Examining the Role of the CPO as a

CATALYST FOR DIGITAL TRANSFORMATION

in a Time of Disruption
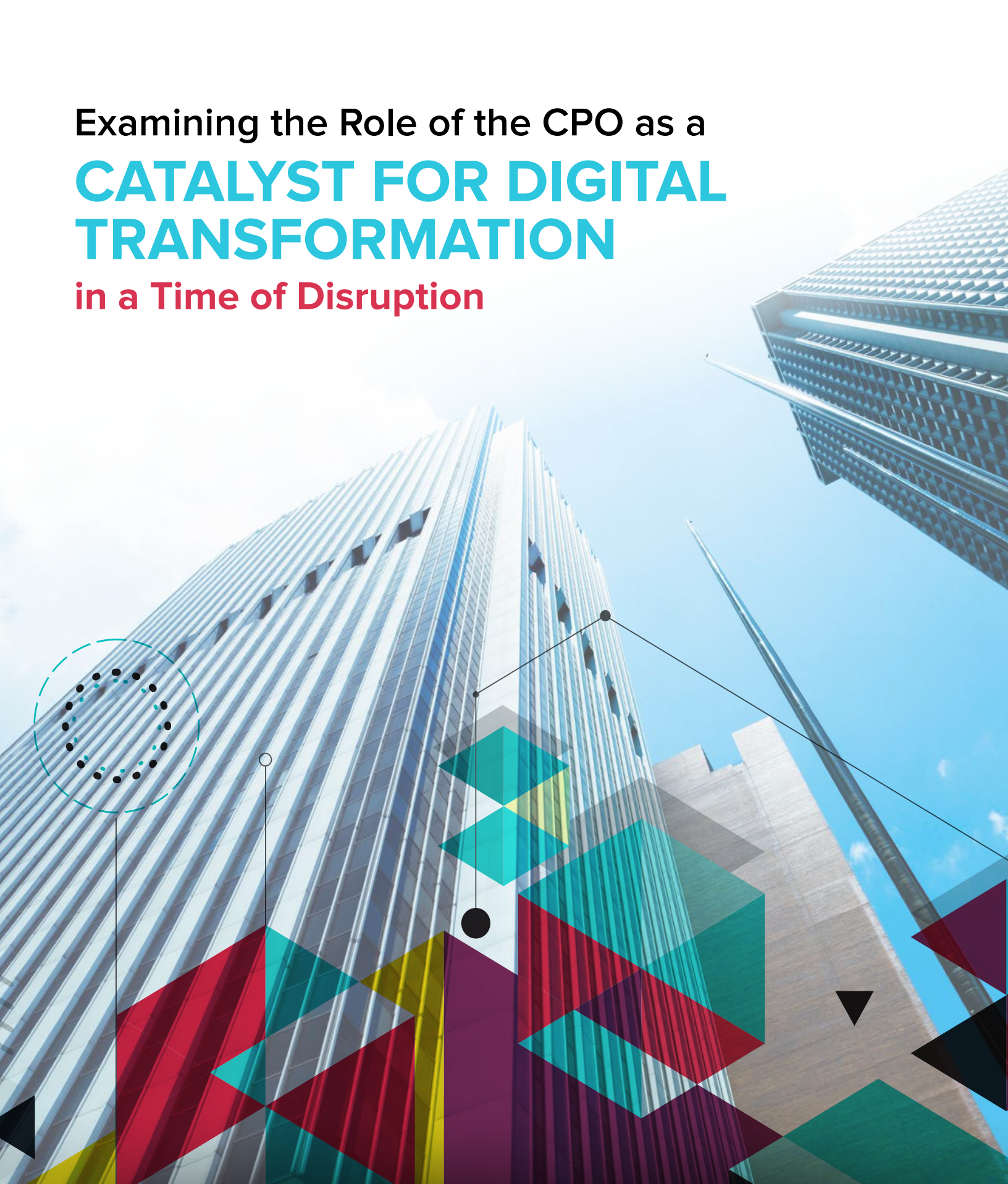
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Executive Summary

The role of the CPO as a strategic business partner has solidified over the past several years, and within mature organizations their mission has evolved into one of the key architects of forward-facing strategy with the goal of unlocking value across the organization. Within this role, the CPO must now assist their organizations in navigating through a global business environment characterized by exciting opportunity as well as rapid change.

