



ODGERS BERNDTSON

# The Deloitte Global CPO Survey 2014

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GO ▶

The background of the slide is a close-up, high-contrast photograph of a car engine, showing various mechanical components like belts, pulleys, and hoses. Overlaid on the right side of the engine are several concentric blue circles of varying sizes. The text "Procurement: time to move through the gears?" is centered within the largest of these circles.

Procurement:  
time to move  
through  
the gears?

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# Introduction

Welcome to the fourth annual Deloitte Global Chief Procurement Officer (CPO) Survey, looking at the state of play in the procurement function amid signs of stronger growth from the global economy.

Conducted in association with Odgers Berndtson, the 2014 survey reflects the views of 239 chief procurement officers and company directors from 25 countries around the world. Focusing on key procurement disciplines including business engagement, talent, risk and technology, the survey is a benchmark indicator of sentiment in the procurement field.

In this report you'll find:

- a summary of key, international insights
- infographics by industry sector and region
- observations and practical tips from procurement colleagues and Deloitte specialists.

For those working in procurement, we hope you'll find this report a valuable tool in helping further develop your role of trusted procurement leader. Thank you for the time and insight of the many executives who have contributed. We look forward to continuing our dialogue with you.

**James Gregson**

Head of Sourcing & Procurement, UK Partner  
Deloitte LLP



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This year's survey results reflect the impact on procurement of the improving global economy.

While challenges remain in some markets, CPOs on balance are increasingly confident, especially in the consumer business, banking, pharmaceuticals and business services sectors. Increased capital expenditure in the manufacturing, energy and public sectors is also positive.

The survey results indicate that growth and increased spending, alongside continued weakness in the supply market, will have a material impact on the procurement agenda. Change will be felt in the diversity of requirements, the expected workload, and creativity in supply base strategies required to enable profitable growth and business differentiation.

Cost control remains a priority, but its relative importance is lower than last year, and businesses are increasingly looking for procurement input to new product development, innovation and mergers and acquisitions. The expectation, too, is that this work will be done rapidly, and with no detriment to cost or supply market assurance.

Stronger growth in some markets is putting a strain on operating models and talent, and 57 per cent of respondents feel that their teams do not have the necessary skills to deliver their organisation's procurement strategy, compared with 48 per cent last year. The talent deficit is particularly apparent in Asia and North America.

In the past, many procurement functions have been able to deliver strong savings performance by focusing on a small number of core activities – category management and strategic sourcing in particular. Now there is a need for new 'gears' to continue to climb and meet expectations, while avoiding an apparent performance plateau, or even decline.

In this report, we make a case for CPOs to broaden capabilities and transform the procurement function into a multi-speed gear box that must be:

- **Rapid:** focused on delivering results to the business as they are needed.
- **Efficient:** investing in the right number of the appropriately skilled people.
- **Innovative:** bringing insight to the business driven by analysis and input from suppliers.

As the macro environment improves, the case for change is pressing, and those procurement officers who can most effectively shift gears will be well positioned to support the acceleration of growth.

Executive summary infographic ►





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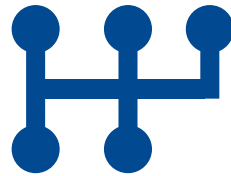
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Participating in growth



<50% of CPOs are actually participating in growth activities such as new product development and supplier innovation

Talent



57% feel their teams lack the skills needed to deliver their procurement strategy

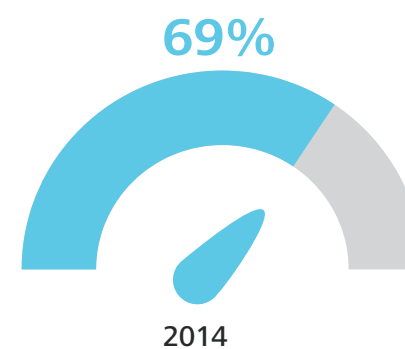
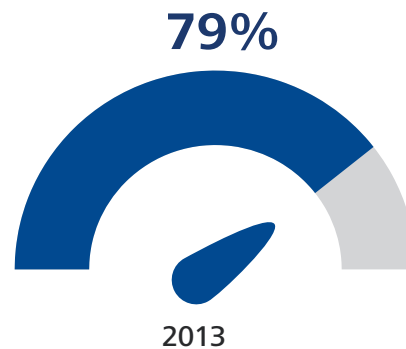
Outsourcing



16% of CPOs are looking to increase outsourcing of category management/strategic sourcing and

30% of CPOs are looking to increase outsourcing levels of operational buying

Cost focus



Although CPOs still view cost reduction as a key business strategy over the next 12 months, this figure has dropped

Market outlook ▶





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**Corporate ambitions**

The growth that we identified 12 months ago continues, particularly in the US and UK, bringing with it positive sentiment and a renewed focus on corporate expansion. However, the pattern is not universal, and weakness remains in large parts of the global economy. Germany may yet enter recession, Japan has done so and China will have its worst year since 1990.

Almost in spite of this mixed picture, overall CPO sentiment is up according to the survey results, albeit with variations across industries and geographies. The life sciences sector exhibits positive sentiment, with nearly 60 per cent reporting better prospects, while manufacturing sentiment remains in the doldrums, with these CPOs the least confident since the survey began. North American CPOs are considerably more bullish than their European counterparts, while Asian CPOs lag behind.

From a supply market perspective there is also a mixed picture reflective of the broader economic trend. Commodity prices remain weak, especially oil in light of recent OPEC instability, and it is expected that stagnation in supply markets will remain. Accordingly, CPOs should have some relief over coming months, even as their focus shifts away from cost control.

**Increased collaboration**

At many organisations the C-suite is planning for growth, and credit is historically cheap. There is a leaning towards expansionary strategies and, in many cases, diversification.

The survey shows a majority of CPOs expect companies will expand through acquisition and organic growth, and CAPEX will grow. Penetration of emerging markets remains a strong area of focus. This may mean the BRICs, MINTs, and increasingly Africa, where 15 countries are expected to grow faster than China over the next five years.

In some organisations the procurement team is expected to establish beachheads in new markets, while in others they are looked to as sources of top-line growth through product development and contribution to M&A activity.

CPOs continue to focus on consolidating their legacy supply base, but amid declining savings performance, they are increasingly willing to collaborate with suppliers and restructure relationships to create value.



"In a business where innovation and speed to market are key to competitive advantage, I need to be able to access and on-board new, high-performing suppliers very quickly, as well as robustly exit suppliers that aren't performing. To me, that's more important than slavishly following a consolidation agenda."

**Paul Bestford**, Director, Procurement at John Lewis Partnership



**Ian Stewart**  
Chief Economist  
Deloitte



**Paul Bestford**  
Director  
Procurement at John  
Lewis Partnership



**Brian Umbenhauer**  
US Leader Sourcing and  
Procurement  
Deloitte Consulting LLP



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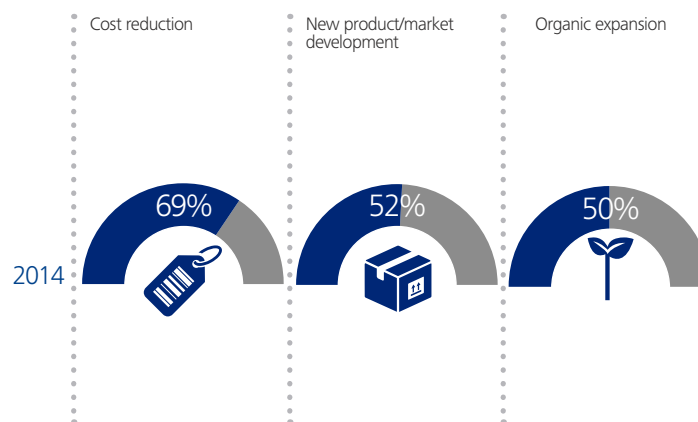
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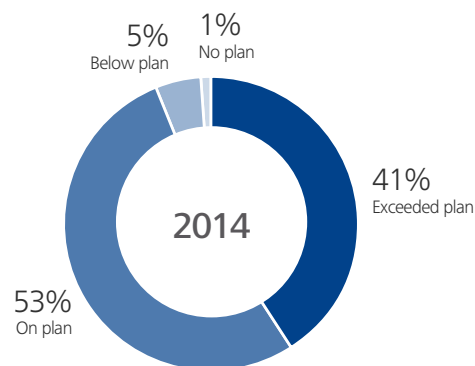
## Key findings

