and connected digital infrastructure supported by clean and accurate data
- Establishing scenario modelling capabilities to enhance planning and resiliency

Your organization's ability to reallocate resources as and where necessary, maximize supply chain visibility, and establish robust yet adaptable supplier relationships allows you to drive effective and rapid decision-making and not only manage disruption as it arises, but thrive in it.

Industry perspectives



Defense, security, and justice

- CPOs indicate that they have lower-than-average visibility into tier 1 suppliers and extended supply networks.
- With a heightened focus on supplier continuity, CPOs indicate that “activating alternative sources” is a top mitigation strategy for their industry.



Technology, media, and telecommunications (TMT)

- Relative to the average, TMT CPOs cite their supply visibility was lower for tier 1 suppliers, but higher for extended supply networks.
- Fourteen percent of TMT respondents said they had already passed the Thrive phase, compared with an aggregate of 3%. TMT has been one of the few sectors able to thrive in the pandemic.



Life sciences and health care (LSHC); social care

- Overall, the LSHC industry feels it is behind average in recovering from the pandemic, with higher levels of those surveyed saying they are still responding, and recovery is further off in the future.
- As these CPOs addressed the shortages of PPE suffered at the start of the pandemic, they suggested “activation of alternative sources” as a top mitigation strategy.



Consumer and retail

- These CPOs believe they have a higher degree of visibility into both their tier 1 suppliers and extended supply networks, compared to the average.
- More optimistic and potentially a quicker recovery in this sector, 62% of CPOs said they had entered the Recover phase compared with 43% in aggregate.



Banking and capital markets

- CPOs in this industry have indicated that they believe they are 2x more likely to be thriving when compared with others.
- Data quality and visibility and digitization were ranked the 3rd and 4th most critical success factors versus being ranked 8th and 9th in the aggregate – suggesting a greater focus on ensuring their digital capabilities (for example, digital banking, payments, trading platforms, and other systems) are robust and resilient enough to handle disruption and increased traffic.



Industrial products and automotive

- CPOs indicated that their top focus is on workplace safety compared with other industries, whose main focus was on the establishment of effective virtual working.
- More respondents said they are currently in the Recover (63% versus 43%) and Thrive (12% versus 7%) phases when compared to others.
- The top three mitigation strategies these CPOs are utilizing throughout the crisis are focused on their suppliers: 1) enhance supplier relationships, 2) activate alternate sources, 3) enhance supplier information sharing.



Oil, gas, and chemicals; power and utilities; mining and metals

- Highlighting the struggles COVID-19 has caused within the energy sector, “cash flow” was ranked much higher relative to the aggregate (2nd versus 5th) as a critical success factor.
- Supply chain visibility into both tier 1 and beyond is higher in this industry relative to the aggregate.



Other (Transportation, hospitality, and services; civil government)

- CPOs indicated that they are focused on ensuring team continuity and performance, with team support, as well as team skills and capabilities, being the top-ranked areas of focus.
- Relative to the average, these CPOs feel their visibility beyond tier 1 is lower (63% versus 48%).

Endnotes

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- 9 Deloitte, "Deloitte CFO Signals™ Survey: CFOs Cite Risks of New Virus Waves and Growing Skepticism About the Pace of Recovery," August 27, 2020. [View press release.](#)
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- 11 Deloitte, "Deloitte Survey: COVID-19 Pandemic Shifts Enterprise Cost Management and Transformation Strategies from 'Save-to-Transform' to 'Save-to-Thrive'," August 18, 2020. [View press release.](#)
- 12 Deloitte, "Returning to work in the future of work," May 15, 2020. [View article.](#)
- 13 Deloitte, "Global risk management survey, 11th edition executive summary," January 23, 2019. [View article.](#)
- 14 *Survey results include responses from almost 100 executives from primarily large global organizations headquartered in North America. All participants are leaders of procurement within their respective organizations.*

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