



Procurement's Next Frontier

Accenture's research into how Procurement will progress over the next 5-7 years

A large, thick red arrow pointing to the right, positioned behind the text "High performance. Delivered."

High performance. Delivered.

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Strategy | Consulting | Digital | Technology | Operations

Today's Presenters



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Today' s Presentation Objectives

- **Discuss Accenture's Research on the Future of Procurement**
 - What is changing and what can be done to be on the leading edge of change
 - The future organization of procurement, strategic partner opportunities
 - Vertical integration of key suppliers
 - The Impact of digital on procurement
- **How can Health Payer Organizations Leverage the future of Procurement- What is the Art of the Possible, e.g.:**
 - Improvement of Procurement Efficiencies
 - Procurement's role expansion into Strategic areas of the business
 - Supplier collaboration
 - Supplier/Customer connectivity

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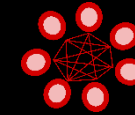
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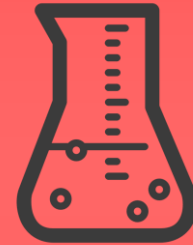
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Procurement Research





The time is now for procurement to reimagine its future

Our research paints a vivid picture of what the procurement organization of the future will look like.

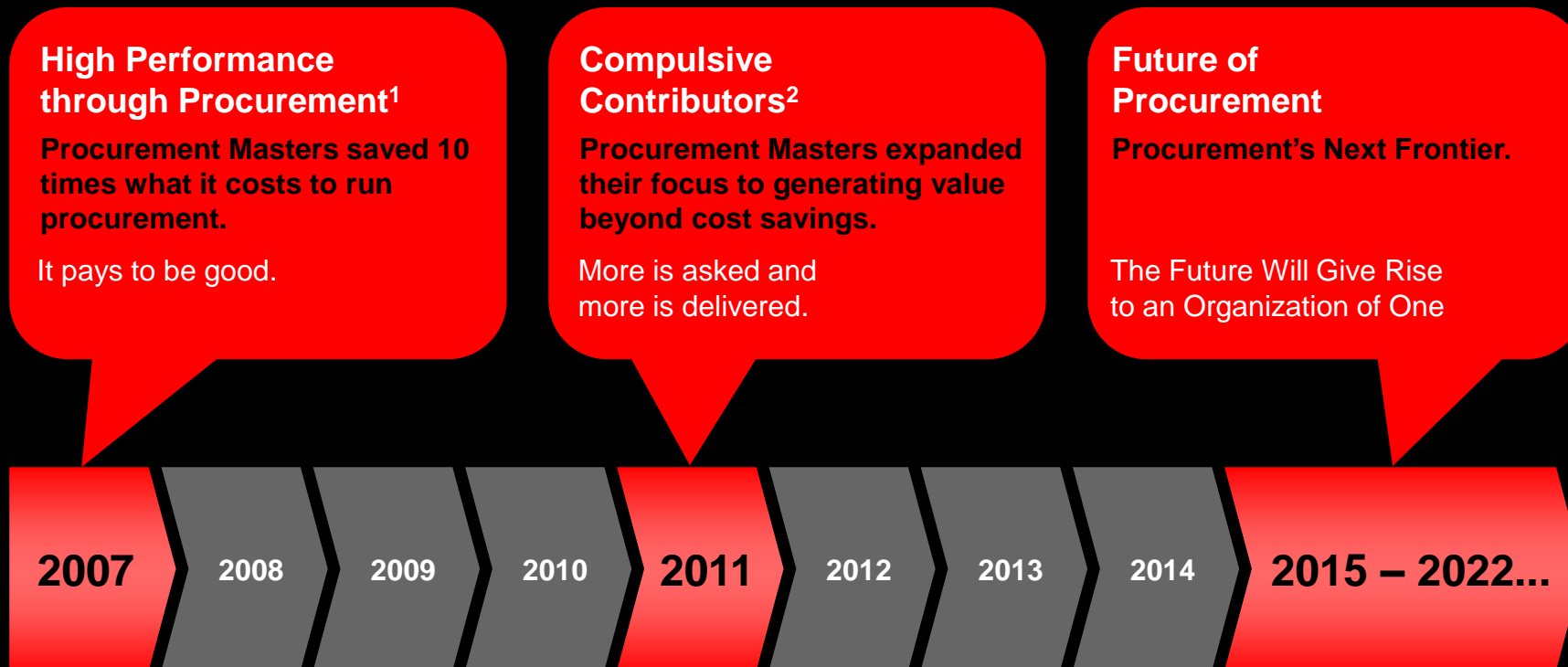
Our research:

- Analyzed Procurement trends from 2007 to 2017
- Surveyed over 150 organizations across 13 dimensions
- Interviewed 52 organization leaders

The question is, which companies are prepared to embrace it and which will remain rooted in the past?

Procurement has evolved successfully for over two decades through centralization and cost savings

But our research suggests a fundamental shift is coming for procurement in the next 5 – 7 years



1 http://www.accenture.com/SiteCollectionDocuments/PDF/HHP_brochure_low10_07_07.pdf

2 <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Compulsive-Contributors-More-is-asked-and-more-is-delivered.pdf>

Today's Supply Chain Masters impact the financial performance of their organization

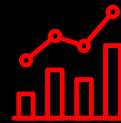


Masters speak and impact finance

88% Masters have better Pre-Tax ROIC compared to their peers.

63% of Masters have higher Capital efficiency compared to their peers.

63% Masters had lower SG&A expense ratio (as % revenue) than their peers.

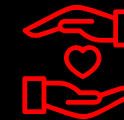


Masters deliver more with less. They are:

Delivering a 15x ROI, compared to Masters in 2011 who delivered 10x. ROI goes beyond cost savings and expands into procurement value.

Achieving returns by increasing spend under management, influencing demand and specification

Doing more with fewer FTEs. current difference between masters and contenders.



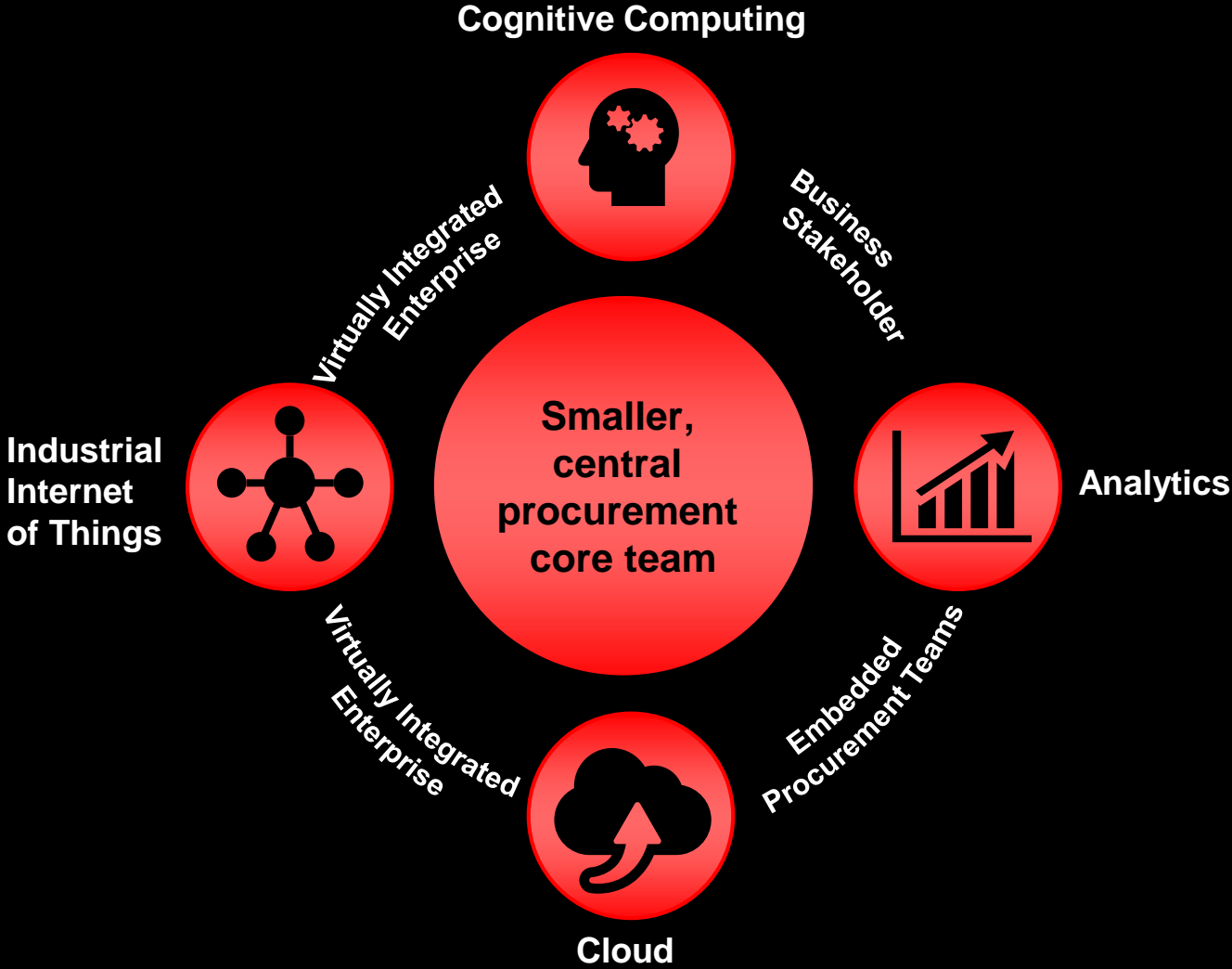
Masters are the heart of the business

Masters are 53% more likely to be integrated into the executive committee providing great influence over buying behavior