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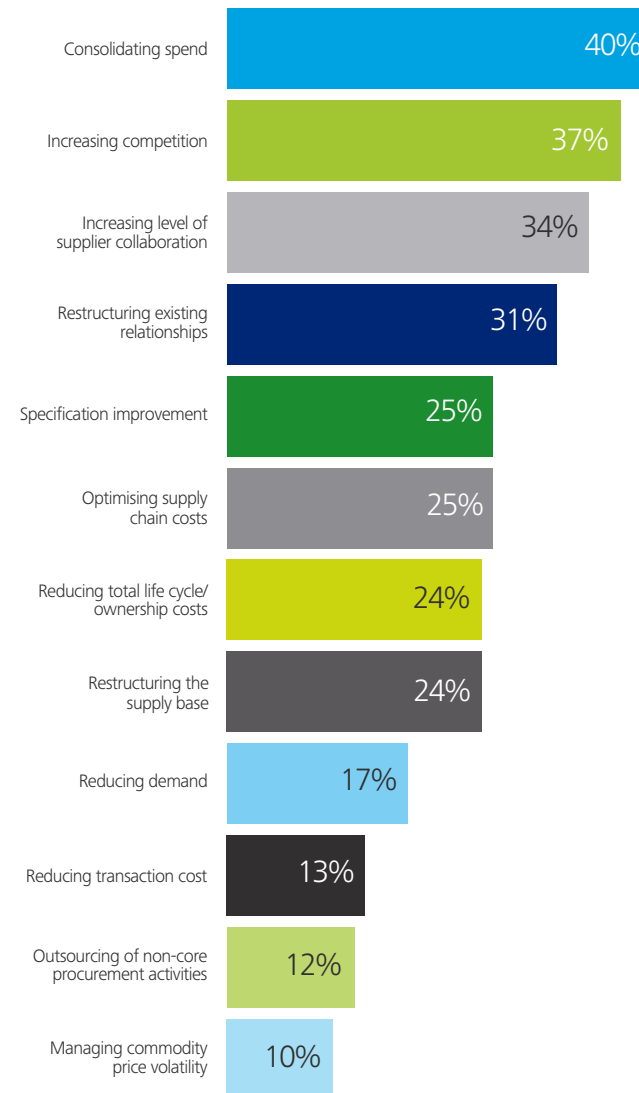
Key business strategies that CPOs view as a strong priority over the next 12 months



Procurement performance



CPOs will deploy multiple procurement levers over the next year



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# Business engagement

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### Strategic partners

Procurement has now largely awoken to the importance of business partnering. As one of the survey respondents put it last year, "Procurement has needed to get better at both standing in their customer's shoes, as well as learning to act as sales people for the contribution of the function for some time".

Some 28 per cent of procurement functions feel they are well positioned as highly regarded strategic business partners. For these organisations, there is now a strong pull for additional input to the growth agenda, and for support to navigate the risks of the current climate.

### Moving up the value chain

CPOs that act as effective business partners operate across the value chain and are increasingly seen as trusted advisors who can provide holistic cost and supply assurance.

This success has brought a new set of challenges, and CPOs are being asked to drive top line growth, bringing insight and innovation from the marketplace to the organisation. They are expected to own the lifecycle of supplier performance.

From a talent and capability point of view, requirements are changing, amid rising demand for speed, greater efficiencies and new skill sets. In some cases, a new delivery model will be required to free up time from operational processes, while enhancing the ability to deliver on new strategic areas of support that the business is looking for.

### (Some) falling short

Some 68 per cent of respondents still describe their internal influence as "mixed", suggesting they are yet to create sufficient demand for their services or are focusing on the wrong agenda.

This group overwhelmingly only measures financial performance, rather than a broader set of parameters that include risk, supplier performance, innovation and quality. In some cases the skill sets of procurement teams continue to be described as falling short, with strategy still turned towards internal procurement processes rather than driving business value.



"The one piece of advice I would give to a CPO is to understand the value that they need to add to the business. To be able to explain what they are doing and why they are doing it, in business language, not just pure supply chain or procurement language."

Malcolm Dare, Supply Chain Director,  
BAE Systems – Submarines



Dapo Ajayi  
CPO  
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Supply Chain Director  
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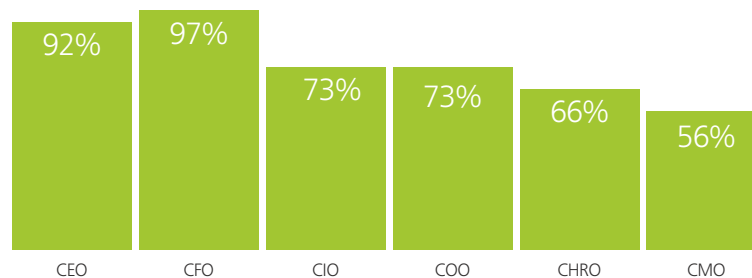
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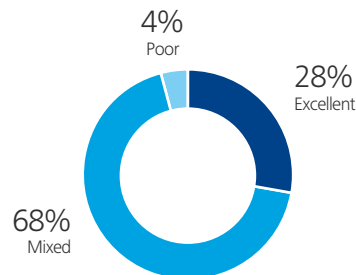
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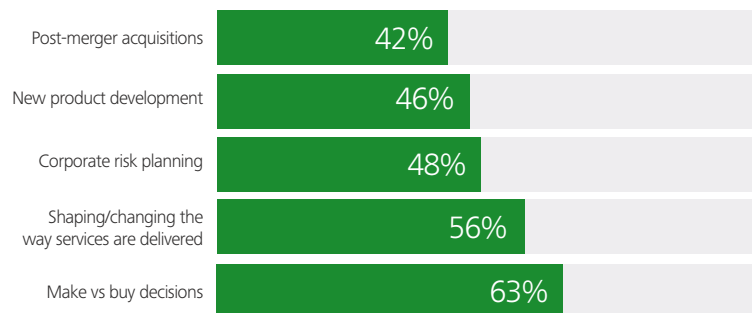
Importance of business partnering with other members of the C-suite



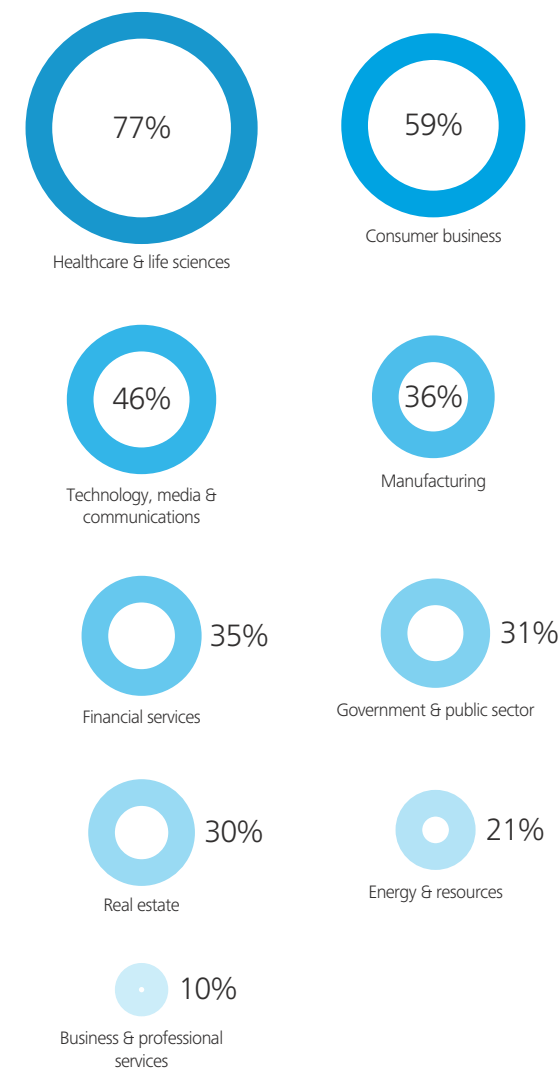
How CPOs rate the effectiveness of their procurement functions as strategic business partners



Procurement's involvement in key growth activities



Number of CPOs actively driving innovation with suppliers – average 39%



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# Talent

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### More from less

Procurement is no longer immune to broader corporate restructuring and this pressure is likely to increase as it repositions as a key partner for growth. Procurement is being asked to do more with less, and if not, then to develop additional capabilities with the same headcount.

Some 57 per cent of this year's respondents state their teams do not have the right skills to execute the CPO's vision, compared with 48 per cent last year. Soft skills such as leadership, influence, communication and relationship building are the areas seen as most lacking. There is also a requirement for pools of talent to support the analytics agenda and to enable procurement to play a role in driving innovation.

### Recruit, retrain or retain?

CPOs are presented with three possible solutions. They can recruit talent, increase or adapt training programmes, or look to the business process outsourcing market for ready-made solutions.

Recruitment continues to be a challenge, and will remain so as long as growth tops the agenda. Almost half of CPOs say the market for talent had tightened further over the past year. In emerging markets, talent can be easier to recruit but more difficult to retain. In that environment, organisations are struggling to find ways to make a return on upfront investment in new joiners.

Training may present a more effective lever. However, only 13 per cent of CPOs consider training as a top priority and, despite the desire for softer skill sets, respondents continue to invest significant budget in technical skills. The US perhaps has the best balance, with 51 per cent spent on soft skills education. In Asia-Pacific, however, 82 per cent of CPOs say their training focus is on technical skills. Reviews of training curricula and frameworks should be considered a priority.



