



PROFIT

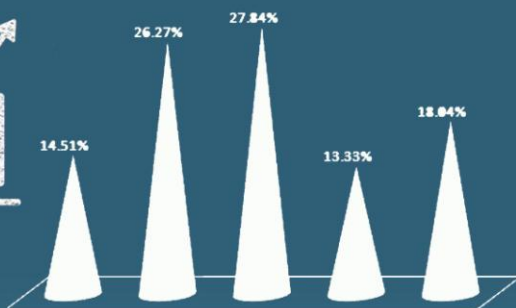
management

Procurement Trends

2016

MARKET

Developing  
STRATEGIES  
and  
PLANS



IDEA

**1. Objective:** Trends are forces that tend to **define events for the future**. These trends will define our talent needs, organization structures, processes, systems and strategies for the future. The key to success for our organizations is analysis of the trends to translate them into trends for procurement and supply chain management.

**2. Economic Scenario:** The biggest story in the latter half of 2015 was the decline of crude oil prices. The oil price reduction has been a product of increased supply (especially from non-OPEC producers, including the US Shale gas producers), geo-political considerations as well as lower demand due to the economic slowdown.

Lower oil prices will have a direct impact on commodity prices, especially on commodities derived from hydrocarbons such as Natural Gas Liquids (NGLs). This will impact industrial manufacturing, plastic products, chemicals industries and the transportation sector. Buyers of these industries will be demanding their suppliers to pass on the benefits of cost reductions to them.

**As per the IMF, India is among the few bright spots in the global economy. Its economy is expected to grow by nearly 7.5%.**

**3. Key Megatrends:** This is based on the input provided by 125 large and medium companies in India from different regions and sectors. In our analysis of the trends, we have determined 10 key trends for Procurement and supply chain. They are:

### **3.1. From Cost Focus to Value Focus:**

Traditionally the procurement function has continued to focus on bottom line. **The cost is still the dominant focus in smaller companies but in bigger companies, the key differentiator is the value added.** Differentiation



strategy covers wide range of attributes in terms of innovation, quality etc. to add value. In short the procurement is being seen as “Value Center”.



### **3.2. Moving from Tactical to Strategic Sourcing:**

It is fair to call last decade **transformational for procurement as a function**. While this transformation is happening at a functional level but behind the curtains most procurement organizations are still busy addressing what is commonly considered to be tactical work: responding to contract requests, managing supplier communications, running RFPs, and preparing supplier scorecards.

**The shift from a tactical mindset to new roles is quite a challenging** and requires appropriate team members and training to bridge the skill gaps. Many organizations are **re-tooling the operating model** to implement the vital role i.e. strategic sourcing. In some companies, the procurement still carries the stigma that procurement is tactical.



### **3.3. Supplier Relationship Management is becoming a core competency:**

Nearly all the procurement organizations have a stated intent and commitment to do more in the area of supplier relationship management. Without SRM, negotiated savings may never be realized. Supplier Relationship Management (SRM) is first and foremost of an approach used for engaging with suppliers on a level that reflects the priorities of the customer organization and how best these needs can be achieved.

In the traditional procurement, **Suppliers may see procurement as just negotiating**, i.e. not involved in the real business. As a result, they may not make their best effort going forward, let alone be proactive in offering innovative suggestions. However **SRM is focused on joint growth and value creation with a limited number of key suppliers based on trust, open communication, empathy and a win-win orientation**.



### **3.4. Technology & Tools to improve processes:**

A combination of different market pressures is creating an expectation on the part of organizations to be able to transact in smaller volumes, just in time. Whether internally within an organization's own procurement

department or through an e-procurement facility, organizations are also demanding end-to-end and self-service capabilities.

Inevitably, once the manual processes of procurement were converted to an electronic format in the 1990s, companies began to reap the enormous cost and time savings of automated quoting systems, tracking ability from vendor to delivery, and electronic invoicing and payment. Now, having bedded down these enhanced efficiencies and levels of control, businesses are looking to exploit e-procurement to its fullest potential by increasing the scale of products and geographies, as well as the extent of the integration, but reducing the volumes they buy through a just-in-time approach.