Masters are 63% more likely to use their ecosystem for value chain partnering

Masters are 50% more likely to be embedded in product design

Over the next 5-7 years, Masters will begin a fundamental shift to a digital revolution and the next frontier

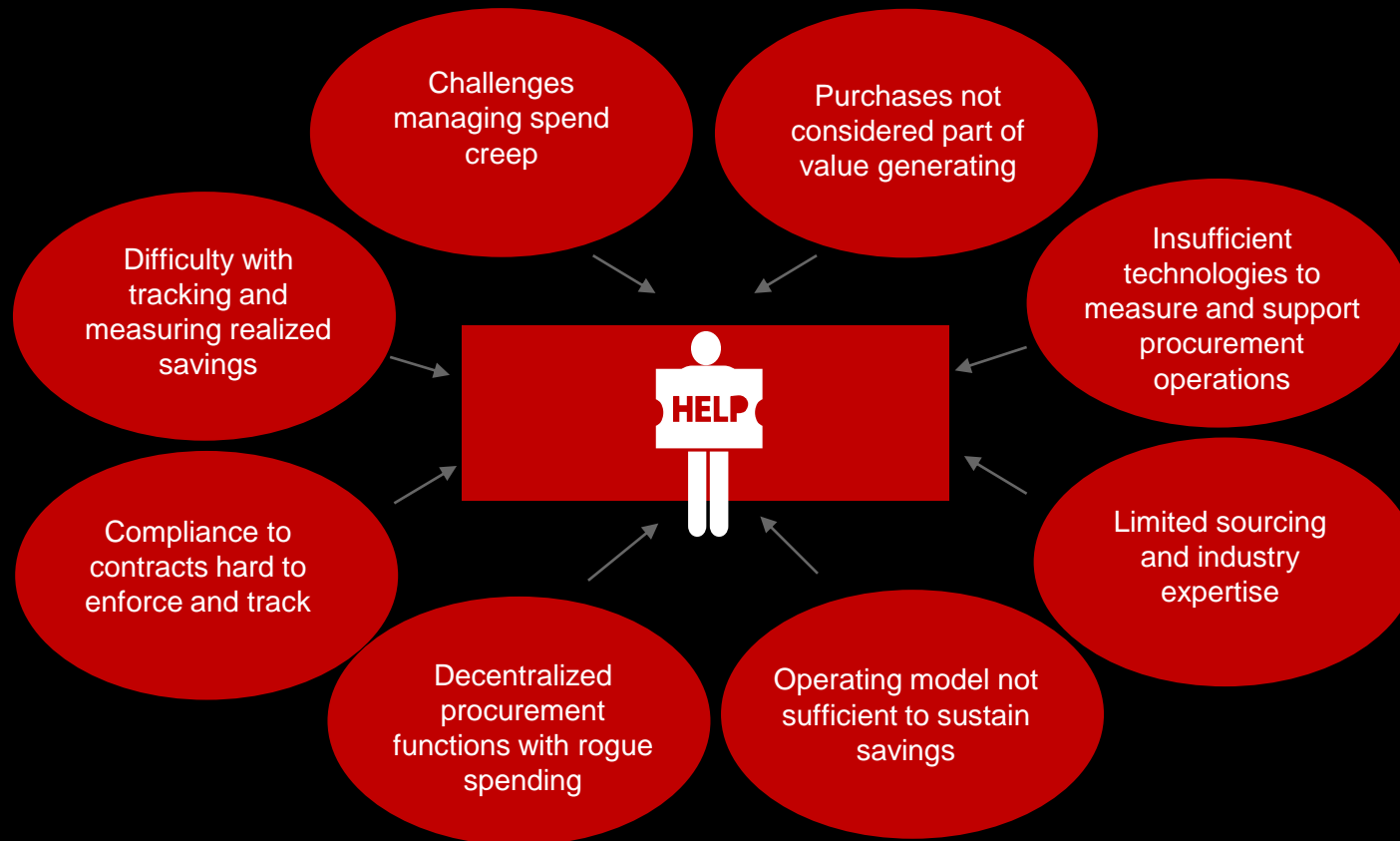


Digital Procurement operating models will look different than today's



Example Procurement Challenges in Health Payer

Our experience shows that Health Payer Organizations are facing common Procurement challenges. Health Payers are seeking ways to procure more effectively while generating savings throughout the organization.

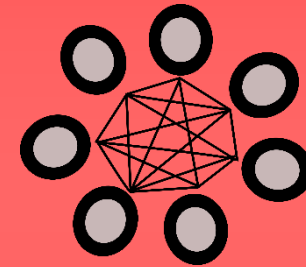


Procurement's Frontier: What is the Potential Areas of Opportunity- Health Payer

Health Payers have the opportunity to use Digital and Other technologies to innovate, reduce costs, expand strategic impact, and improve capabilities

- Selection of strategic partners to enable innovation **How can strategic partnerships be developed to control medical spend?**
- Embedded procurement resources in key business areas to broader procurements impact and to improve capabilities **Which categories does it make sense to embed resources vs manage centrally?**
- Increased use of Digital Technology in the source to pay process **What areas of the source to pay process can be further automated?**
- Use of Analytics to manage and track performance **Have you developed waterfall analytics?**
- Connectivity to Health Providers. **Are there opportunities to connect to Providers to enhance the relationship, reduce cost of care, etc. ?**
- Robotics- **Have you automated processes such as claims payment using robotics?**

The Emerging Virtually Integrated Enterprise





Our research points to the emergence of the Virtually Integrated Enterprise (VIE).

- A** Intimate relationships and uncharted suppliers
- B** Getting real in supplier collaboration

Innovation will be the key benefit driven out of collaboration with the Virtually Integrated Enterprise

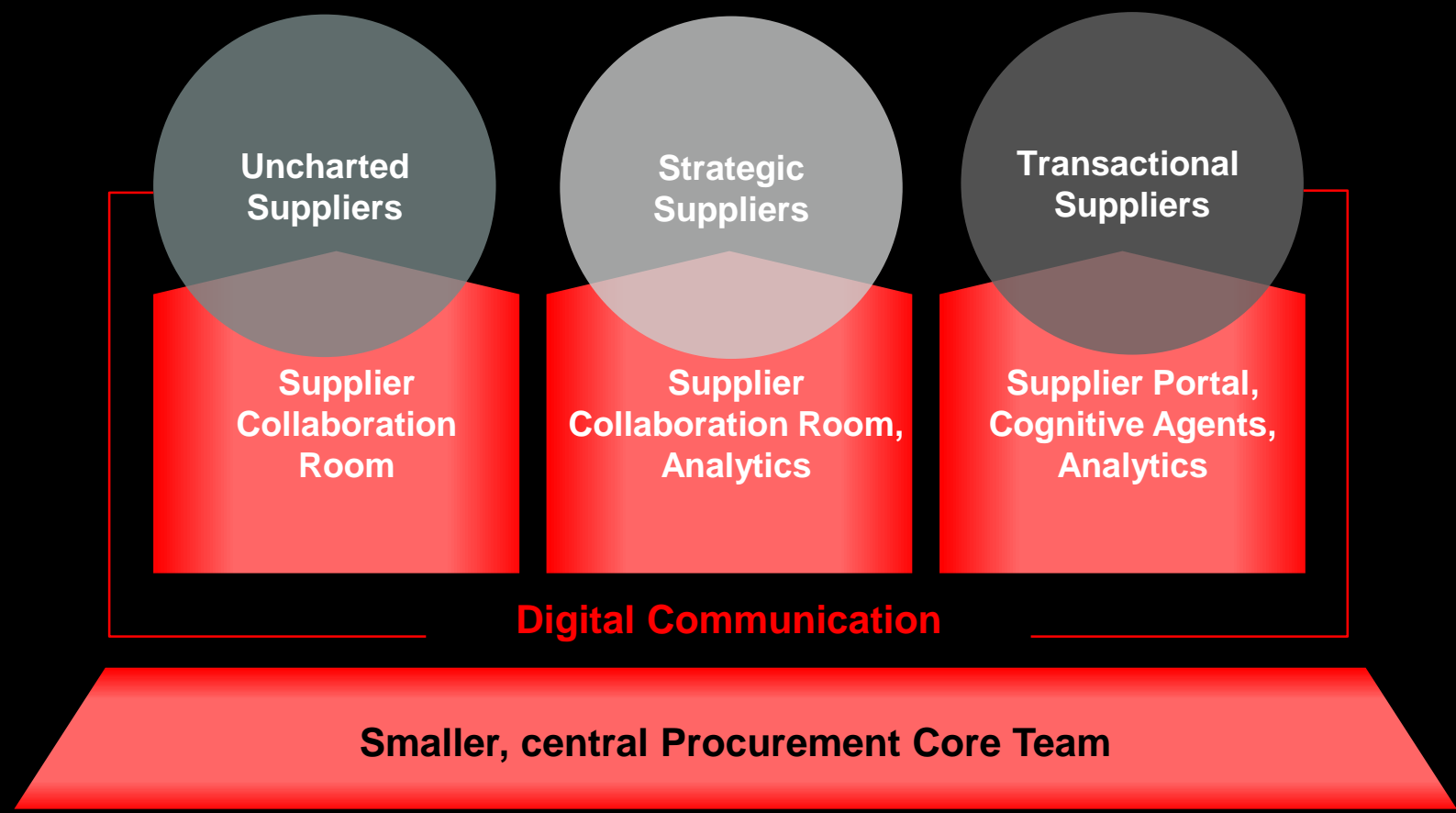
“We created a team with one of our suppliers to develop a totally new product that could solve some of the problems and issues that our customers had...This new product was first on the market...”