"If something isn't done about talent across the board then there will be a real shortage in the future, and the role and function that procurement plays may be filled by other parts of the business."

Lucy Harding, Partner & Global Head of Practice, Procurement and Supply Chain, Odgers Berndtson



**Lucy Harding**  
Partner & Global  
Head of Practice  
Procurement and Supply  
Chain  
Odgers Berndtson



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## Not just purchase orders

It makes sense to outsource lower value tasks such as operational and transactional procurement with 30 per cent of CPOs looking to increase levels of outsourcing in this area in the coming 12 months. Some 21 per cent of respondents in Deloitte's outsourcing survey say outsourcing operational and transactional activities has been very effective at supporting their operations, and 46 per cent report that switching to an outsourced delivery model has been very effective in reducing operating costs.

Also highlighted by our outsourcing survey, and evident in the 2014 CPO survey results, is the extent to which outsourcing has permeated more broadly across the scope of the procurement function. Whether it's market intelligence to drive proactive opportunity generation, or facilitation of the supplier innovation pipeline, a number of CPOs continue to draw on external capability in non-traditional areas.

In addition, outsourcing is not the only alternative delivery model available. Captive global business services models are being deployed, often with procurement installed alongside functions such as IT, finance and HR. In industries such as consumer packaged goods, where expansion is a focus, some new shared services models are located in beachhead locations to support growth, and are being used as a differentiator in their own right.

Either way, the message from non-procurement stakeholders appears to be clear; make day-to-day execution ruthlessly efficient, lightning quick and invisible. There is far greater interest in where procurement can bring insight rather than process, and where the organisation invests in this capability internally, it is expecting different results.



**Dapo Ajayi**  
CPO  
AstraZeneca



**Paul Bestford**  
Director  
Procurement at John  
Lewis Partnership





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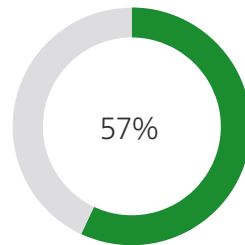
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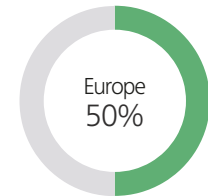
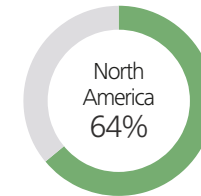
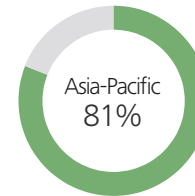
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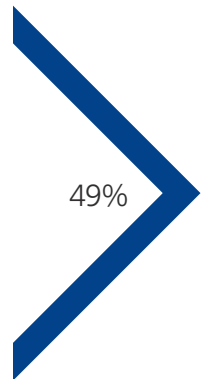
### Team effectiveness



Feel their teams lack the skills needed to deliver their procurement strategy (up from 48% in 2013)



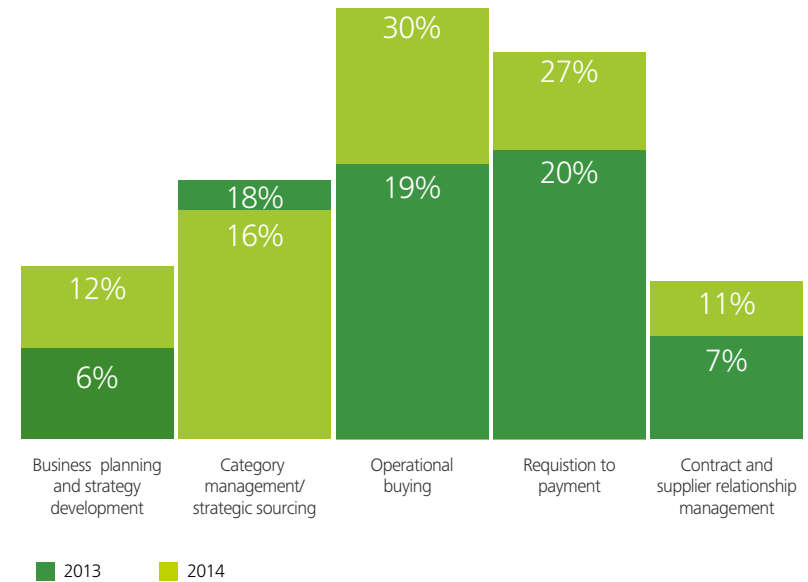
### CPOs are finding it difficult to attract talent



say the market for talent has become more constrained

### Sourcing talent

The number of CPOs looking to increase levels of outsourcing has grown from 2013



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# Risk

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### Shifting sands

The perception of risk is rising. Some 25 per cent of respondents, for example, are concerned over geo-political risk, compared with seven per cent last year.

With the struggle in Ukraine, civil war in Syria, the rise of Islamic fundamentalism in Nigeria and the ongoing Ebola outbreak in West Africa, supply chain risk has undoubtedly increased for many. From retailers who can't ship products to stores in previously benign locations to energy firms grappling with sanctions and OPEC.

In parallel, the business' appetite for risk has expanded along with aspirations of growth: Deloitte's most recent CFO Survey shows finance leaders are keen to increase risk exposure to boost returns.

### Risk management

The survey results show just half of CPOs play an active role in the wider risk management process, and their level of investment in related technologies and processes remains low. Unsurprisingly, the primary approach to risk management is to address risk during the supplier pre-qualification and on-boarding phase, with some 77 per cent using this approach. Less than 20 per cent use predictive analytics to assess potential supply-side risks, suggesting there is room for greater proactivity to mitigate risk events.

From the desire to grow into emerging markets, to exploring new forms of supplier relationships, the sources of potential supply disruption the CPO needs to mitigate are varied. From Deloitte's own experience of supporting risk mitigation and supply chain management, when crises are unpicked, the single biggest shortcoming in procurement is the lack of proactive planning.

### Mitigation and insight

CPOs should ensure that they invest sufficiently in identifying suppliers critical to brand and business continuity, and those most likely to fail. With limited capacity, efforts should be focused on suppliers that cannot easily be replaced. At a minimum, CPOs should look to provide teams with training to identify symptoms of financial distress and enable them to access relevant support.

More advanced solutions draw on data and analytics for systematic predictive capabilities. One such approach is the unified view of the supplier (UVS), which brings together integrated financial, operational, quality, performance and risk information, and overlays internal and external sources of data. Organisations pioneering this approach are drawing connections between previously isolated warning points (invoice queries, quality defects, late shipments) to flag potential failures. This analysis can also then be used to drive insight and innovation into commercial discussions.



"What stood out for me is the acknowledgement of geopolitical risk amongst CPOs. This aligns with sentiment across other C-level executives, and recognises what we do feel are heightened levels of geopolitical uncertainty."

Ian Stewart, Chief Economist, Deloitte



**Malcolm Dare**  
Supply Chain Director  
BAE Systems –  
Submarines



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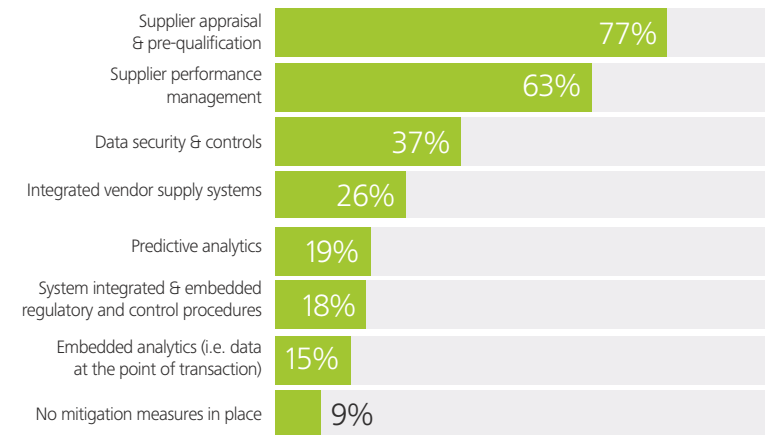
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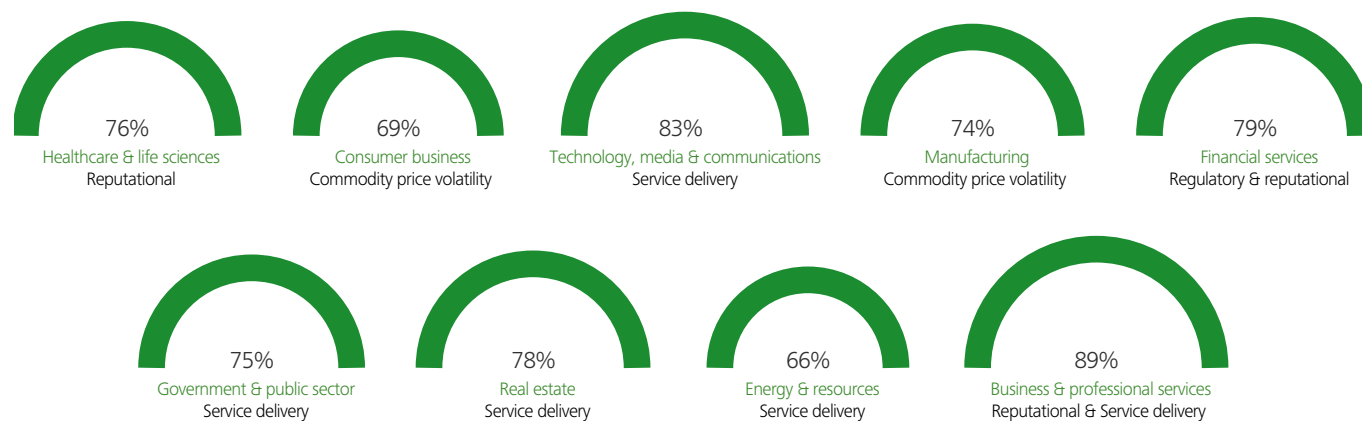
### A changing risk landscape