### 3.5. Shortened and more complex product life cycles:

Today's business world is all about speed-to-market. This applies to how quickly new and unique products can be designed, manufactured and delivered to end-users via distributors and retailers, but also includes the discontinuation of 'old' products. Both processes place a great deal of pressure on logistics processes to adapt and change accordingly.



### 3.6. From Data Management to Data Analysis:

We are living in a data driven world and companies today are inundated with constant data streams that need to be managed, analyzed, and executed in order to be of any value. For procurement professionals, the ability to analyze spends and other procurement data – in effect, to connect the dots – is critical for organizational success. When “Big Data for Procurement” is properly analyzed, it can yield actionable business intelligence by identifying trends and correlations that cannot be found with traditional data analysis tools and methods. Being able to analyze and leverage Big Data is what sets Best-in-Class procurement organizations apart from all others. But with organizations automating processes like procure-to-pay, they are facilitating a more strategic environment for all. They are encouraging their staff to move from data management to data analysis, where they can deliver true value for their departments and or customers – a win for all.



### 3.7. Globalization to improve quality and reduce cost:

The landscape of business has greatly changed over the recent years. The role of procurement within global companies has changed dramatically from that of simply buying goods and services to overseeing an integrated set of management functions.

Off shoring and the increased emphasis on specialization and fragmentation of production have enhanced the strategic character of procurement decisions. Global sourcing is creating many new opportunities for value creation, which well-run companies are taking advantage of. Increasingly, procurement decisions have become intertwined with strategic management in general.

A spurt of technological progress, business globalization and innovations, changing nature of competition, economic pressure all together are forcing companies to redefine procurement role.



### 3.8. Improved Procurement & Sourcing Skills:

Organizations are beginning to recognize the need for advanced procurement, sourcing and supplier relationship management skills among their staff. Many of these businesses are re-evaluating their current internal supply chain capabilities and moving away from hiring people with basic and intermediate skills, and towards looking for talent with specialist expertise.

These capabilities now include skills in areas such as sustainability, supplier collaboration, relationship management, performance management, analytics and financial procurement. In the next few years, more and more organizations will start to develop advanced supply chain and leadership strategies as a competitive advantage, which include strategy and change management, analytics, performance management and supplier relationship management. The result is that organizations are themselves growing far more savvy, and it's important for supply chain service providers to remain close to their client's strategic plans in order to provide valuable input and feedback during the early stages of decision-making.



### 3.9. Business strategy alignment with all links in the supply chain:

In today's fast-paced and customer-oriented business environment, superior supply chain performance is a prerequisite to getting and staying competitive. In the past, the "to be" of transformation, the transformed enterprise, had a life expectancy of a few years. Currently, business leaders are demanding more from their supply chains, most predominantly — competitive advantage. Thus, supply chain professionals become focused on the daily operations and tend to fall back to business as usual. Many strategic sourcing / supply chain organizations are burdened by the task at hand and thus, lose sight of the bigger picture. This is a more significant tendency in organizations where people tend to identify more with their function, rather than with their company's goals to improve the competitiveness and profitability of the end product.

One of the biggest failure points in aligning strategy is when the supply chain organization does not know what to align with. Strategies can't be too limited and fail to consider and prioritize all the market requirements and factors on which participants compete (features, price, delivery, etc). Corporate strategy needs to define how you are going to be different and better than your competitors, and it needs to set specific, measurable goals. Then the strategy needs to be communicated to the organization thoroughly and repeatedly.



### 3.10. Risk Management:



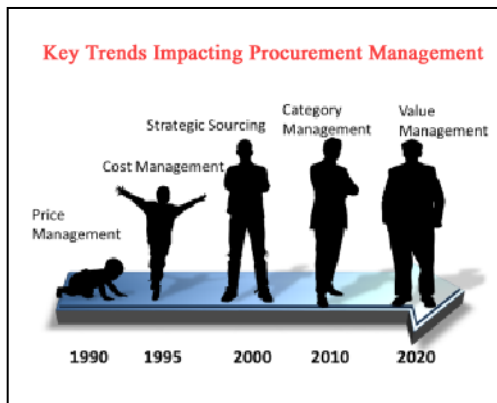
Risk Management continues to be an important topic for many organizations. Supply chains have become more global, complex, and interwoven. Businesses today are open to a variety of threats that historically may not have been as impactful to their supply chain.