Today, fluctuations in the global economy as well as the development and introduction of technologies such as the Cloud, AI, and Blockchain have led to a call for digital transformation. Businesses must embrace adaptable tools and a greater ability to gather and share data across the organization in the near term, as disruption is a force that is as impossible to ignore as it is industry agnostic. Behind the potential for even greater strategic gains and tactical efficiencies lie the threat that those who fail to react will fall behind their peers.

Fortunately, pressures to transform digitally also provide opportunities to deepen the influence of procurement leadership even further. New solutions will allow for the bulk of routine purchasing to be automated, while solutions that put spot purchasing into intuitive self-service tools offer the potential to capture the last vestiges of tail spend. This in turn leads to a wealth of data that a new generation of procurement will be able to turn to in order to deliver stronger insights and value to their stakeholders. The future of the procurement hire now has elements of a consultant, a negotiator, and a data scientist.

In this edition of ProcureCon's annual CPO study, we will examine data collected from CPOs overseeing the management of over $1 billion in annual spending. The report also includes the direct observations of leaders in the field to create a picture of the moment in time, as well as the next several years as procurement embarks on a journey of digital transformation that is changing the way the world does business on a fundamental level.

Additional Contributors

In addition to the benchmark data and analysis contained in this report, several executives and industry experts have contributed their insight via interviews. Selected quotations have been used to add context and color to the statistical information contained in this document. Interviews centered on benchmark findings as well as key trends identified by research.

Geoff Tonini, Sr. Manager, Global Supply Chain, Procurement and Strategy, **Hess Corporation**

Greg Tennyson, CPO, **VSP Global**

Joshua King, VP & CPO, **American Water Company**

Keith Woody, VP, Global Indirect & Logistics Sourcing, **Technicolor**

Mudit Kumar, Senior Director, **GEP Worldwide**

Key Findings

While traditional cost reduction metrics are still the most commonly used to demonstrate procurement's value to the C-suite, ROI and EBITDA are also making gains. This finding suggests that procurement's role as a value generation center is now becoming increasingly mainstream, and how their performance is evaluated is becoming more multidimensional as a result.

Using a broader range of metrics to evaluate procurement's performance not only creates an opportunity to demonstrate value beyond pure cost savings—it can create avenues to prove the value of newly adopted solutions. This is an important point when working to advance the progression of a digital transformation already underway.

Also, mainstream is the need to progress with digital transformations, as evidenced by the 84% of respondents who are in the midst of sourcing solutions, integrating them, or who feel that they have already achieved a full transformation.

There is no longer any question whether or not digital transformations are necessary for procurement. CPOs representing larger companies with over $1 billion in annual spend under control may be incentivized to more aggressively pursue technology changes that they view as important for competition in the long term. Regardless, the fact that such a large percentage of CPOs recognize the need to change implies that within the next several years, procurement as a discipline will be changed by the aftermath of new technology integrations.

The most prominent challenges that CPOs are working to overcome are a combination of a lack of urgency, budget restrictions, and the difficulty of bringing new technologies into pre-existing environments. CPOs will need to address these above all by communicating the necessity of digital transformations to their key stakeholders.
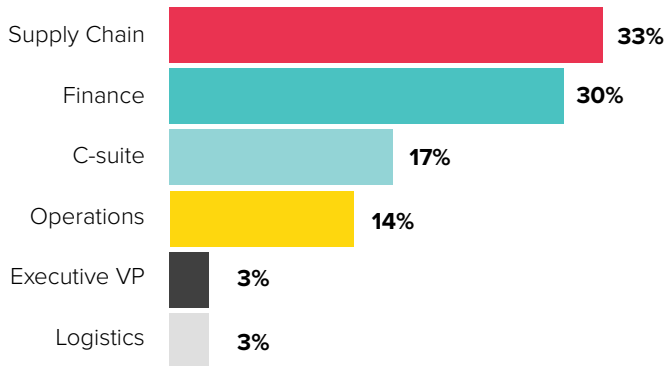
By pointing to outcomes including stronger insights, increased self-service options, and a lowered amount of tactical work, CPOs can make the case for change and overcome internal resistance based on the idea that current strategies are working well enough, or would take too much to improve.