### Mitigation mechanisms in place for risk management



### Top risks by industry





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## Aspiration meets reality

CPOs are keen to invest in technology but are often restrained by challenges of integration, and in particular, the enterprise resource planning (ERP) landscape. Almost in contrast to the business stakeholders' desire for a more innovative and value creating procurement function, the CPO's technology focus appears to remain on improving requisition to purchase order capabilities.

There are also high levels of concern about user-experience in relation to procurement systems, with 53 per cent of respondents recognising a need for improvement. This challenge increases in larger organisations – 62 per cent for those with greater than \$50bn in turnover.

It may be that procurement suffers because of ongoing organisational challenges with creating a stable ERP platform. It is also likely that there remain shortcomings within the offerings available from the supply market, particularly when it comes to speed, efficiency, and user experience. Either way, there is certainly a disconnect between where we feel procurement should be investing and where it is currently investing.

## Investment

There are some promising signs that CPOs recognise how technology can support positioning of procurement up the value chain. Almost two thirds of CPOs are investing in supplier portals, whilst 17 per cent (largely manufacturing-focused) are working with partners to deliver product collaboration tools.

However, CPOs are far from the technological cutting edge. Those areas which Deloitte's 2014 CIO Survey calls out as being front and centre for the most senior technology executives – analytics, cloud computing, social media and digital – all feature very low on procurement leaders' list of priorities. Social networking attracts attention from a mere six per cent of CPOs, while 26 per cent are assessing the cloud. Half of respondents believe that the most basic spend analytics do not currently meet their needs.

Analytics tools tend to be focused on historical data rather than on applications that can deliver real-time insights, and most CPOs say they either solely or predominately use historical analytics. Many face barriers to further adoption of tools, including poor systems adoption and limited buy-in from senior stakeholders.



"One of the areas that surprised me most about the survey was that, despite our ambitions to be investing in technology that is going to support us in terms of driving spend analytics and more foresight, we are all still investing a lot of our resources in implementation of P2P and ERP integration."

Dapo Ajayi, CPO, AstraZeneca



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## Procurement 2.0

A new approach to procurement technology is required, based on a portfolio of solutions, to allow procurement organisations to manage scale and complexity for greater value delivery.

In basic systems of record, such as requisition to pay, common standards are critical, and on-premise solutions are likely to be required. At the opposite end of the scale are systems of innovation, enabling procurement to meet demand for rapid insight, distributed proactively to support growth. Such systems can be cloud-based, and need to be deployed to ensure rapid adoption of new concepts.

The most important thing with any new approach or tool is to start small; to run a test case before scaling up. CPOs need to show their capabilities in a business critical area, where real impact can be felt. Point solutions, often low cost and rapidly put in place, provide another opportunity for procurement to demonstrate its ability to drive delivery up the value chain from its traditional areas of accountability.



**Dapo Ajayi**  
CPO  
AstraZeneca



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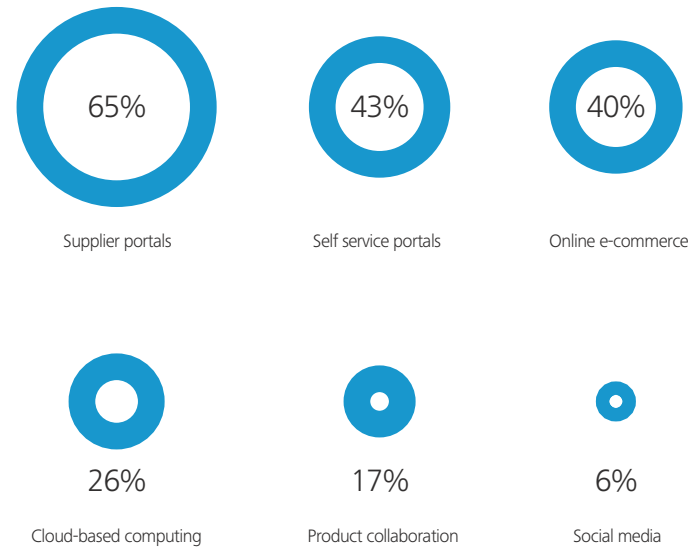
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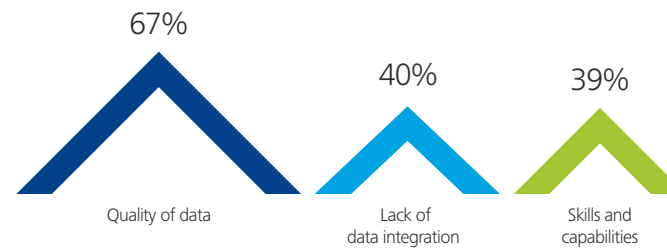
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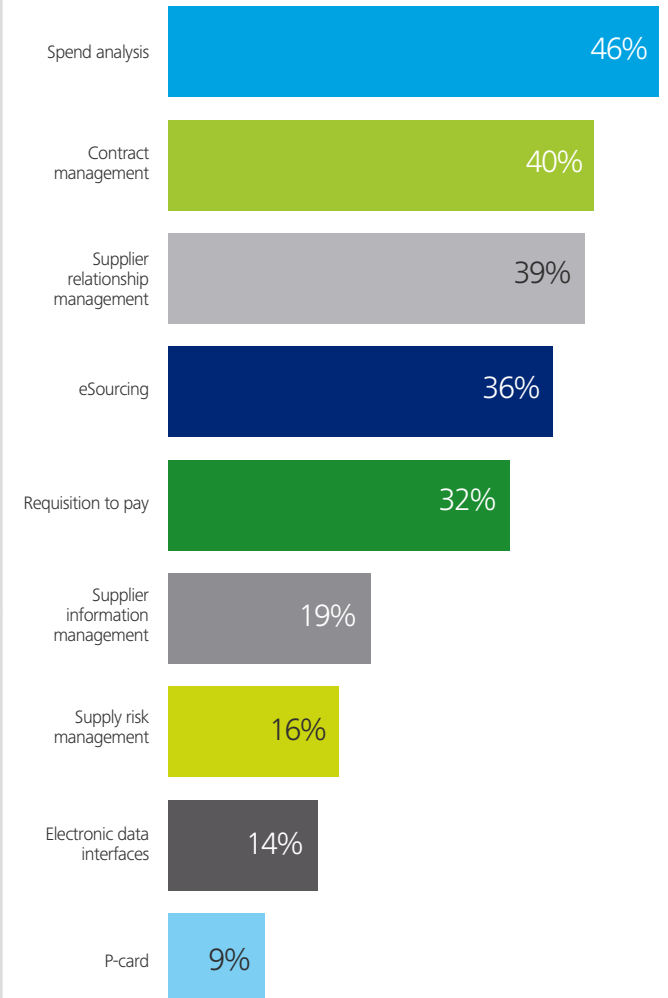
Technologies CPOs are currently investing in



Barriers to use of effective analytics



Areas most likely to receive investment over the next 12 months



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### Manufacturing



### Financial services



### Government & public sector



### Consumer business



### Technology, media & telecommunications



### Business & professional services



### Energy & resources



### Healthcare & life sciences



### Real estate



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### Manufacturing



#### Manufacturing



##### More likely to:

- Be experiencing greater levels of external financial and economic uncertainty than in previous years
- Factor tax into procurement organisation design

##### Less likely to:

- Be optimistic about the financial prospects for their organisations
- Invest in supplier relationship management technology over the next 12 months

### Consumer business



### Energy & resources



### Healthcare & life sciences



### Real estate



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### Manufacturing



### Financial services



### Government & public sector



### Consumer business



#### Financial services



##### More likely to:

- Be more confident about financial prospects for the next 12 months
- Be fully involved in risk management and mitigation as a procurement function

##### Less likely to:

- Have technology and systems in place to support supplier performance management
- Be expecting their organisations to expand through acquisition over the next 12 months