Today's supply chains involve hundreds, even thousands of suppliers, from around the world. Not only does this leave companies highly susceptible to risk, but it also makes multitier transparency nearly impossible. In a SURVEY conducted by us companies with predominantly global supply chains, have

indicated supply chain visibility as a high priority. Predictive analytics is playing a major role in helping companies manage reduce and risk.

#### 4. Developing Strategies for Success:

Procurement has been evolving to keep pace with the changing trends. We have seen many companies struggle to keep up—those who make the investment to develop skills and improve processes succeed. The procurement profession has made tremendous leads moving from simply price management to a version of sophisticated strategic category management. When you look to the future, it becomes very clear that we will move away from category management into supply chain value management.



There is an accelerating trend towards greater integration of supply chains in terms of demand and supply management, new product development, lean production and shorter product lifecycles. This is being driven by the need to respond quickly to the trends and requirements of ever more demanding customers and consumers.

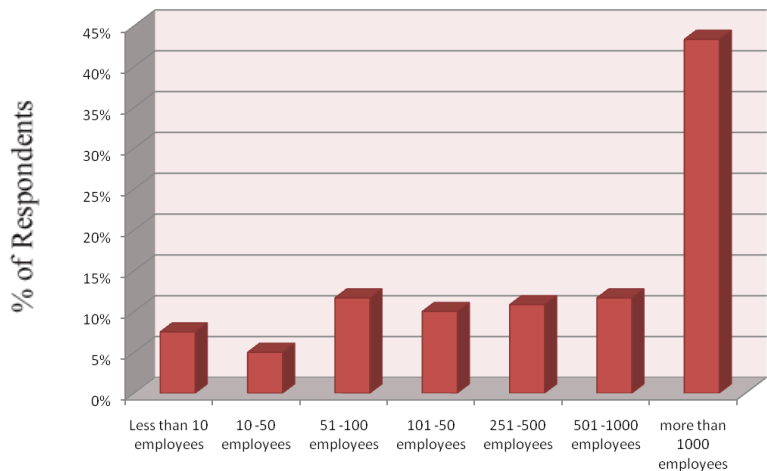
While it's true no one can predict the future, ignoring the megatrends could lead to a serious competitive disadvantage, new more agile competitors, declining market share and potential failure.

As we see it, it is essential to move from a customer/supplier relationship to an integrated supply chain focus. While some companies have made the leap and lead their industries, others are still back in the price management focus.