Eva Andrén, Vice President & Head of Group Sourcing, Ericsson

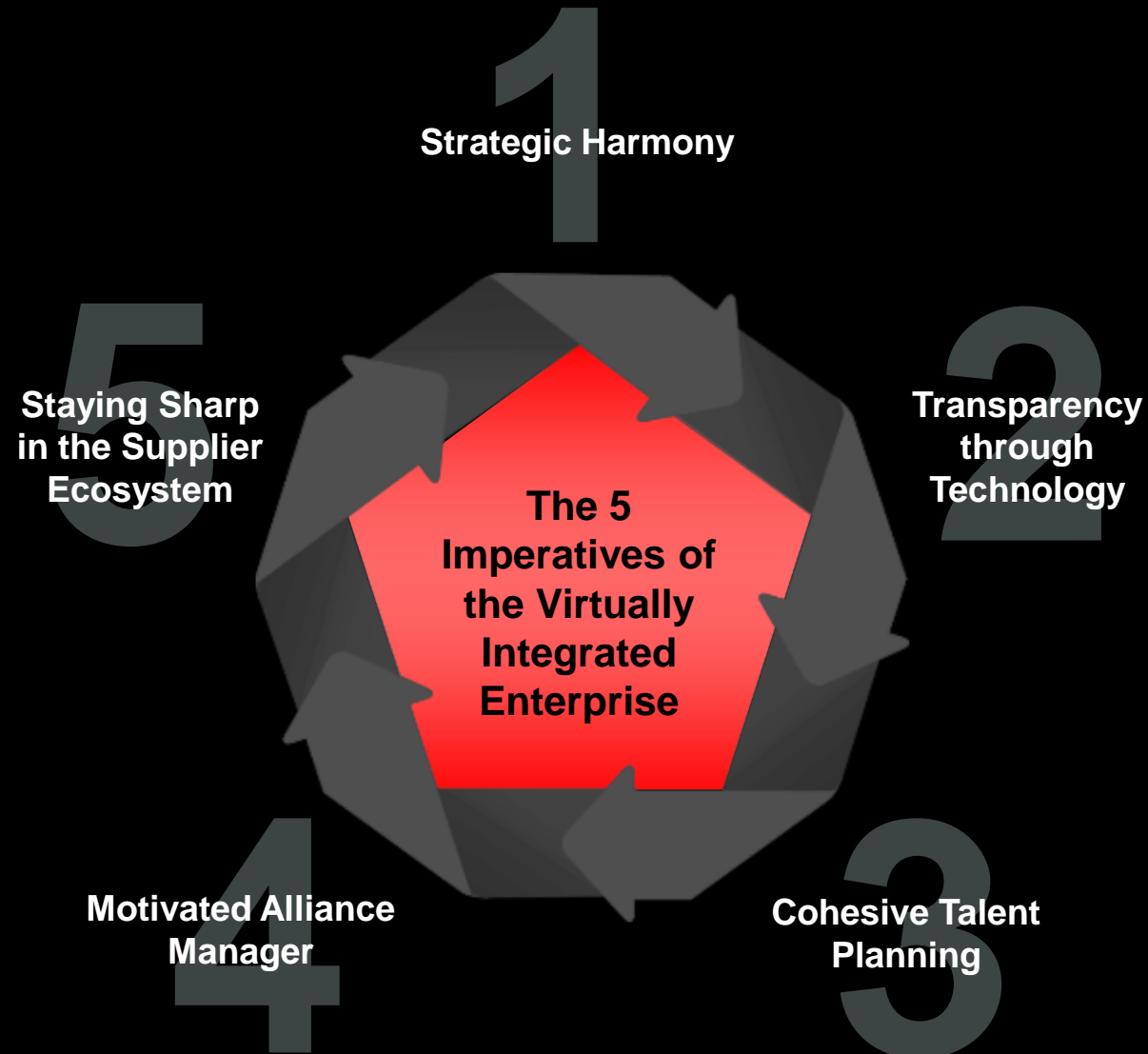


The Virtually Integrated Enterprise blurs the line between buyers & suppliers

A Virtually Integrated Enterprise is founded on intimate relationships with a smaller group of strategic suppliers. The demarcation between buyer and supplier becomes blurred, to the point that strategic suppliers are seen as simply part of the overall company.

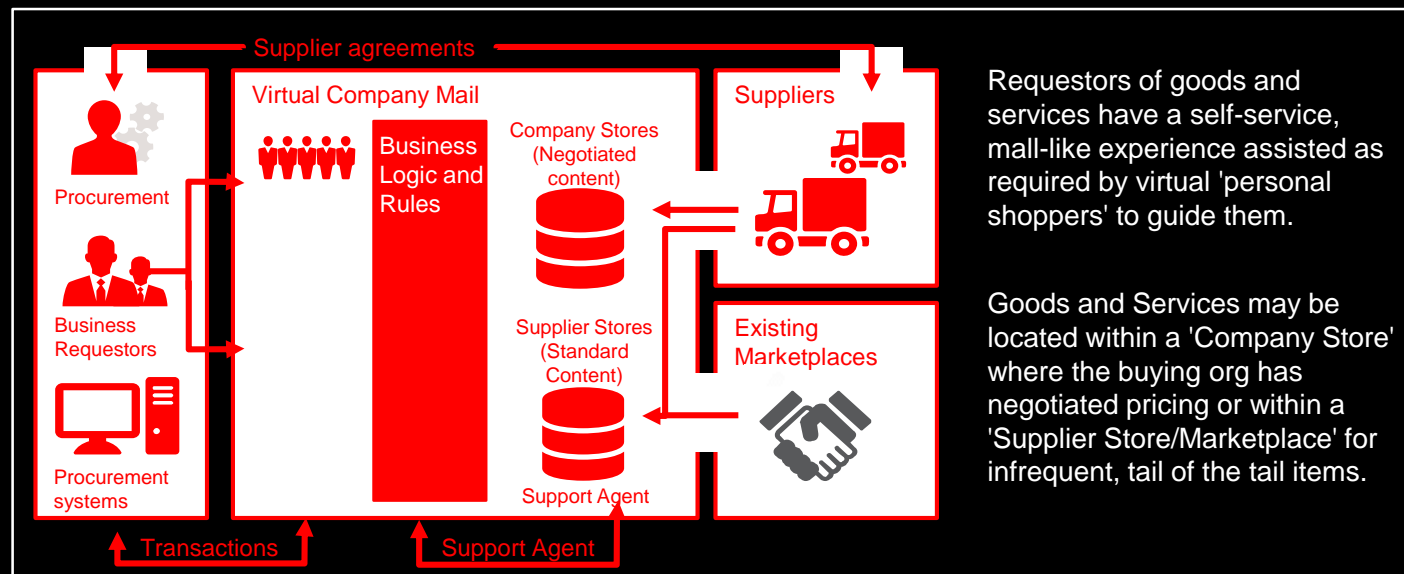


Developing a truly transparent relationship relies on 5 structural elements for success



Virtual Company Mall

A Virtual Company Mall guides requestors to purchase and collaborate with the right suppliers for the goods and services they need



Requestors of goods and services have a self-service, mall-like experience assisted as required by virtual 'personal shoppers' to guide them.

Goods and Services may be located within a 'Company Store' where the buying org has negotiated pricing or within a 'Supplier Store/Marketplace' for infrequent, tail of the tail items.