Research Analysis

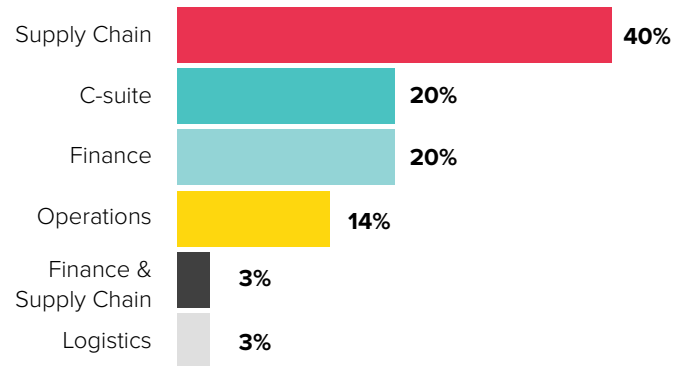## Procurement's relationship with the C-suite, and making the case for change

Which department does Procurement report into at your company?

Department	%
Supply Chain	33%
Finance	30%
C-suite	17%
Operations	14%
Executive VP	3%
Logistics	3%

Which department do you believe Procurement should report to?

Department	%
Supply Chain	40%
C-suite	20%
Finance	20%
Operations	14%
Finance & Supply Chain	3%
Logistics	3%

The majority of CPOs will report into the Supply Chain function, Finance, or both, with C-Suite and Operations also represented.

The relationship of the CPO with other key business leaders is deepening, and while they may often report into either Finance or the Supply Chain function, their lines of communication directly into the C-suite will often be strong as well. Ultimately, the role of the procurement executive has increasingly taken on the characteristics of a master communicator understanding and even anticipating the needs of the business.

The majority of CPOs believe that they should report into Supply Chain, followed by either the C-suite or Finance.

"As you continue to see some of the more transactional functions disappear, whether through outsourcing or RPA, you're also changing your managerial styles. To be a leader, you are not necessarily managing 500 people who are all working at the procurement desk. You now need to manage the bots and outsourcing relationships. That's a different skill set than the motivator and strategist of yesteryear who was trying to incentivize an individual with a pay check."

– **Geoff Tonini**, Sr. Manager, Global Supply Chain, Procurement and Strategy, **Hess Corporation**

"Like any procurement department right now, we're going through transformation. We are focusing around the concept of doing more with the resources that we have and adding more value as we shift from a tactical focus to a more strategic focus. We are seeking to take routine processes and automate those, and up skill the organization so that it is staffed to focus on broader, bigger, and more complex business challenges.

Within my organization, we are center led, and under that I have a few different teams. One team is a national categories and corporate procurement team, focusing more on the broader national categories that we spend across the country. Things like pipe, valves, chemicals, and bigger spend items that there isn't a lot of variation in across the country and the corporate procurement space as well.
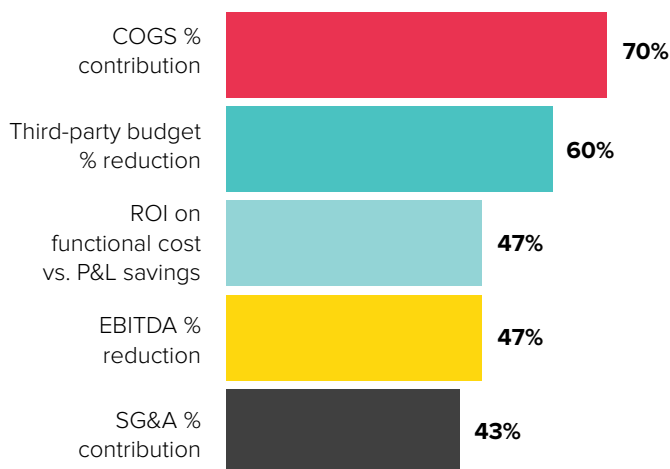
Then I have a state procurement team. That state procurement team focuses more on local procurement and regional procurement activities across the country. I have people from California to New York, across all of our service territory. They're where the rubber meets the road with the end user.

I also have a support services group. The support services group is the group that's focused more on digitization efforts and the projects that fall under that umbrella. That's where my data scientists and business analytics team reside. I have a contract analyst who is more like a legal liaison that resides within this group. They also support our investment recovery and sustainable supply chain efforts as well.

Then I have a supplier diversity manager, who focuses on coordinating national supply diversity efforts, as well as a program manager that's focused more on my key supply chain program."

— **Joshua King**, VP & CPO, **American Water Company**

Which metrics are being used in the C-suite to assess your value?