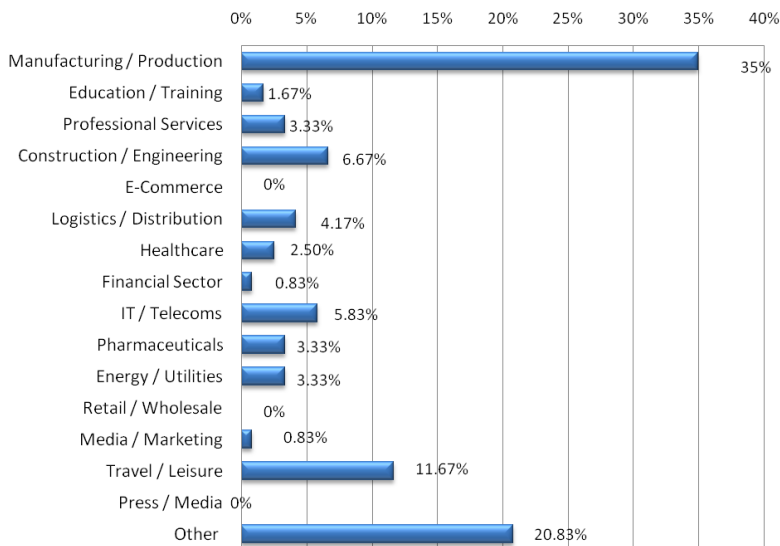


## 5. Overview of Survey Questions & Feedback:

### 5.1. Size of Organization.

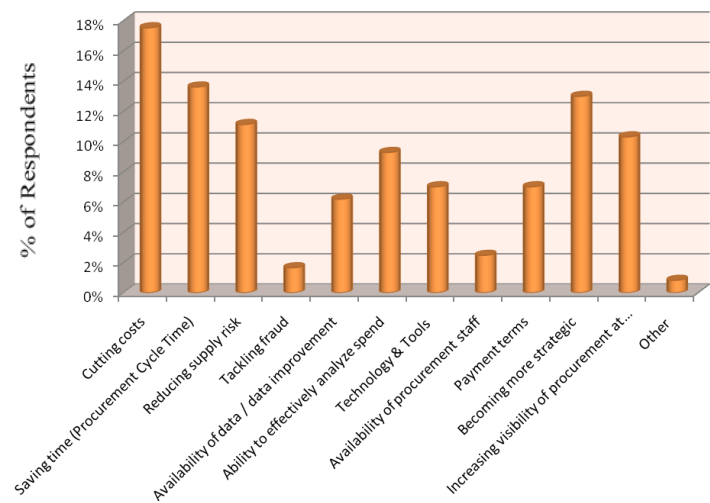


### 5.2. Industrial sector.

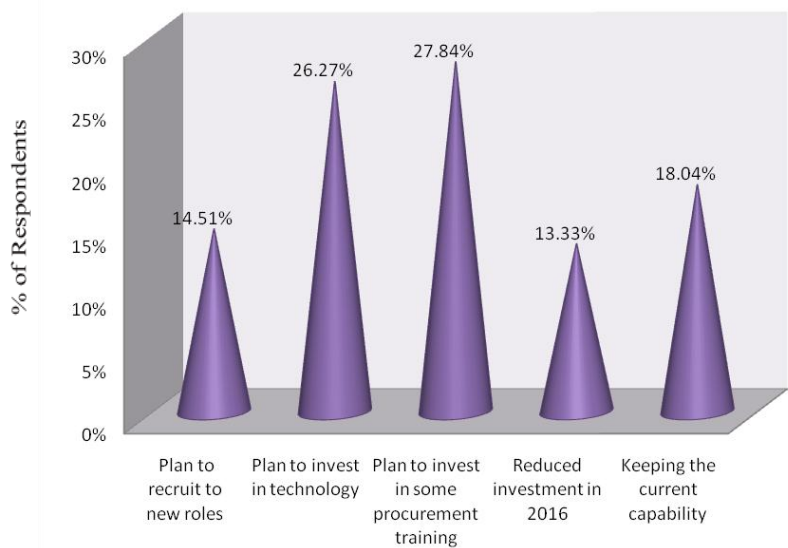




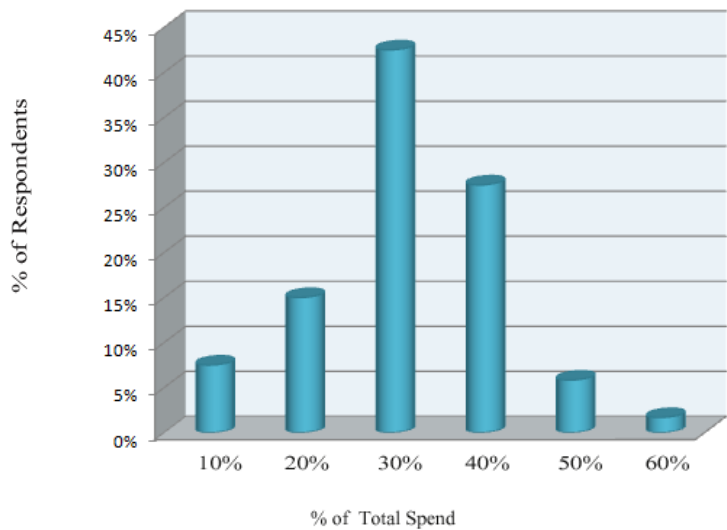
### 5.3. Key Drivers of Procurement Function.