Maturity of Company Mall Concept

- Marketplaces (with standard prices) exist, however have so far only achieved mediocre content coverage
- A procurement mall so far has not been implemented in the B2B environment (B2C providers like Amazon are looking to move there)
- Most organizations don't have the business model or procurement organizations built to support this concept
- Procurement execs are actively looking for available content options (specifically for tail spend)



Supplier integration will help manage supplier risk and innovate new products and Services

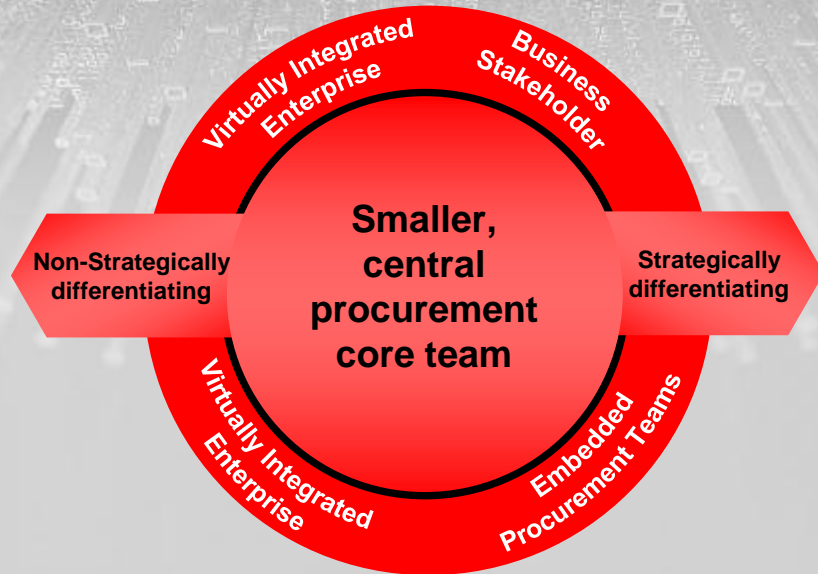
Health Organizations CPO's reported that reducing costs and introducing new products or expanding into new markets are the two biggest priorities.

1. Health Organizations will rely more heavily than ever on a small group of strategic suppliers that will be asked to help substantially reduce waste and risk but, even more important, to significantly boost the top line through more effective innovation. **How much spend do you have managed using strategic partnerships?**
2. To be effective, innovation must be based on a relationship in which everybody from both buyer and supplier realizes that innovating together will benefit both companies, and that there is no barrier to sharing ideas. A company needs to break down internal barriers before it can effectively integrate outside suppliers into its innovation process. **Do you work with your strategic partners to formally review how the relationship is working and how it could be improved for both parties?**
3. A company also must have a formal process and technology to support innovation so the right ideas are identified and nurtured. **Do you have standardize process and technology to support strategic partnerships?**

The Organization of One Takes Shape



The future procurement organization will see dramatic shifts in all aspects in 5 – 7 years.



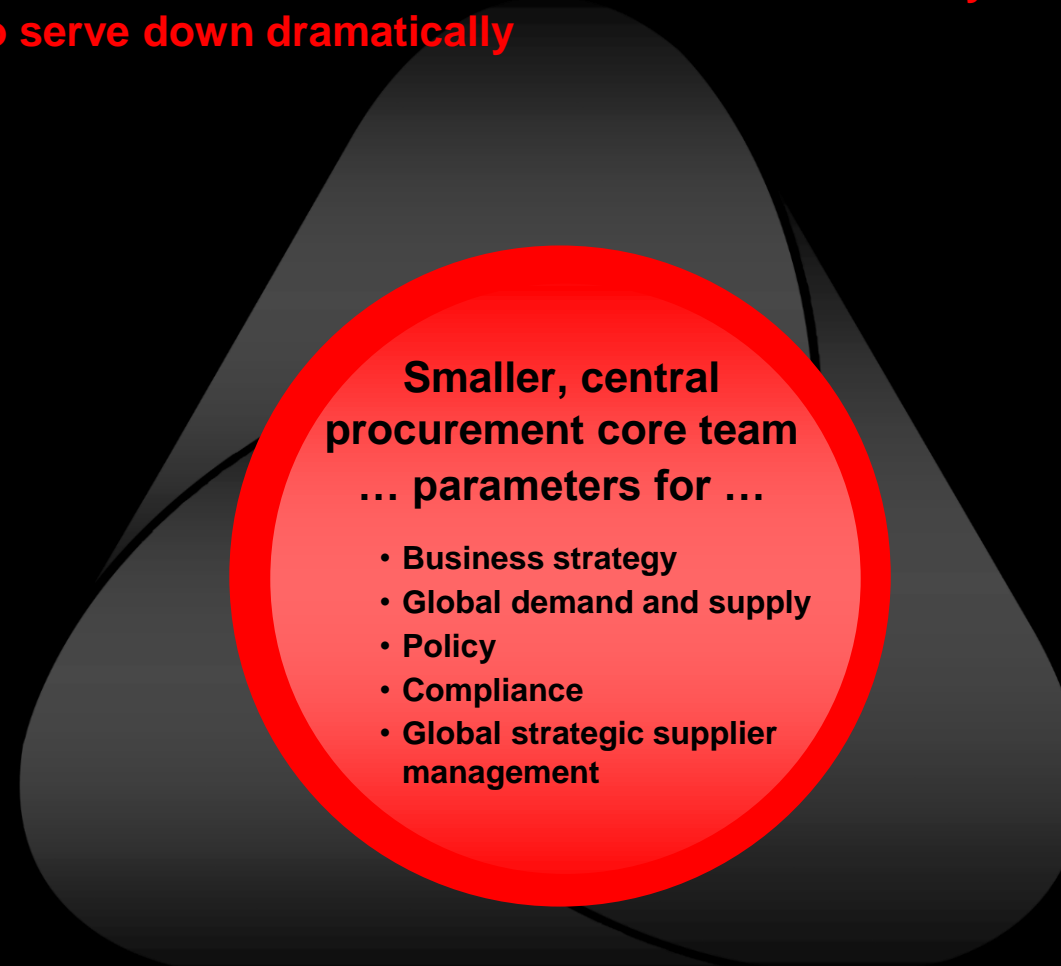
- A** Central core team – smaller, and amped on digital
- B** Focus on the strategic
- C** Cost to serve trends downward

“Embedded resources will wear the same stripes as the business, making a strategic impact by working closely with product development, R&D, or other departments”

André Le Lerre, Vice President, Ericsson

Central core team – smaller, and amped on digital

The Organization of One Takes Shape from procurement resources that are embedded in the business and will be connected back to a smaller core team focused on 5 key areas. In this model, digital pushes cost to serve down dramatically.



Further move procurement's focus on the strategic

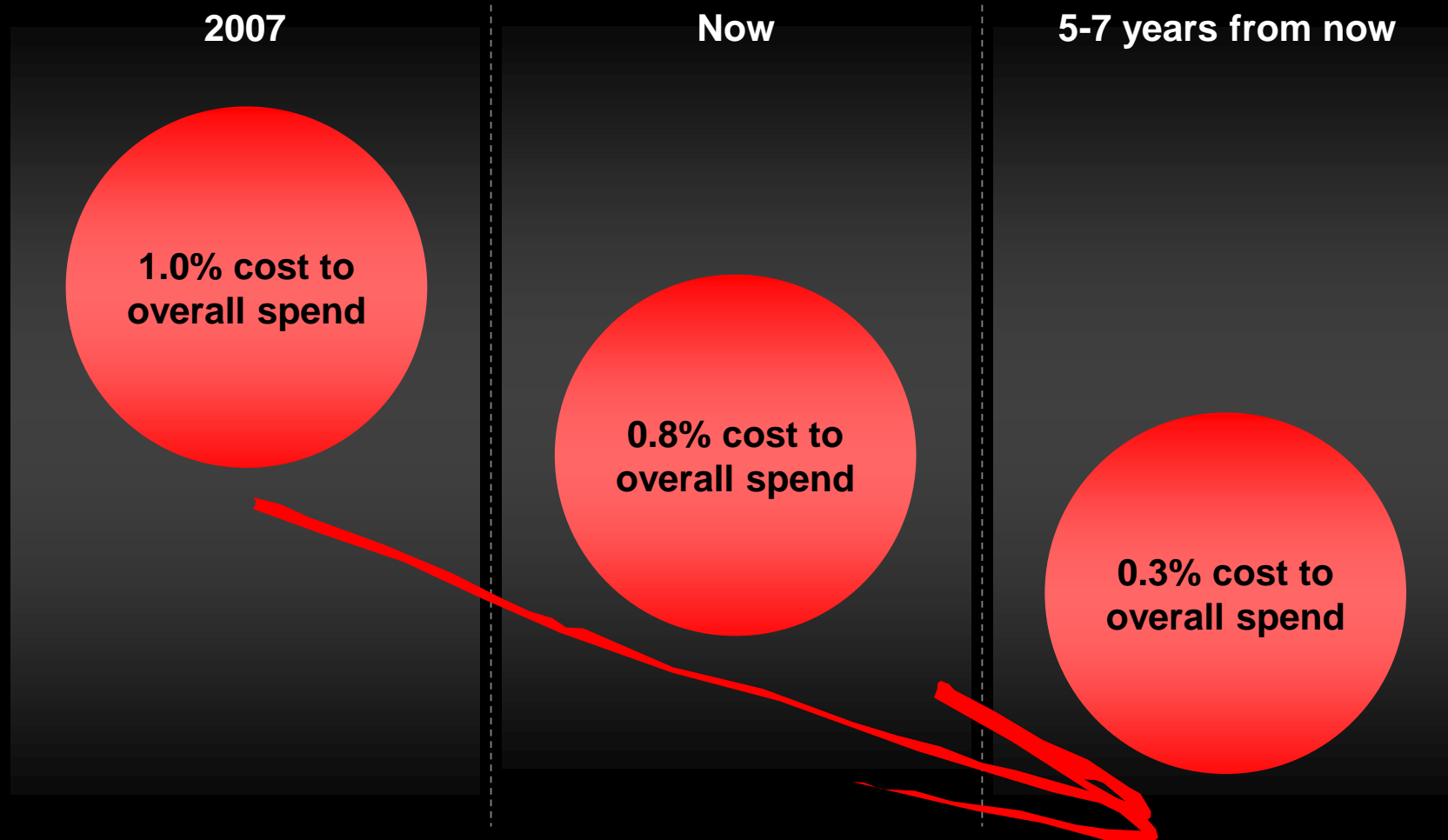
Changing the role of procurement to be more aligned to overall business goals