### Professional



### Energy & resources





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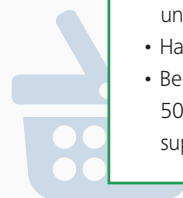
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# Industries Key findings

Manufacturing



Consumer business



Energy & resources



Healthcare & life sciences



Government & public sector



Business & professional services



Real estate



## Government & public sector



### More likely to:

- Be looking to reduce the size of their procurement organisation over the next 12 months
- See cost reduction as a key strategy for the coming 12 months
- Be looking to dispose of assets over the next 12 months

### Less likely to:

- Be looking to increase levels of collaboration with their suppliers
- Be facing high levels of external financial and economic uncertainty
- Have met or exceeded their saving plans over the last year
- Be looking to invest in mitigating supplier risk – despite 50% of public sector respondents indicating concerns over supply due to potential supplier insolvencies



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### Financial services



### Government & public sector



### Consumer business



#### Consumer business

##### More likely to:

- Rate their procurement organisations as 'excellent' strategic business partners
- Be looking to drive innovation with their suppliers
- Invest heavily in supplier relationship management technology over the next 12 months
- Play an active role in make vs. buy decisions
- Be expecting their organisations to expand through acquisition over the next 12 months



##### Less likely to:

- Be focused on mitigating regulatory risks

### professional



### Energy & resources



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### Manufacturing



### Financial services



### Government & public sector



### Consumer business



### Technology, media & telecommunications



### Business & professional services



### Energy & resources



#### Technology, media & telecommunications



##### More likely to:

- Be driving innovation with their suppliers over the coming year
- Feel their teams have the skills and capabilities to deliver their procurement strategy
- Be executing strategies to increase their cash flow over the coming 12 months
- Report data quality as a key barrier to analytics

##### Less likely to:

- Be looking to increase levels of collaboration with their suppliers



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### Manufacturing



### Financial services



### Government & public sector



### Consumer business



#### Business & professional services



##### More likely to:

- Be expecting their organisations to expand organically over the next 12 months
- Feel that their teams do not have the required skills and capabilities to deliver their procurement strategy
- See attracting talent as a key priority over the next 12 months
- Invest heavily in mitigating supplier risk over the next 12 months
- Use predictive analytics to mitigate risk than across other industries

##### Less likely to:

- Feel that their organisation has the technology in place to give the procurement function adequate spend visibility
- Invest in supplier portals over the next 12 months

### Business & professional services



### Energy & resources



### Real estate



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### Consumer business



### Technology, media & telecommunications



### Business & professional services



### Energy & resources



#### Energy & resources



##### More likely to:

- Be looking to reduce the size of their procurement organisations over the next 12 months
- Increase their levels of capital expenditure over the coming year
- Feel that the technology solutions they have in place meet the usability needs of their procurement functions
- Play an active role in decision making to determine the way that services are delivered within their organisations
- Employ widespread use of both historical and predictive analytics across their organisations

##### Less likely to:

- Be looking to consolidate their spend over the next 12 months
- Be driving innovation with their suppliers
- Be expecting their organisations to grow organically over the next 12 months



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### Consumer business



### Technology, media & telecommunications



### Energy & resources



### Healthcare & life sciences



#### Healthcare & life sciences



##### More likely to:

- Be expecting their organisations to expand through acquisition over the next 12 months
- Be looking to expand by introducing new products and services or enter new markets over the next year
- Suggest that their procurement organisations perform poorly as a strategic business partner
- Be expecting to invest in analytics over the next 12 months

##### Less likely to:

- Be concerned about procurement related risk
- Feel that their teams have the required skills and capabilities to deliver their procurement strategies
- See cost reduction as a key strategy for the coming 12 months





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### Technology, media & telecommunications



### Business & professional services



### Energy & resources



### Real estate

#### More likely to:

- Be looking to grow their procurement organisations
- Feel that their organisation has the technology in place to give the procurement function adequate spend visibility
- Focus on mitigating service delivery risks