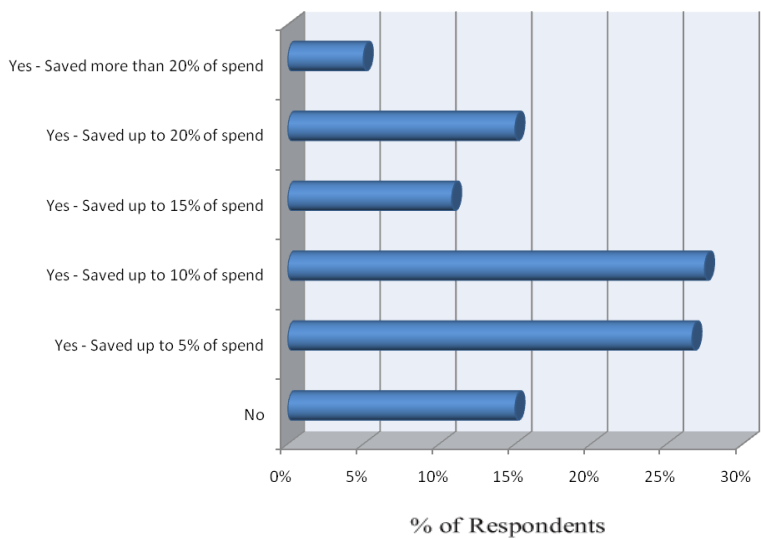
### 5.4. Plans for Investing in Procurement Function



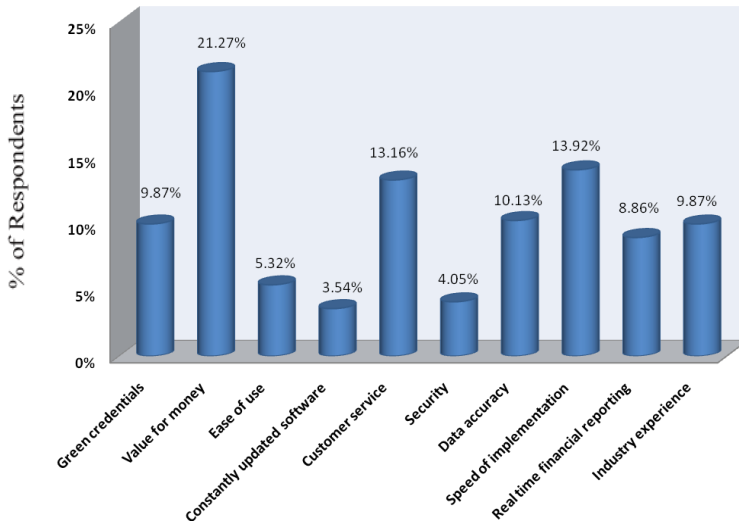
5.5. Indirect Spend (controlled by procurement).



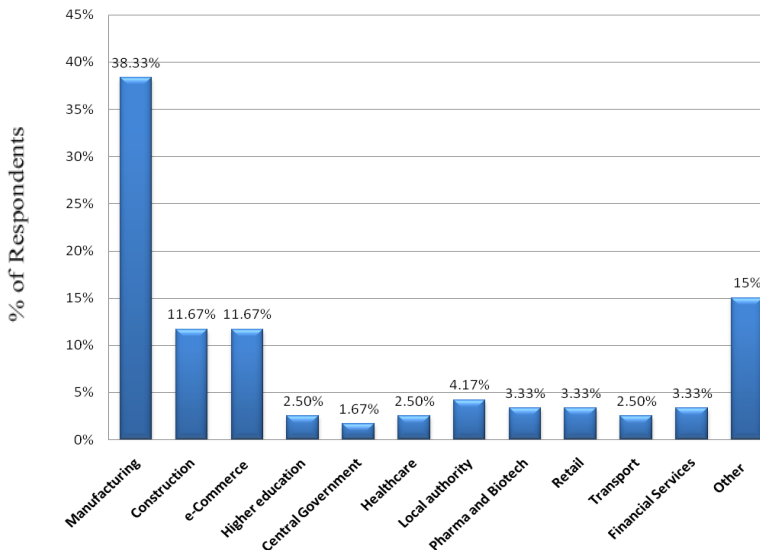
5.6. Dedicated Procurement & Saving.