Next-generation procurement organizations will be measured and rewarded on their contribution to a variety of business results the larger enterprise is trying to achieve, as well as common procurement KPIs (e.g. savings, compliance, etc.). These include:

- EBITDA (earnings before interest, taxes, depreciation and amortization)
- EPS (earnings per share)
- Reduction in functions' budgets
- Risk mitigation
- Supplier innovation
- Time to market
- Sustainability
- Diversity
- Commodity price risk management
- Driving continuous improvement and
- Compliance

Cost to serve trends downward

The end result for leading procurement organizations is lower cost to serve and higher strategic value





The Organization of One Structure can move Procurement to more strategically involvement

Greater than 50 percent of health CPOs believe their current teams' skills and capabilities are not sufficient to deliver their procurement strategy.

1. Strategic activities will be handled by embedded resources, who will create more value by:
 - Working with the business and suppliers to develop new products
 - Help manage price and supply risk
2. Procurement individuals will have markedly **more advanced and diverse skills**. They will often be a specialist with expert knowledge in some business domain - such as care management, provider services, marketing - depending on the need and likely will come from an area of the company other than procurement.

What strategic procurement activities could be moved to embedded resources?

3. The **non-strategic activities** will either be handled by the business in a skilled and compliant manner through the use of automation, or it will be managed by members of the virtually integrated enterprise

What non-strategic activities could be moved to a VIE?

4. Opportunities to recruit individuals with specific or expand capabilities of staff.

Are there members of your team that could assume a role in the business with the right training?

Cloud Computing – Leading Through Content





The competitive differentiation of Cloud moves away from lower costs and standard process to embrace new benefits.

- A** Superior usability reigns
- B** Content crowns the victor

Although Cloud still offers great cost advantages, productivity, engagement, and usability move into prime focus in the future

Slightly less than 50% of all companies either have a cloud first or cloud only strategy; some form of cloud strategy is pervasive among all with 90% of companies

The Future of Cloud Computing: Annual Survey 2016," North Bridge/Gigaom Research

Although Cloud still offers great cost advantages, productivity, engagement, and usability move into prime focus in the future

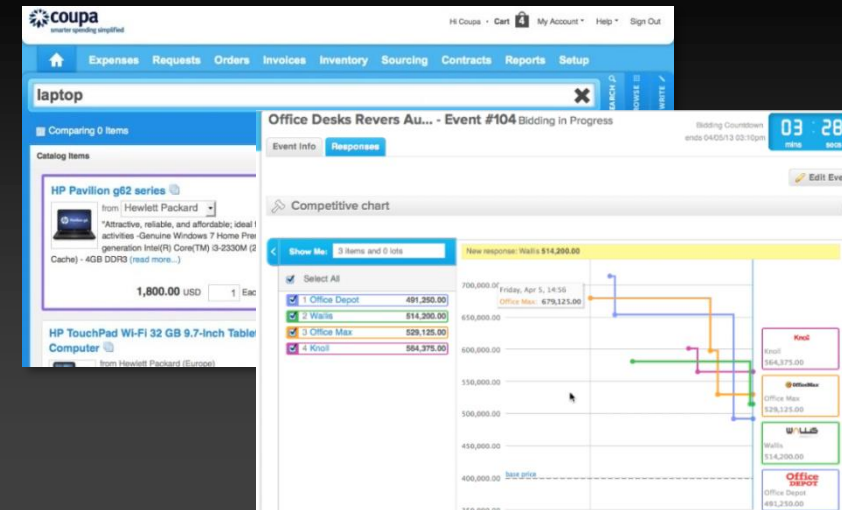
Hans Melotte of Johnson & Johnson says employees increasingly wonder why the technology at work can't be as easy and intuitive to use as the tools they use in their personal lives. It frustrates them. More importantly, it impacts their productivity at work, and therefore also impacts a company's ability to innovate and grow.

Hans Melotte, Vice President and Chief Procurement Officer, Johnson & Johnson

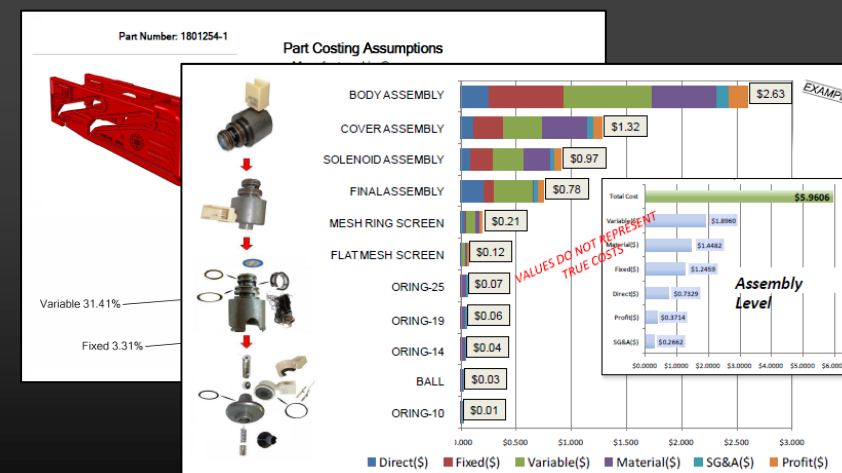
Using content in the cloud to enable core processes will be a competitive advantage

Examples of enriched content could range from...

- Dynamic price searches on the internet at large for specified categories
- Content available in next-gen eMarketplaces



...To the advent of dynamic cost models, that reach into internet sources for real-time updates, alerts, and noteworthy facts and data





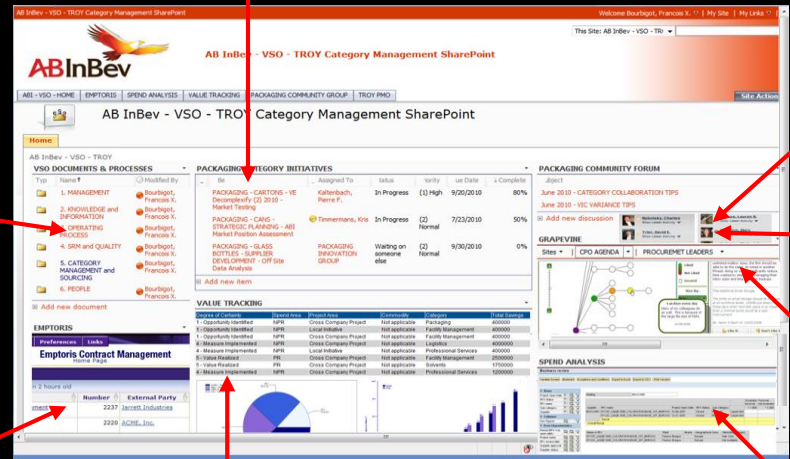
The Virtual Category Room provides up to date information on key categories

Illustrative

Strategic plan/yearly finetuning drives the key initiatives. Initiative-driven templates set the structure of the project management and /document storage. PMO dashboard.



Planning- and procurement X-initiative document management structure



Access to eSourcing and Contract Management application (pre-defined category specific templates)

Initiative driven value tracking
The fields used for project identification and scoping in the initiative overview (above) are the basis for the Value Tracking reporting.

Wiki- Blog-discussion forum

Accenture proprietary collaboration solutions 'Grapevine' and 'WhiteSpace' improve idea sharing and innovation within Procurement Community, other departments and with suppliers

Central/zone spend area specific dashboard.
Access to EDWH for BI/Reporting.

Maturity of Virtual Supplier Room

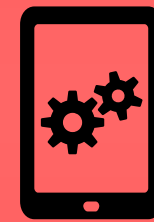
- Most supplier portals today provided through supplier networks or created custom and don't typically integrate most or any of the capabilities above

Cloud Computing – Leading Through Content

New cloud computing technologies are enabling breakthrough innovations in supply chain management (SCM) applications delivered via SaaS (software as a service) models.