Metric	Value
COGS % contribution	70%
Third-party budget % reduction	60%
ROI on functional cost vs. P&L savings	47%
EBITDA % reduction	47%
SG&A % contribution	43%

The most frequently used metrics for value assessment are still costs of goods sold and management of third-party budgets. In just under half of the organizations represented, ROI and EBITDA are in play as well.

Diversifying the metrics that the C-suite uses to evaluate procurement's performance can be taken as a sign that their contributions are being looked at beyond a classic focus on cost reduction. As new solutions provide procurement with more data insights, they will be further enabled to demonstrate value.

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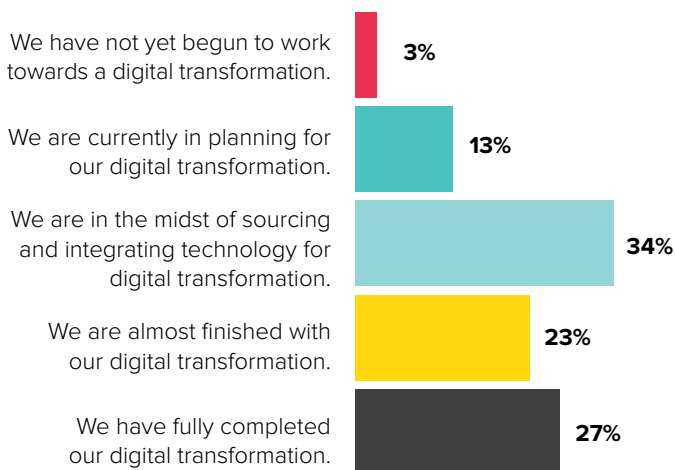Sign up for a free account at **amazonbusiness.com.**

"We're still in the gathering trust phase in using the data that is coming from us to improve relationships with our stakeholders. We're rolling out Salesforce right now, so we haven't realized the full potential of our strategy yet. I believe we will. We've taken a proactive lead and decided that we were going to build this capability and show the value add as opposed to being asked for the value add.

Traditionally in the oil and gas industry, it can be a stereotype that a company is not world class because of its supply chain. We're trying to change that attitude. We believe that in order to be a great company, you need a great supply chain backing you up. We are becoming a critical cog in the wheel towards becoming world class, and the business is starting to realize that relationships with suppliers are critical to manage."

— **Geoff Tonini**, Sr. Manager, Global Supply Chain, Procurement and Strategy, **Hess Corporation**

Responding to the need for digital transformation

Where is your Procurement team currently on their path to digital transformation? Digital transformation is defined as a movement away from data silos, adoption of the cloud, as well as increased automation and AI introduction to streamline tactical work.

We have not yet begun to work towards a digital transformation.	**3%**
We are currently in planning for our digital transformation.	**13%**
We are in the midst of sourcing and integrating technology for digital transformation.	**34%**
We are almost finished with our digital transformation.	**23%**
We have fully completed our digital transformation.	**27%**

50% of respondents consider their digital transformations as complete or almost complete, while another 34% are in the midst of sourcing and integrating the tools they need.
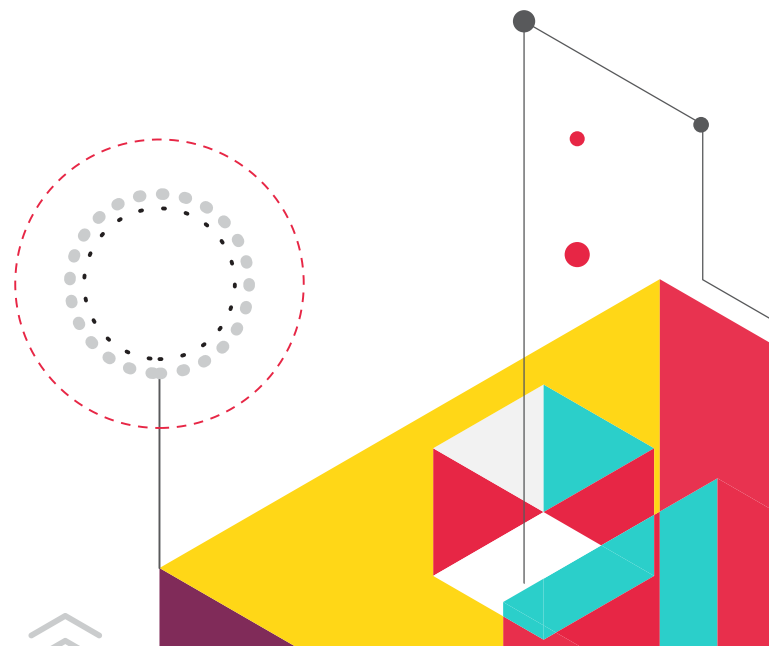
"I believe the pace of digital transformation will absolutely continue to increase. The two major goals that CPOs are driving towards today are end-to-end visibility and truly actionable insight.