#### Less likely to:

- Invest in online ecommerce technologies in the coming year



### Real estate



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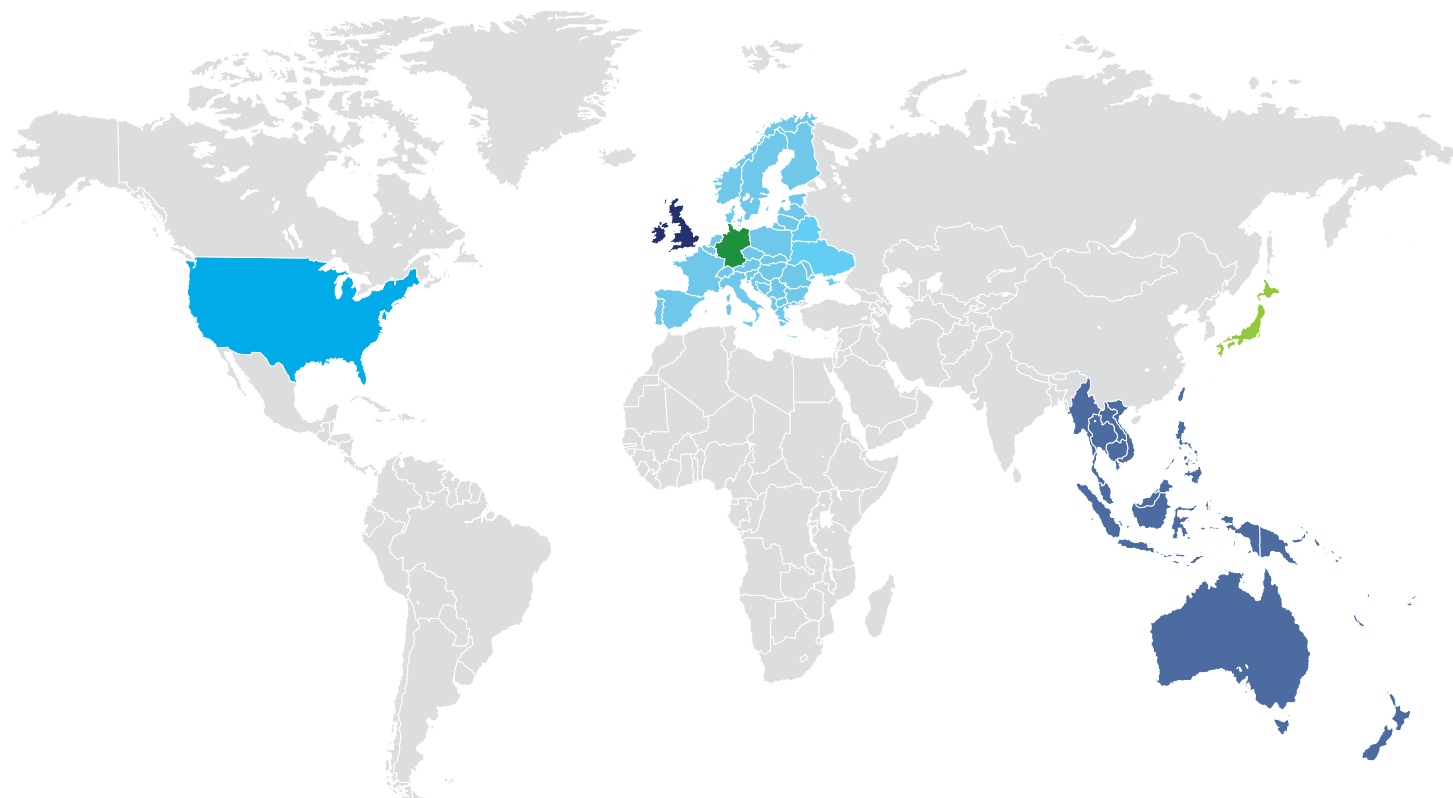
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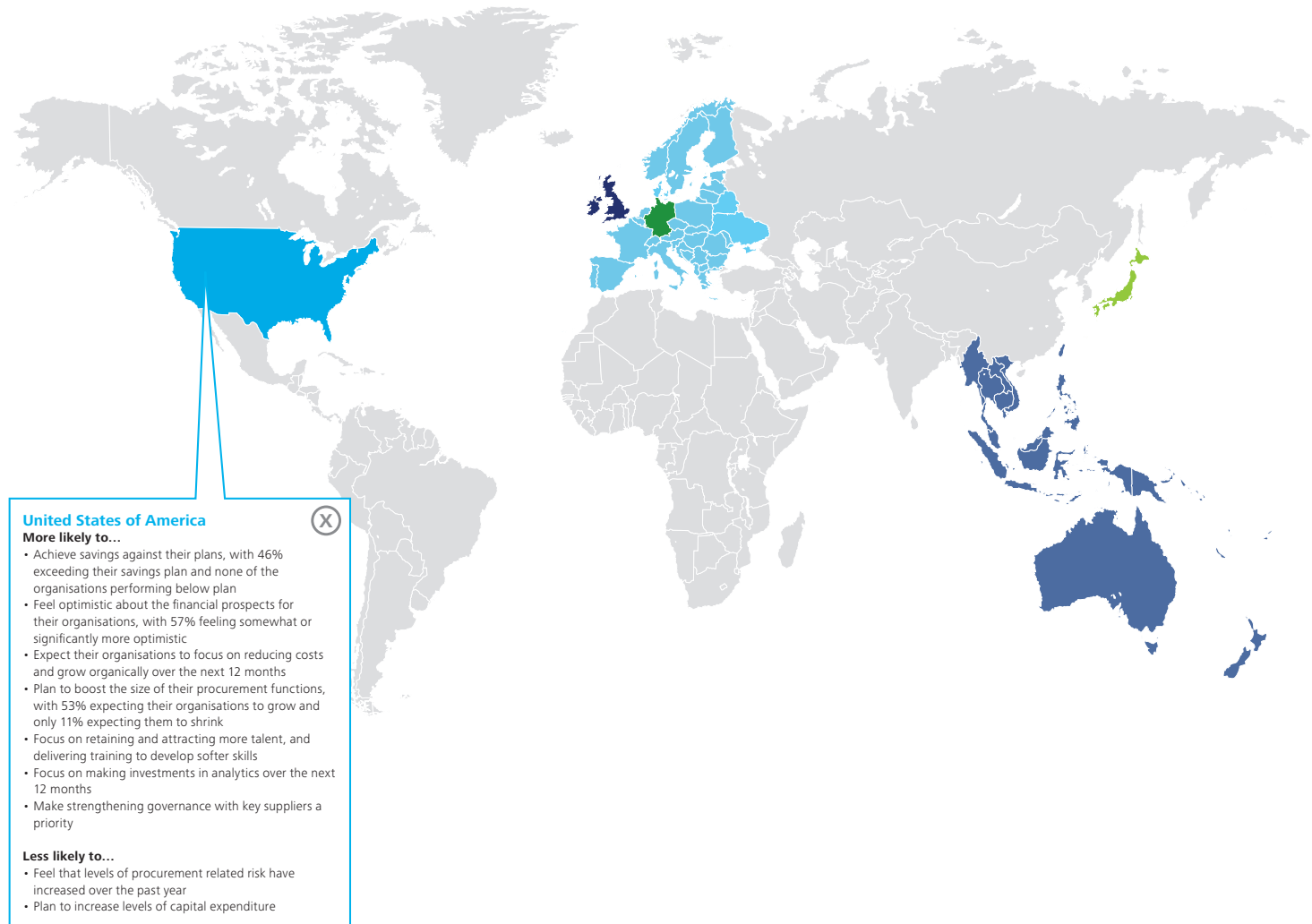
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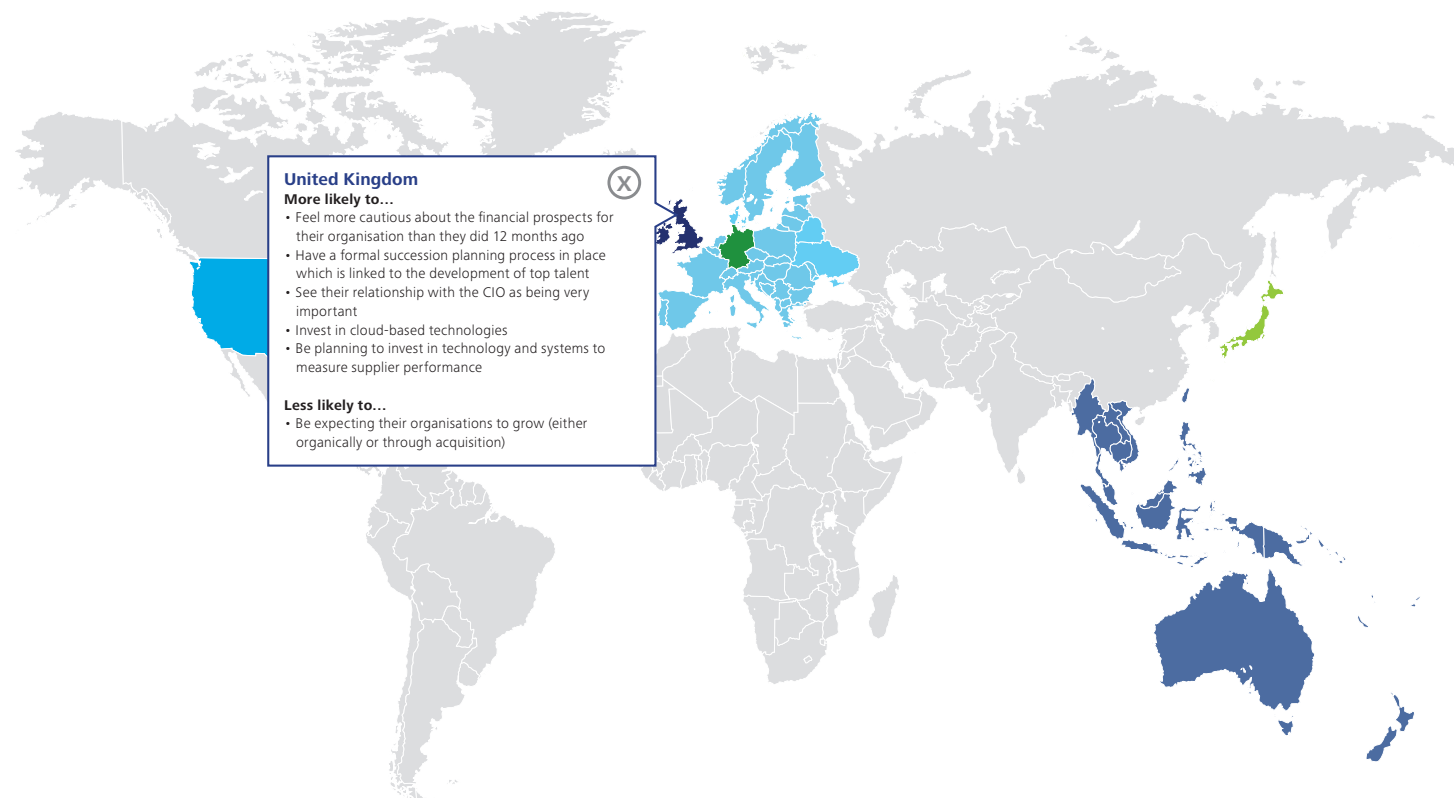