1. A strategic approach to implementation is essential. This should recognize that not all supply chain processes are suitable candidates for migration to the cloud. Two categories of process in particular may prove to be unsuited to cloud computing.
 - First, complex and/or unique processes that require a heavy degree of customized processing are less likely to be delivered as cloud computing based services, at least in the near future. And
 - Second, processes that require heavy integration with either a physical flow or with other information systems—particularly those requiring ultrafast response times—are currently not well-suited to cloud.
 2. What functions should take the lead from a cloud computing perspective:
 - Source to Payment
 - Supplier network development
 3. Alongside these core strategic advantages the replacement of on-premise solutions with SaaS-based SCM models have the potential to deliver four immediate tactical benefits, with quick wins helping to support buy-in: Speed, single source of truth, low cost of entry and business value
- **What opportunities have you taken advantages of? Many of our Health clients use the cloud to support ERP functions, Sourcing and spend analysis, and supplier networks and low cost of entry.**

Industrial Internet of Things – A Wake-Up Call For Procurement



The Industrial Internet of Things (IIOT) promises to fundamentally transform aspects of procurement, including changing or even entirely eliminating certain business processes.

Why will procurement care about the Industrial Internet of Things:

- A** Increases traceability
- B** Enhances the use of analytics
- C** Challenges existing processes

Key to analytics is rich data, and that's where the IIOT really shines.

Dirk Van De Putte of BHP Billiton is working with suppliers to develop sensors to monitor the health of its trucks to predict failures and boost utilization. Data in scenarios such as this can help fine-tune category strategies,.

Dirk Van De Putte, Group Chief Procurement Officer, BHP Billiton

Traceability of and transparency into supply and services will be accessible to companies and consumers alike.

“Transparent supply chains [are] something that you cannot stop. They’re going to happen, and they’re going to happen all the way down to source-level control.”

Tom Linton, CPO, CSCO of Flextronics



Key to analytics is rich data, and that's where the IIOT really shines.

Dirk Van De Putte of BHP Billiton is working with suppliers to develop sensors to monitor the health of its trucks to predict failures and boost utilization. Data in scenarios such as this can help fine-tune category strategies, as well as reduce part and vendor proliferation.

**Dirk Van De Putte, Group Chief Procurement Officer,
BHP Billiton**

Reexamining the process will bring innovations to procurement

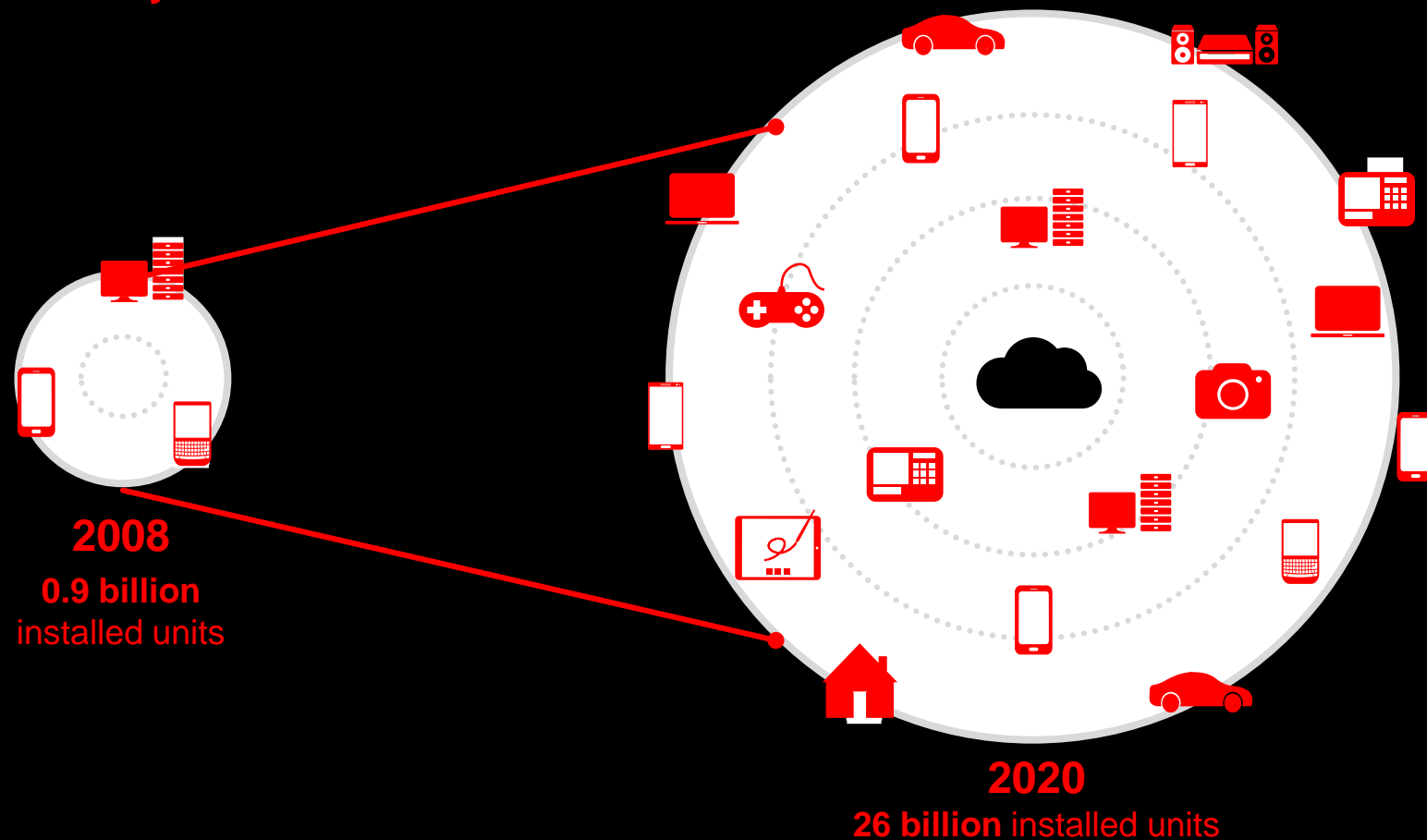
Question the fundamentals with IIOT: allow it to inform your procurement strategy and completely reshape your processes



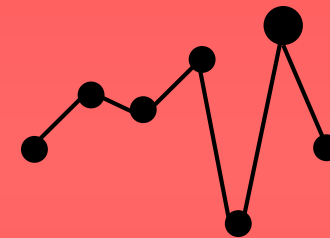
- Is the PO still a required document?
- Does an organization really need an Invoice document?
- Could an item be “auto-receipted” due to an embedded sensor?
- If an item is auto-receipted, is an invoice document required? In place, could the auto-receipt trigger a check against a digital contract for appropriate pricing (e.g. late arrival discount), releasing payment automatically?
- Will payment be digital currencies in the future...?

The proliferation of connected physical devices will significantly alter Supply Chain operations

Healthcare organizations are taking advantage of the IIOT to connect medical devices, supplier information, provider network capacity, etc. forecasts that a 30-fold increase in Internet-connected physical devices by 2020 will significantly alter supply chain leader information access and cyber-risk



Poised to Ride the Analytics Wave



An Accenture survey shows procurement as the least likely corporate function to employ analytics. Opportunity abounds for procurement organizations...

- A** Embracing the Analytics Trifecta
- B** Procurement needs more than an adding machine!
- C** Forays into advanced analytics will depend on where you start

Developing the right analytics insights requires a company to develop an Analytics Trifecta, where three types of resources come together to help each other.