Even as we think about the technology that a lot of organizations already have in place, sometimes there are challenges in having a view of the data that cuts across the entire spectrum of the sourcing lifecycle. For example, it can be challenging tying back a purchase all the way to the initial strategy talks, or a contract all the way to the actual purchase. A lot of times, these individual systems don't talk seamlessly to each other, and the challenge for CPOs is creating the means to connect their disparate systems.

The other trend that we see is CPOs taking a much bigger interest into the technology and data conversations. Historically CPOs either used to work with somebody in IT to drive the technology agenda, or they would carve out a technology PMO within their organization which would focus on technology enablement.

What we are seeing now is that technology, especially emerging technology, is becoming a central part of the CPO agenda. They are taking personal interest, investing more time in it, and driving some of these programs with personal accountability, which I think is very important. We are seeing much more ownership and drive coming directly from CPOs into these emerging technologies. That is a pretty big shift in how they are viewing it in terms of importance."

— **Mudit Kumar**, Senior Director, **GEP Worldwide**

Despite the share of respondents who believe their digital transformations are close to done, the concept implies more of a journey than a static endpoint. Currently, the importance of pursuing technology developments that can break down data silos in the organization is both about conferring a strategic advantage as well as setting up sustainable technology practices for the next several years. Procurement is seeking to gain end-to-end visibility of the spend within their organization, as well as the ability to deliver insights based on what that data is telling them.

The infrastructure to support the delivery of data insights is already being developed by many CPOs. While the potential of AI and cognitive procurement has many looking to the future, without putting end-to-end data management tools in place these next steps will not be possible.

"Digital transformation is a concept that affects the entire organization, not just procurement. We have identified that the expanding concepts of data ownership are not adequately addressed in a lot of our contracts that may have been set up four to five years ago.

We can see the effects of digital transformation manifest themselves in the way we approach our data. We have gone from a simple reporting approach, to cleaning it with data management tools. Today, we have progressed to the point where we are pursuing machine learning and artificial intelligence and trying to sustain our pace of innovation. That evolution has occurred within the past five to seven years. Solutions that were sufficient five years ago are now being viewed as antiquated and limiting from a data perspective."

— **Geoff Tonini**, Sr. Manager, Global Supply Chain, Procurement and Strategy, **Hess Corporation**

"We use data lakes here instead of databases. We dump all of our information into the data lakes—both structured and unstructured data, analytic and natural language data.
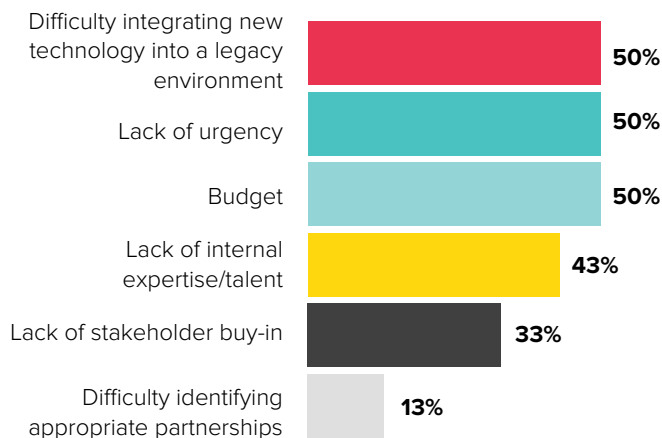
To run analytics for supply chain before, you'd have to take all your raw spend data, and you would enrich it and cleanse it. You could run it into a database and slice it and dice it and look for opportunities.

Today, we are going to use artificial intelligence to do the data cleansing and enrichment. Now you get your supply analytics, but it even goes beyond that and uses AI to help find insights for you. If I see a deficiency with a supplier based on what AI is telling me, I know I need to focus my efforts on this area. It could be I have a quality issue, or I could have a meter issue or any other kind of problem.