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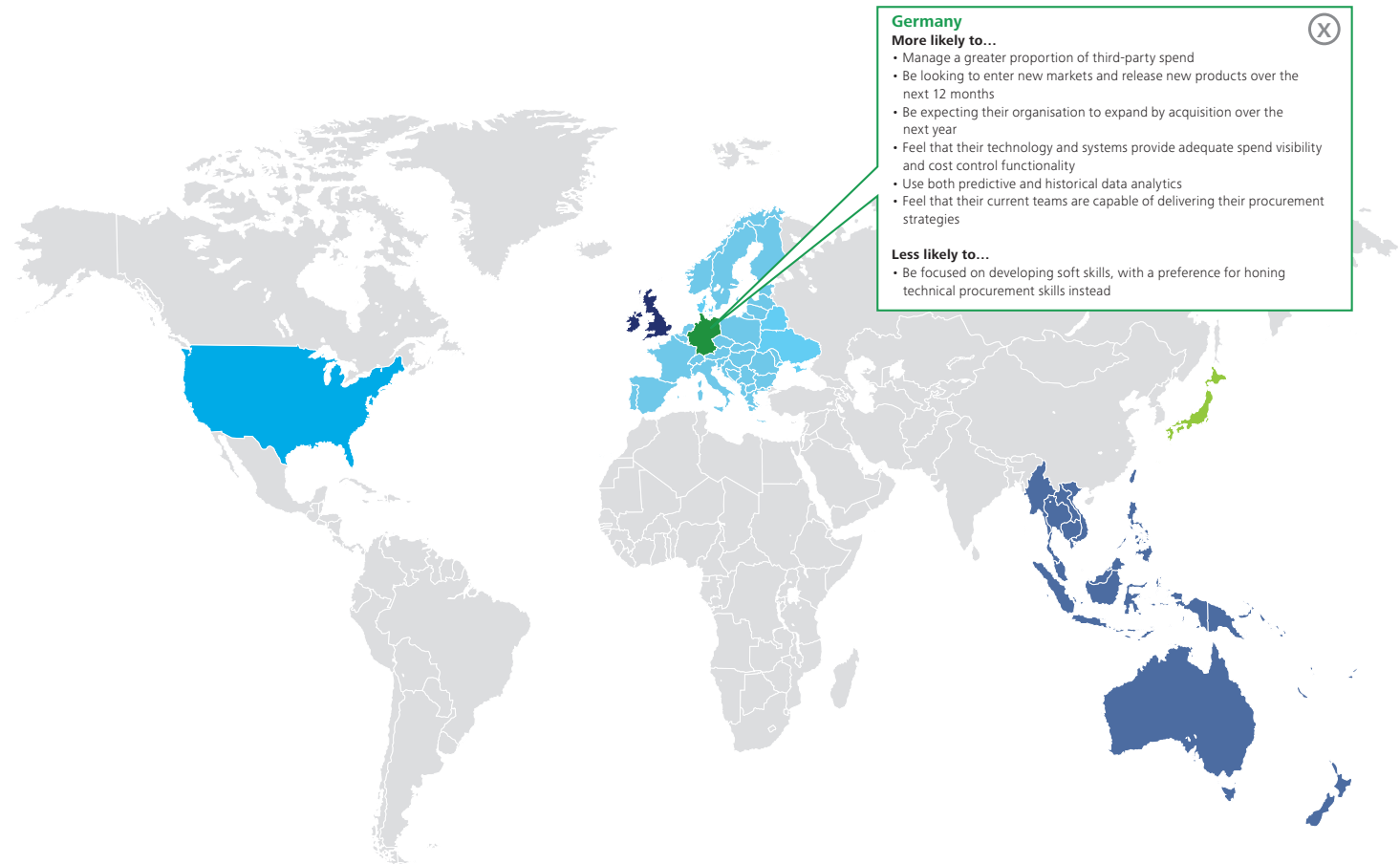
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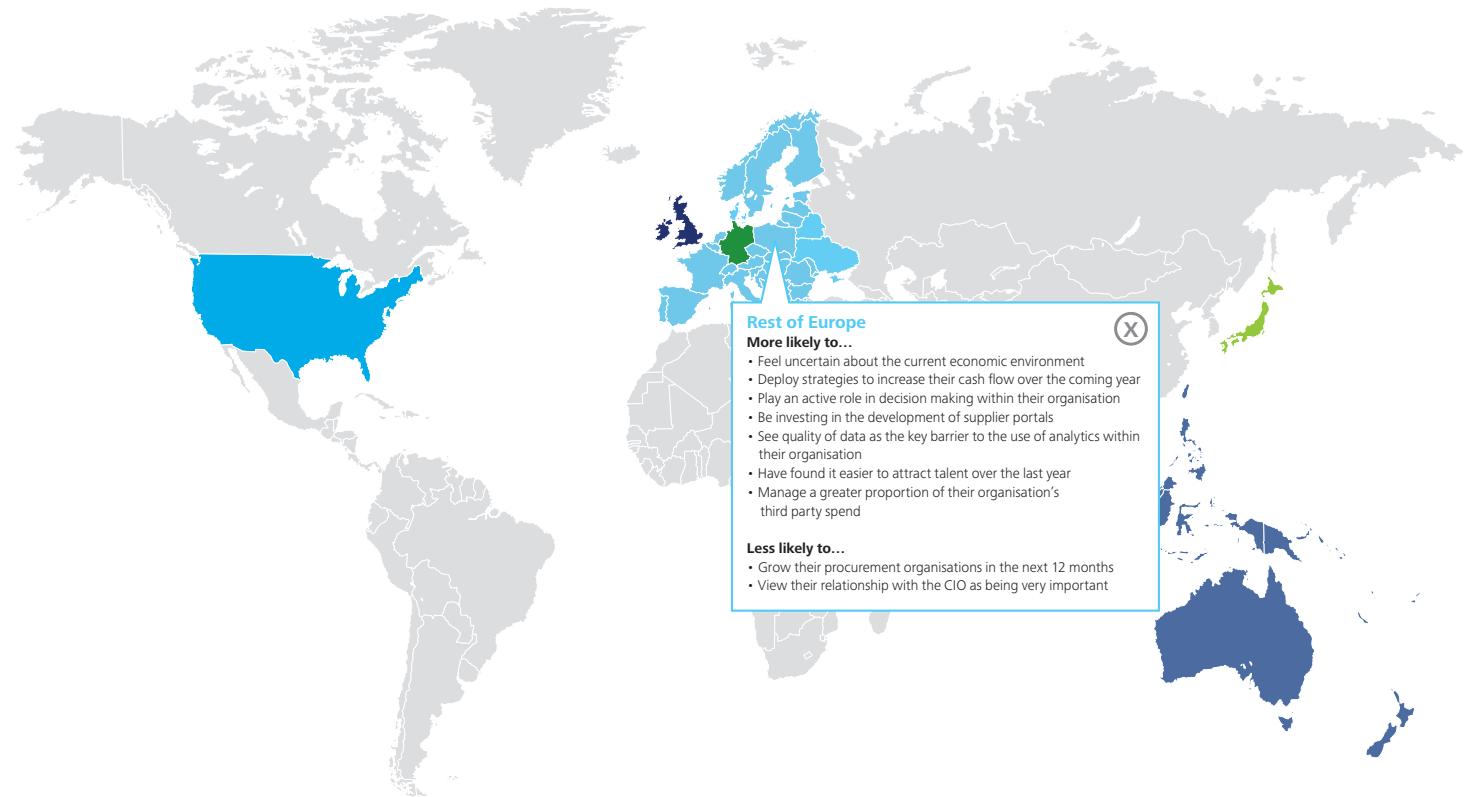
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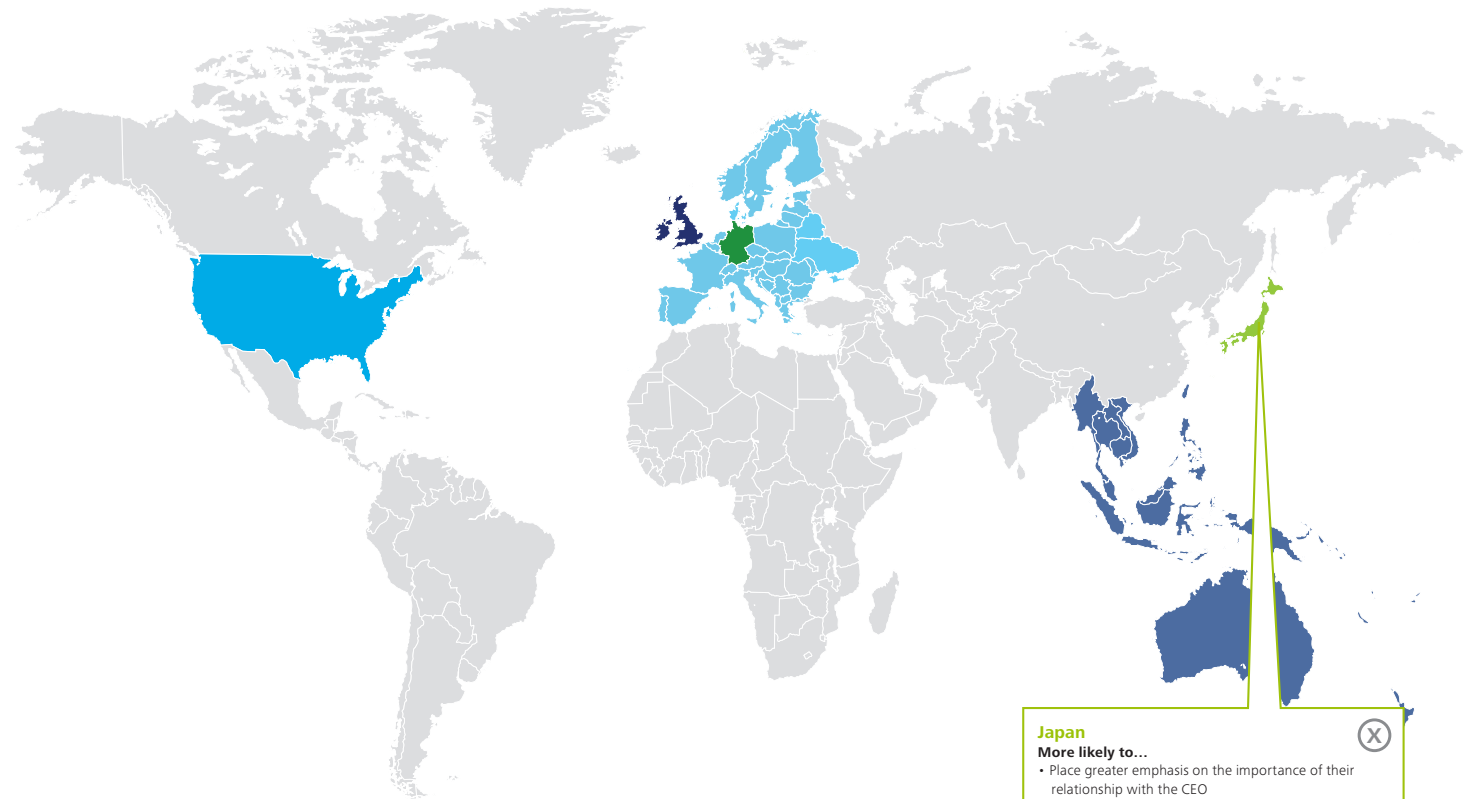
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### Japan