1. Finance

2. Customer Service

3. Production/ Operations

4. Sales

5. IT / Telecoms

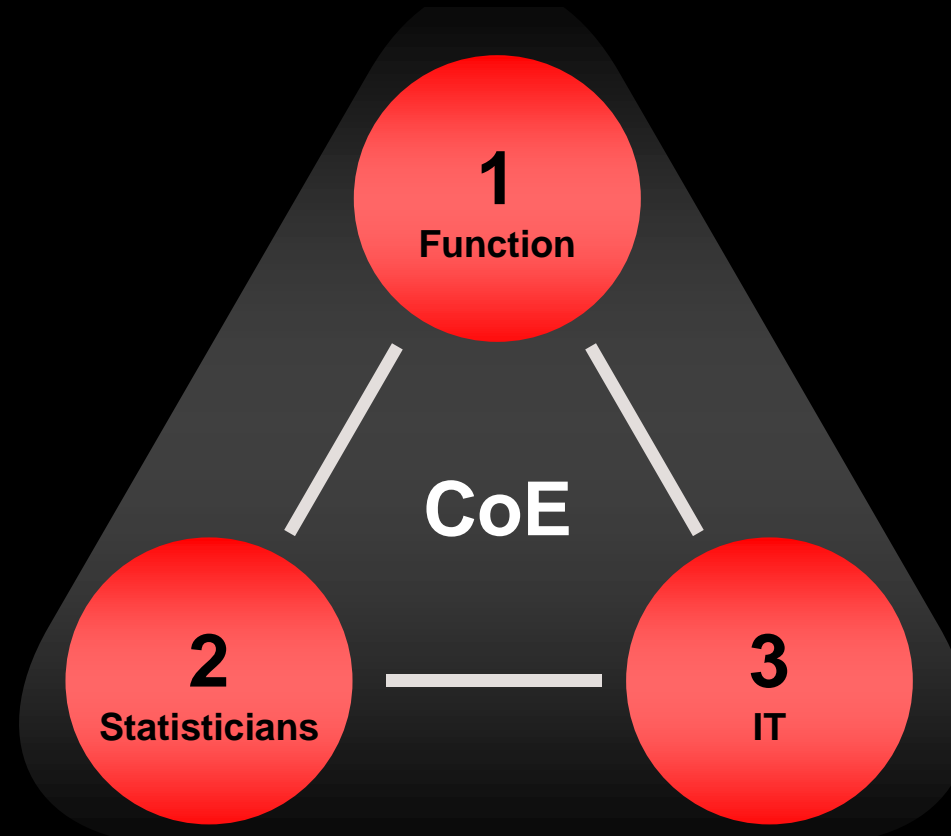
6. Human Resources

7. Procurement

The Analytics Trifecta forms the first dimensions required to reap benefits

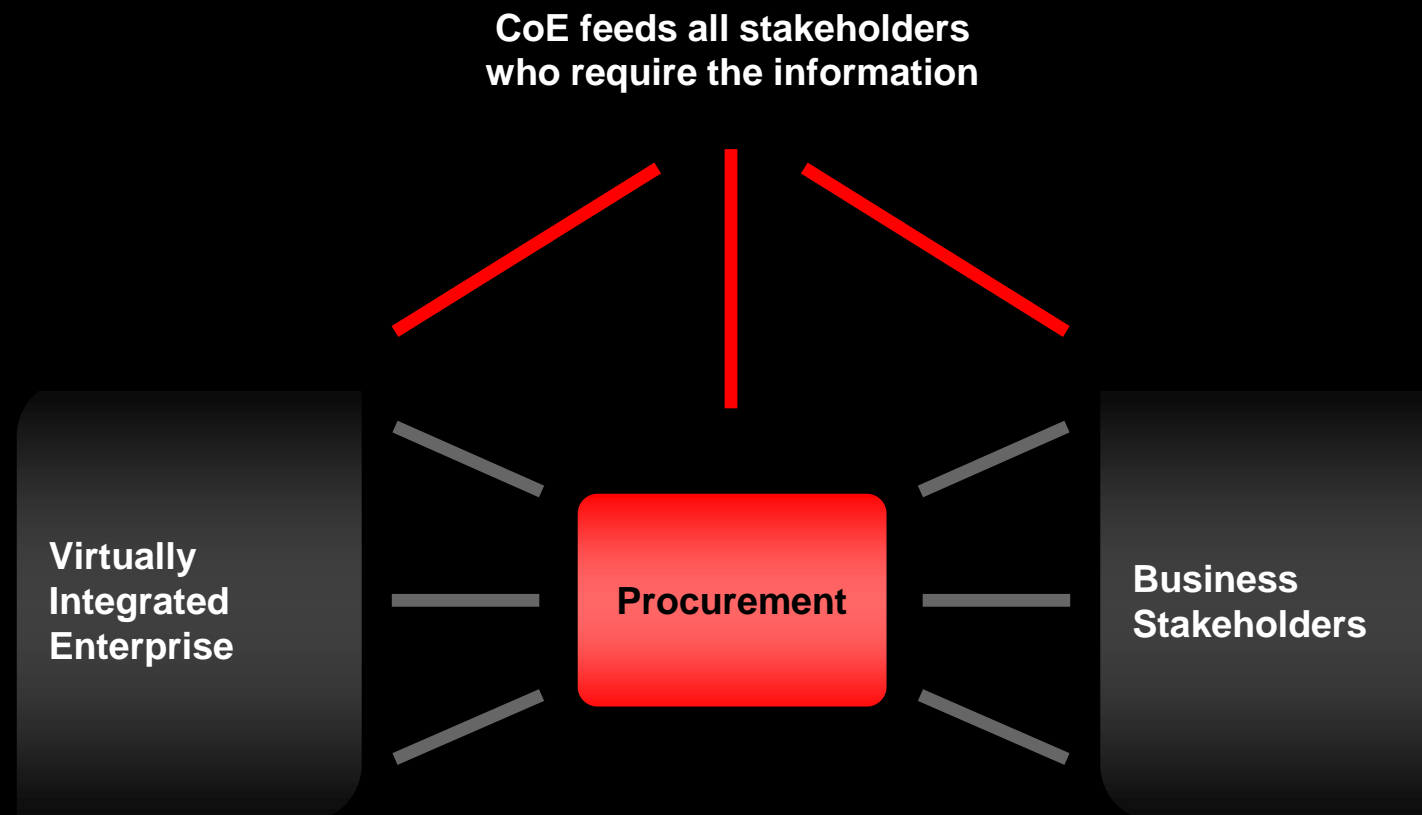
Dimension 1: The Analytics Trifecta, a robust Center of Excellence (CoE)

- 01** Functional Experts (e.g., procurement or finance) with the right knowledge to define the problems they want to solve
- 02** Statisticians to create the right analytic models and algorithms to uncover the answers to those problems
- 03** IT people to ensure the analytics technology is integrated with the right enterprise systems and other data sources, and provided to the right person at the right time

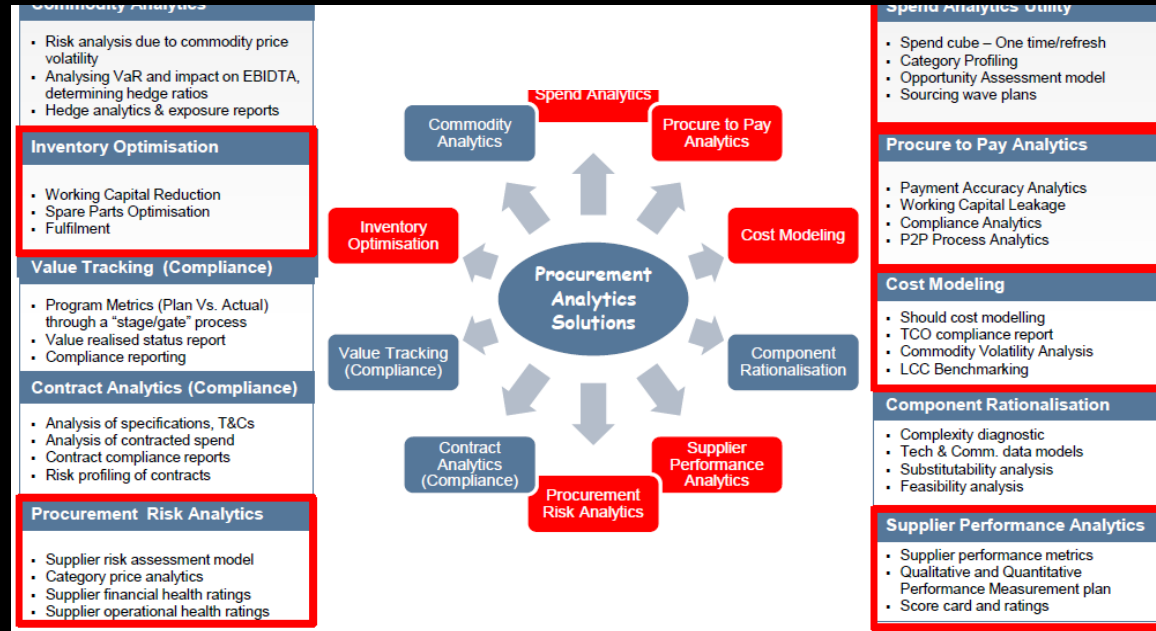


The second dimension requires the right people to interpret the data

Dimension 2: Interpretation; putting key insights in the hands of the right people



Supply Analytics



Maturity of Supply Analytics

- Numerous tools exist (Accenture proprietary, 3rd party analytics tools, ERP/Cloud Procurement tools) but most tend to be descriptive vs. providing the buying org insights to help make better decisions (predictive/prescriptive)
- Need for analytics-based capabilities that intervene 'real-time' – either with alerts to avoid/minimize risk and ensure compliance or with guidance to drive better outcomes or pull in appropriate experts

Sophisticated analytics requires sophisticated technology.

“Many procurement organizations are still somewhat legacy—practically the whole procurement organization is driven by an Excel spreadsheet... Investment in appropriate tools or partnering with a supplier with this specific expertise is what is required to take it to the next level.”

David Annett, Vice President Sourcing & Real Estate,
National Bank of Canada

The right technology is nothing without Data.

“...I don't think you can do analytics well unless you have good data coming in,” said one procurement executive.

“We're really data rich when it comes to anything related to [our] operations. We're data poor in the supply department itself...”