Before, humans had to input that data for you to see that there was a quality issue. Now through IoT and lot of other things that we're using, we're getting these data quality issues almost instantaneously into the data lake. The data lake feeds it into the system. The system tells us, so we can go take action. We anticipate having this capability go fully live sometime next year."

— **Joshua King**, VP & CPO, **American Water Company**

What are the greatest roadblocks standing in the way of your ability to transform digitally?

Roadblock	Percentage
Difficulty integrating new technology into a legacy environment	50%
Lack of urgency	50%
Budget	50%
Lack of internal expertise/talent	43%
Lack of stakeholder buy-in	33%
Difficulty identifying appropriate partnerships	13%

Three roadblocks stand above the rest as the main challenges that respondents are facing when advancing their digital transformations. These are budget, a lack of urgency, and the challenges of bringing new technology into a legacy environment.
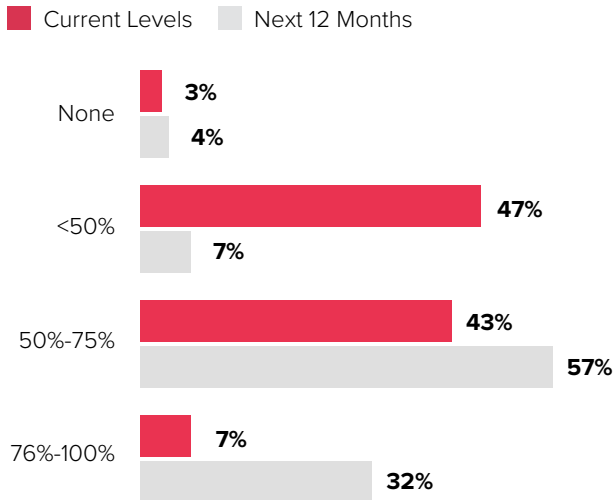
While there is often significant inertia in place preventing CPOs from accelerating digital transformations within their organizations, the benefits of updating technology infrastructures will often directly address these core challenges upon implementation. A more fluid transfer of data, delivery of actionable insights for value creation, and an integrated approach to technology acquisition will quickly demonstrate tangible benefits to the C-suite when put into action.

"Proving out an ROI on non sales revenue generating offerings can be daunting. As a company, our focus is digital transformation. What drives our discussions is sound, value-based business outcomes. In our case, value takes various forms — risk mitigation, greater economies of scale, better contract terms to name a few. We've been successful in our best-of-breed approach to solutions by demonstrating the value we can deliver through investments in people, process and technology."

— **Greg Tennyson**, CPO, **VSP Global**

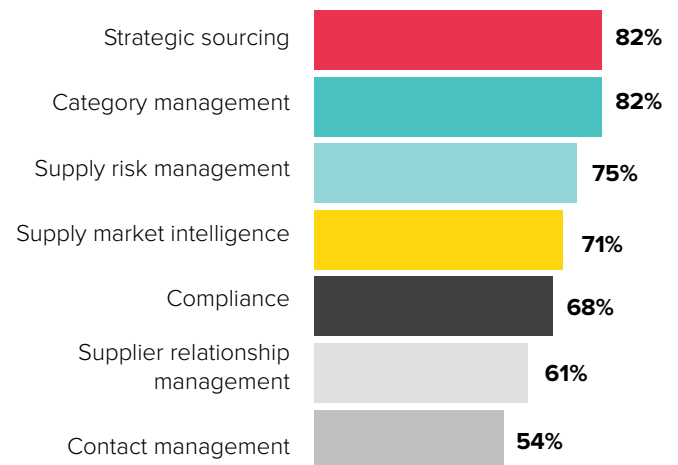# The role of contingent labor, managed services, and automation in streamlining procurement's mission

Current levels of automation and automation in the next 12 months

■ Current Levels   ■ Next 12 Months

Level	Current	Next 12 Months
None	3%	4%
<50%	47%	7%
50%-75%	43%	57%
76%-100%	7%	32%

Which managed procurement services are most relevant to you?

Service	%
Strategic sourcing	82%
Category management	82%
Supply risk management	75%
Supply market intelligence	71%
Compliance	68%
Supplier relationship management	61%
Contact management	54%

86% of CPOs have already automated between one to three-quarters of their total procurement processes. Within the next 12 months, these numbers will shift to the point that 89% will have automated at least 50% of their procurement processes.