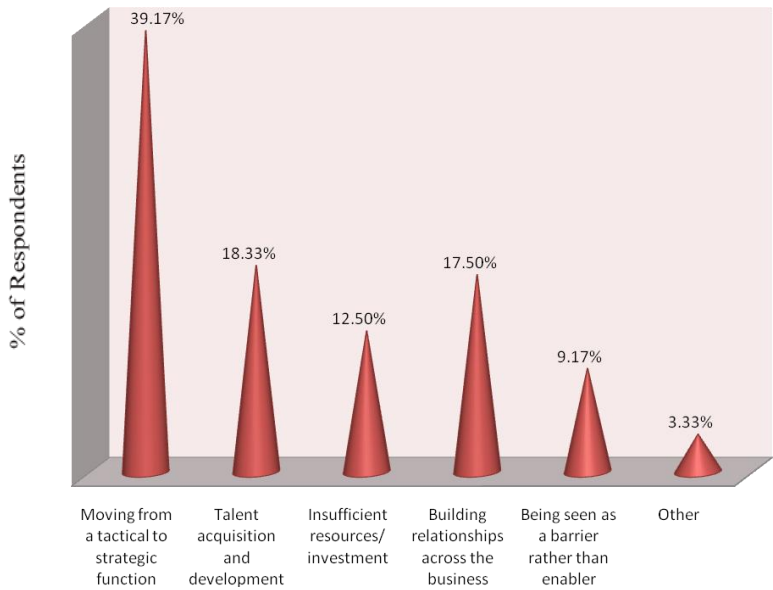
## 5.7. Important Factors for Successful Procurement Solution.



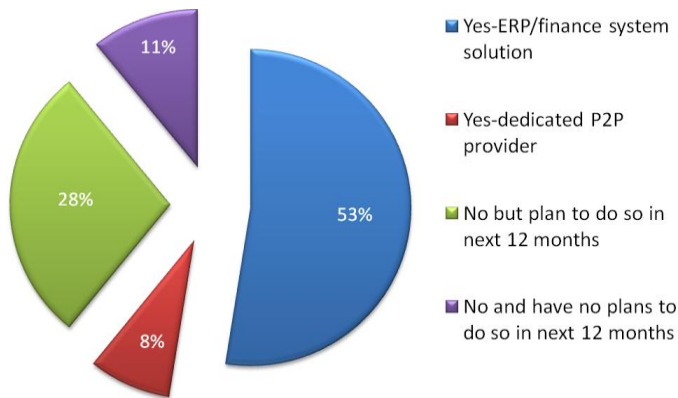
## 5.8. Sectors that will face the biggest Procurement Challenges.



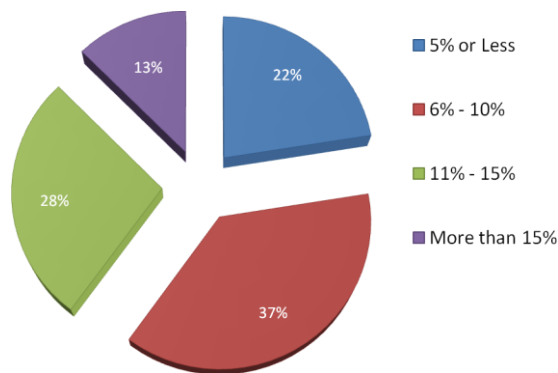
5.9. Major Challenges for Procurement.



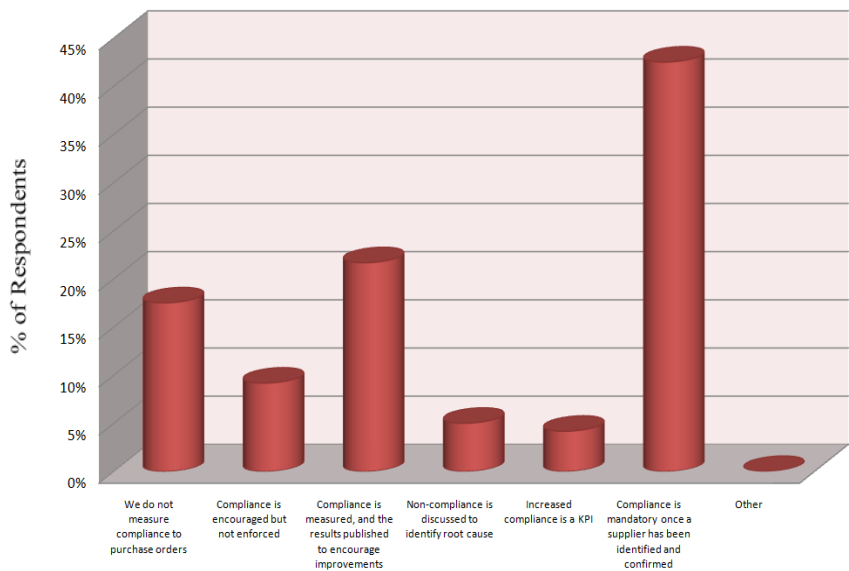
5.10. Implementation of P2P / e-Procurement solution.