#### More likely to...

- Place greater emphasis on the importance of their relationship with the CEO
- Feel that their current technology solutions do not provide adequate levels of spend visibility
- Use predictive analytics to mitigate risk

#### Less likely to...

- Focus on soft skills training (with a much greater emphasis on building technical procurement knowledge)
- Expect their organisations to expand, either through acquisition or organic growth over the coming year



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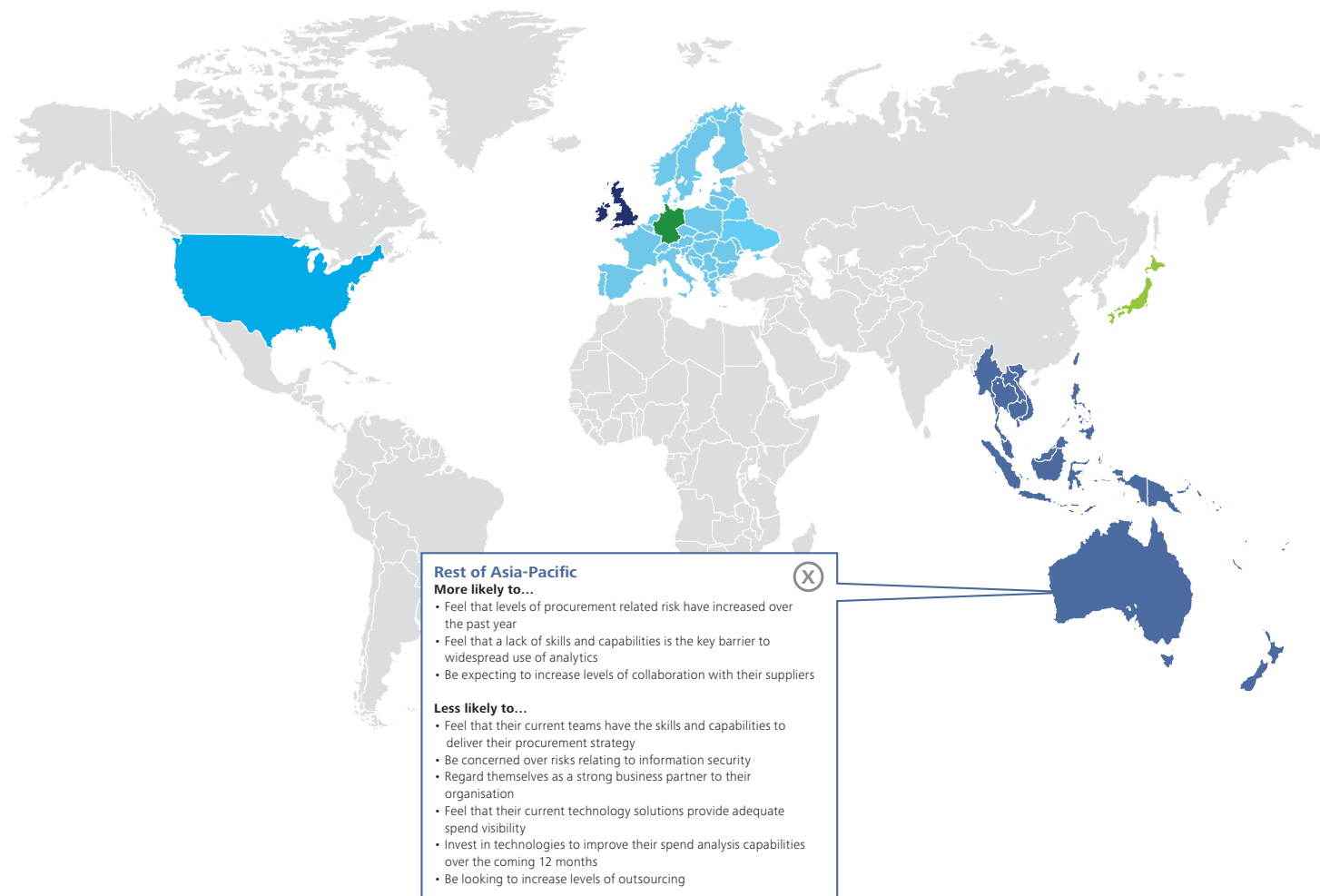
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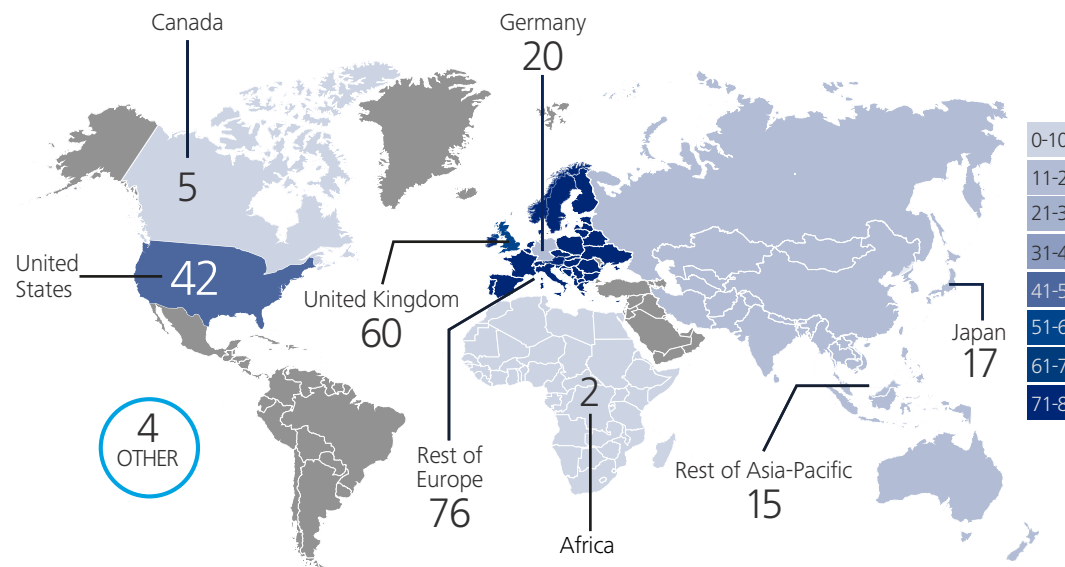
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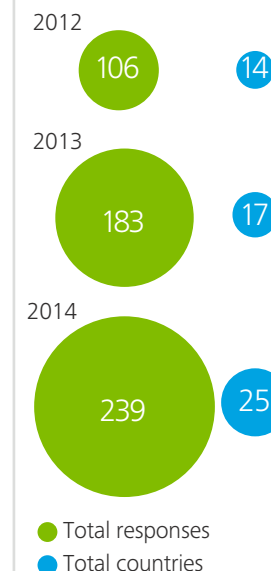
# About the participants

## Responses by geography

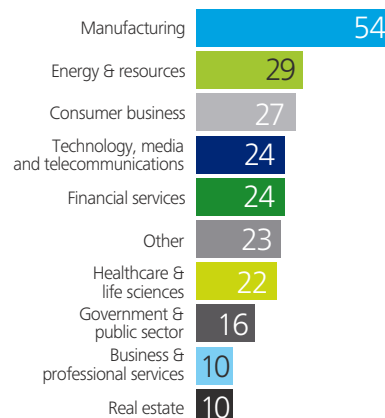
The 2014 survey combines opinions of 239 procurement leaders from across the world



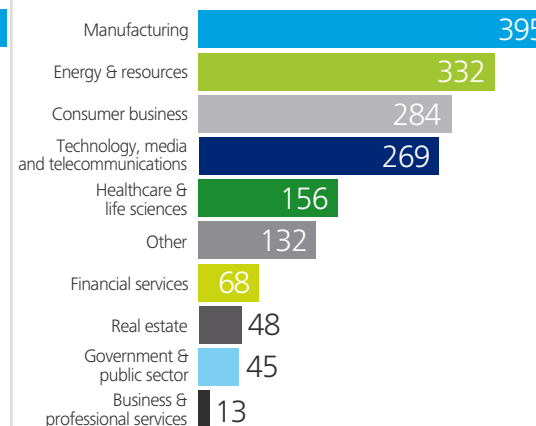
## Response rate year-on-year



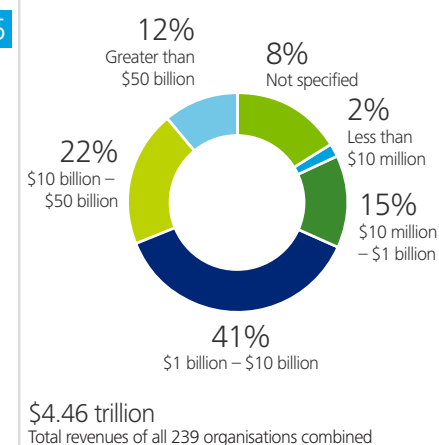
## Responses by industry



## Third-party spend managed by industry (\$bn)



## Responses by organisation revenues



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