The future of procurement will feature automation in place for repetitive tasks such as RFP creation and routine purchasing. Already, automation is helping CPOs focus on strategy and focus their headcount on critical skill sets. This trend will only continue to accelerate, to the point that automation should be expected to take over within every aspect of procurement where repetition makes it feasible. This in turn opens up more possibilities for skill set development on the part of the procurement team.

CPOs are interested in a broad range of managed services, with the top three being strategic sourcing, category management, and supply risk management.

CPOs are considering managed services to assist them across virtually all aspects of their missions, with strategic sourcing and category management standing out as priorities.

"One of our objectives is to automate our processes, so technology can do the heavy lifting. An example of this is we are in discussions with our technology partners to put an RFx engine on top of our spend analytics solution, so that the act of conducting an RFx becomes more automated. Spend analytics will identify sourcing opportunities, and then queue them up as a sourcing event right away within the RFx engine without the sourcing professional having to do any heavy lifting. This turns the process into more of a review, as opposed to creating a sourcing event.

Our self-service strategy coupled with robotic process automation will free up our procurement professional to play the trusted advisor role."

– **Greg Tennyson**, CPO, **VSP Global**

"Procurement by itself is not an audit function. It's not procurement's job to be managing risk in an organization. That stated, what we are also seeing increasingly is that procurement as a gatekeeper is becoming more involved in mitigating potential risks. Organizations are looking at the CPO to play a bigger and bigger role in managing the supply chain risk or supply risk overall, but also to do some fraud prevention, risk prevention, and internal controls support type work.

A lot of new technologies that are coming on board, especially artificial intelligence and predictive analytics, they help flag some of those areas. What used to be extremely tedious is getting simpler by the help of these emerging technologies."

— **Mudit Kumar**, Senior Director, **GEP Worldwide**

Within the next 12 months, do you expect your use of contingent labor within your organization to increase?

- **33%** Yes
- **15%** No
- **37%** Stay the same
- **15%** Decrease
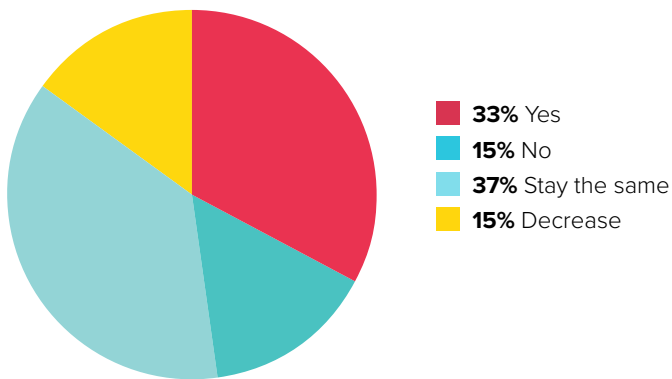
While 52% of respondents are not planning on changing their usage of contingent labor, a third are planning on increasing their usage within the next 12 months.

Along with automation, the use of managed services and contingent labor allow procurement to consolidate strategic work within the organization and eliminate everything else.

Are your contingent labor program's goals closely tied to strategic and tactical corporate goals?

- **81%** Yes
- **15%** No
- **4%** N/A
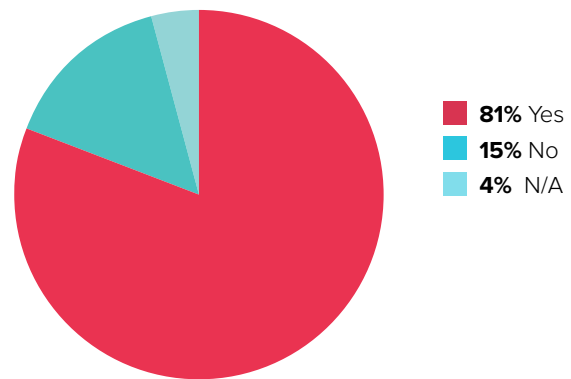
In the large majority of cases, contingent labor management is part of a tactical strategy that involves procurement advancing corporate goals.
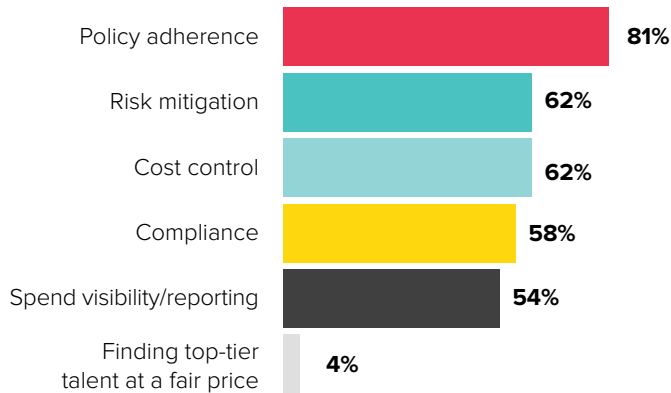
"We have a unique staffing model for our sourcing organization because we focus on hiring highly experienced negotiators, and these roles are strategic in nature. For our tactical roles that are critical to any sourcing organization, we utilize an outsourced model. This third-party partner handles the majority of our back-office activities.