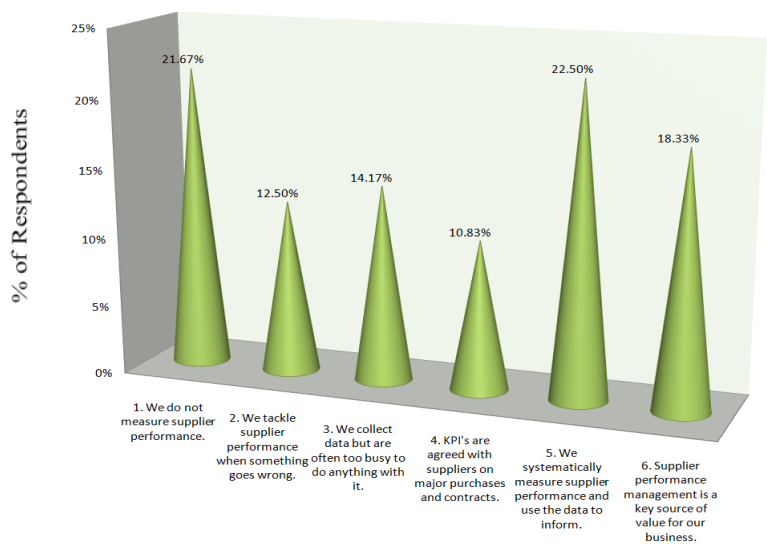
5.11. Savings Target for 2016.



5.12. Measuring Compliance with Guidelines.



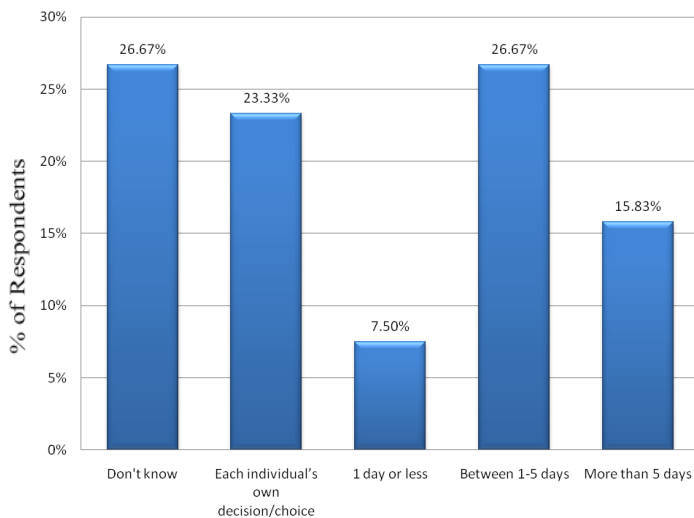
5.13. Measuring and Managing Suppliers against their Obligations.



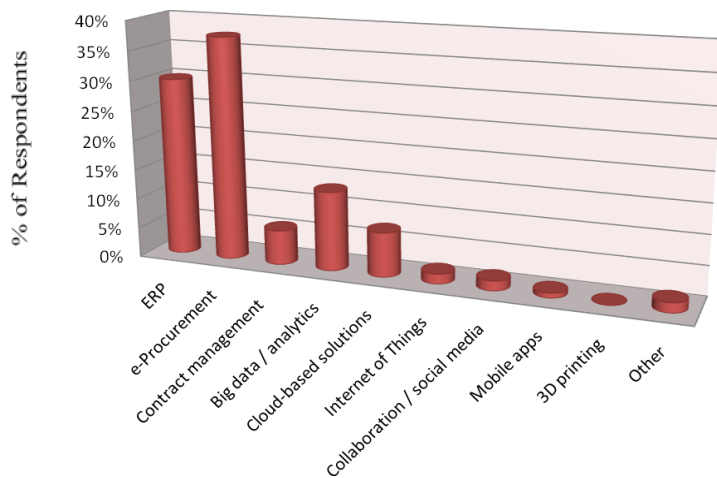
5.14. Business Alignment - Many buyers and sourcers work on their own initiative.



**5.15. Professional Development – Time spent by procurement staff to improve their competency level.**



**5.16. Relevant Technologies for Procurement in the next 5 years**







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