Anonymous

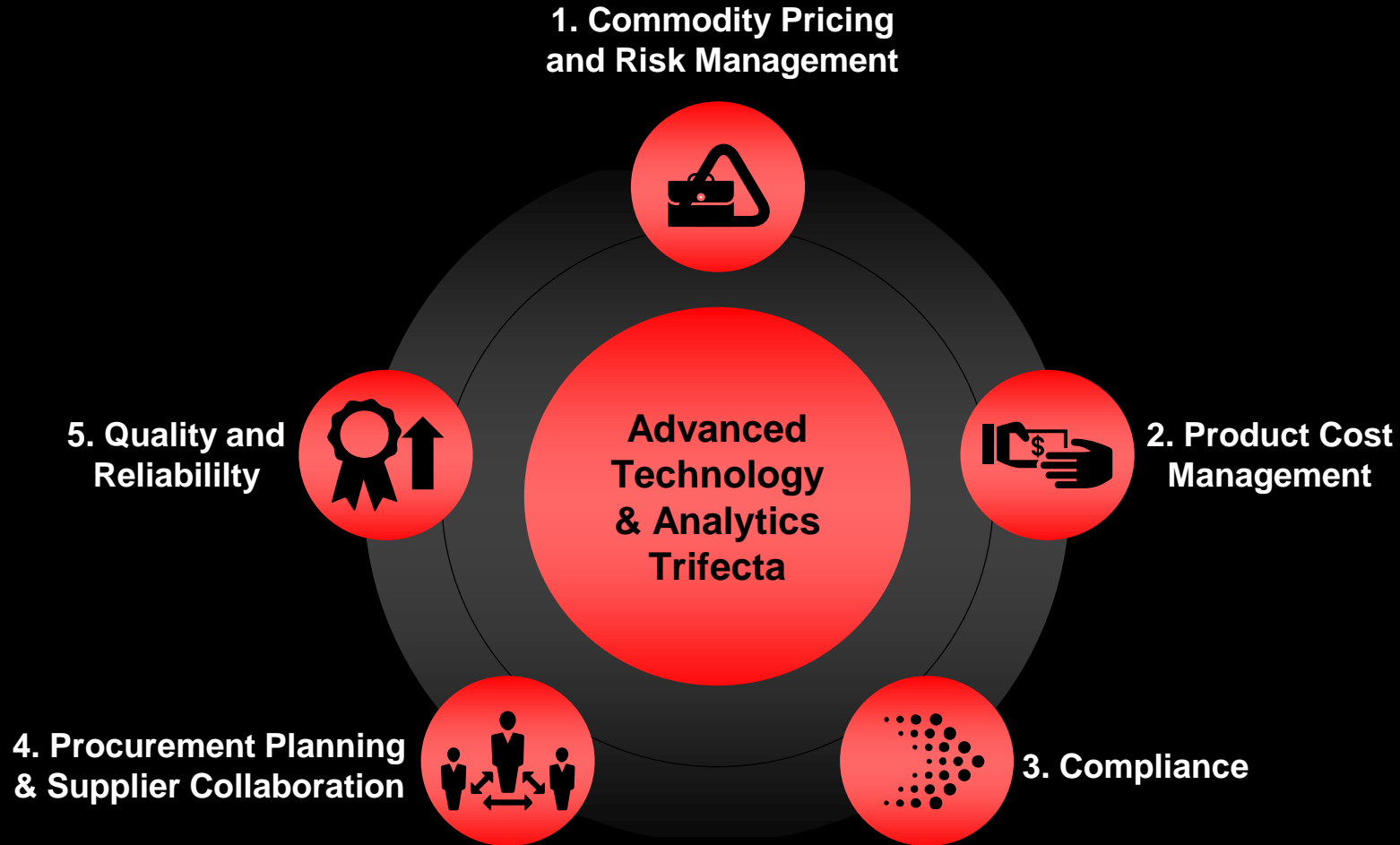


Maturity and opportunity in Analytics will vary by company and industry

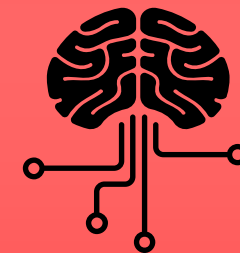
Forays into advanced analytics will depend on where you start



The following 5 types of analytics are areas to watch, and will become more advanced over time. What will your company need in the future?



Augmentation to Automation – Cognitive Help Desk Agents Are Only the Beginning





A new breed of emerging cognitive computing tools will produce a foundation-shattering wave of new opportunity in companies, including your procurement organization.

A Cognitive Computing is on your doorstep

- Supplier help desks are just the beginning
- Advantages abound

“Through 2023, one-third of all highly skilled work done by doctors, lawyers, traders and professors will be replaced by smart machines or by less-skilled (non-specialist) humans assisted by cognitive computing technology.”

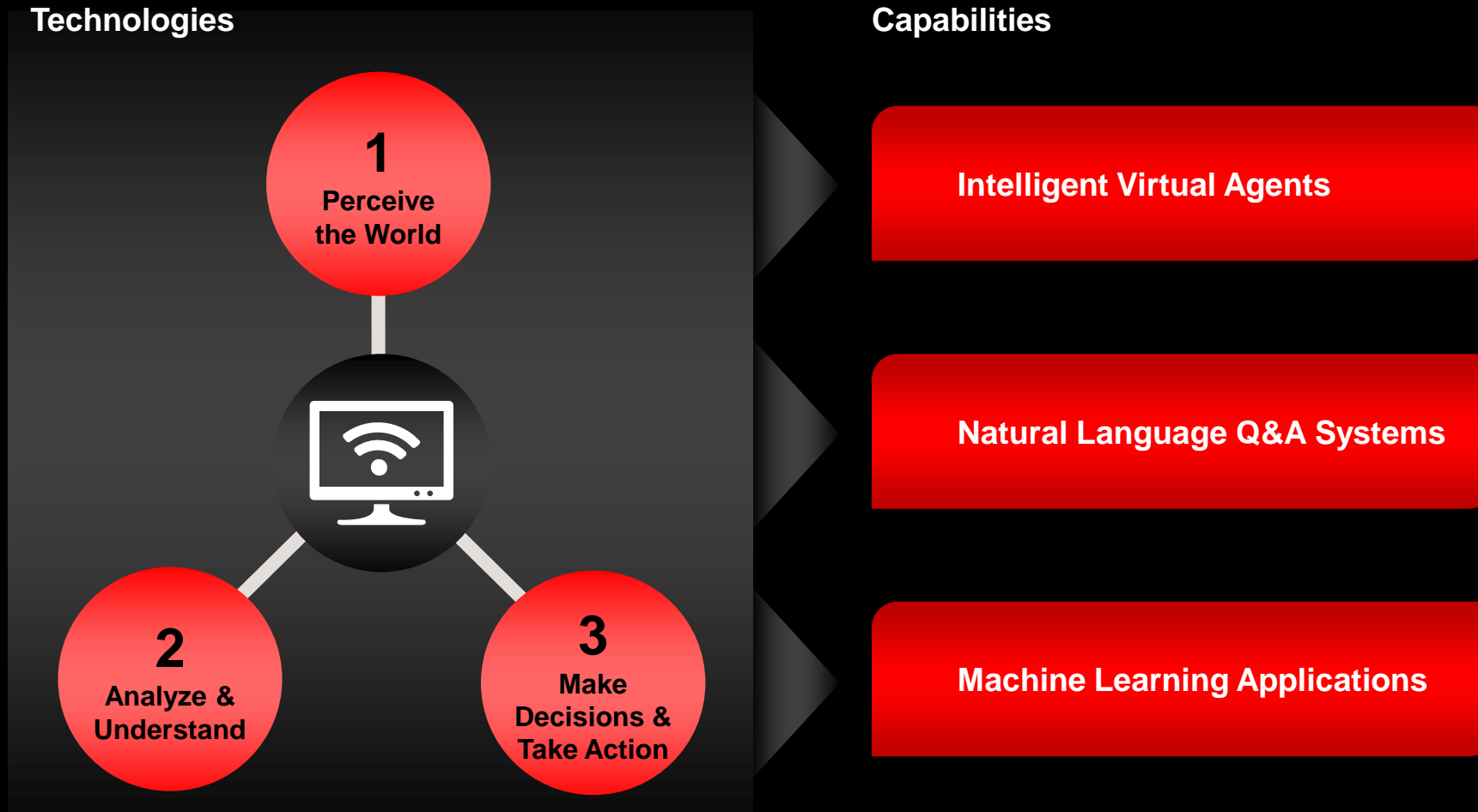
Cognitive computing aims to make computers operate as humans would

- 01 **Sense:** Computer vision, audio processing, or sensor processing
- 02 **Comprehend:** Natural language processing or knowledge representation
- 03 **Act:** Inference engines, machine learning, or expert systems



Combining technologies that sense, comprehend, and act, there are currently 3 capabilities possible

Human-like characters, natural interaction, recommendation systems





Cognitive computing technology is already in place in Health

Deep Knowledge Ventures appointed to its board of directors a machine learning program capable of making investment recommendations.

- Cognitive computing is making inroads with intelligence augmentation in the medical field assisting doctors.
- Procurement organizations are seeing intelligent automation through the replacement of supplier help desks.
- More futuristic capabilities could include a category advisory cognitive agent, assisting category managers with content knowledge as doctors are assisted today.
- According to Gartner, “by 2017 managed services offerings leveraging autonomies and cognitive platforms will permanently remove head count to drive a 60 percent reduction in the cost of services.”
- Benefits span not just cost, but quality, consistency, and compliance, with a need for the system to stay connected to the greater mandate of procurement, with the right checks and balances

Make the future happen!