I see the industry changing – particularly to the need and focus on analytical skills, and Technicolor is evaluating if these "data scientist" positions are ones that we need to have internal to the team, versus outsourced with a third-party partner, and if it is a group consolidated to service all of the enterprise, versus just sourcing efforts."

– **Keith Woody**, VP, Global Indirect & Logistics Sourcing, **Technicolor**

What are your contingent labor program's goals?

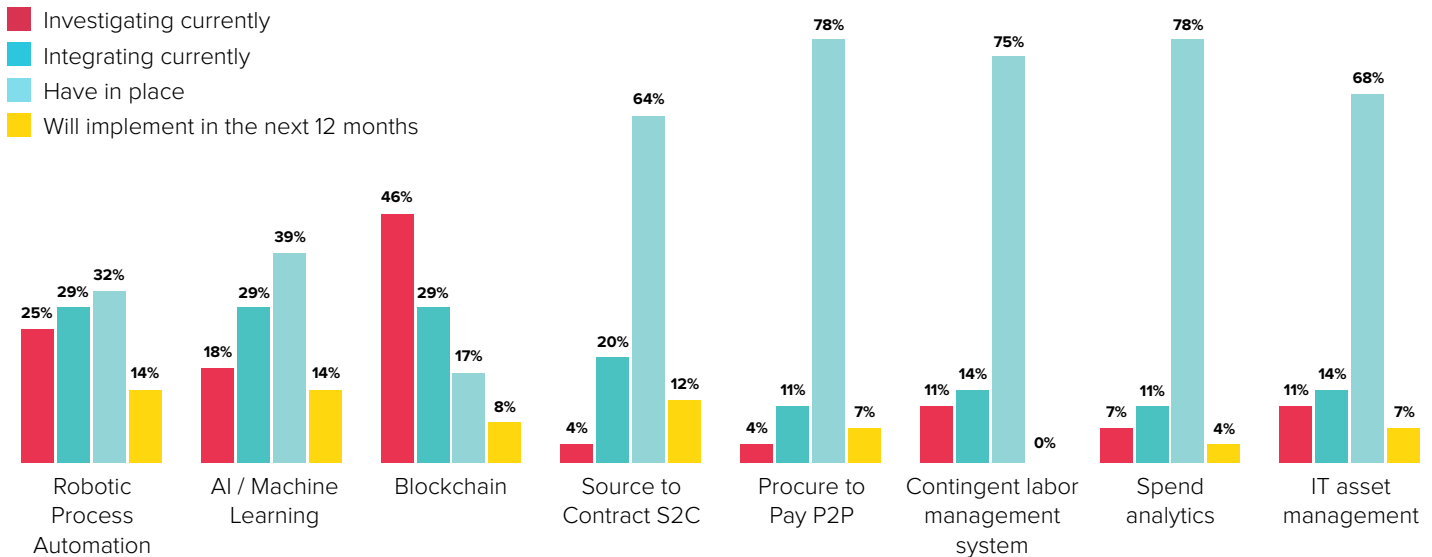| Goal	Percentage
Policy adherence	81%
Risk mitigation	62%
Cost control	62%
Compliance	58%
Spend visibility/reporting	54%
Finding top-tier talent at a fair price	4%

Contingent labor programs are in place to meet a range of goals, most notably to promote policy adherence, then manage risk and control costs.

Policy adherence and risk mitigation are noteworthy goals that procurement is working on within the context of their contingent labor programs. As procurement takes a more proactive stance on managing the needs of the business, they are naturally getting more opportunities to identify potential risk. For this reason, CPOs are starting to become more critical players in the risk management strategies of their organizations at large.

Where CPOs are seeking to integrate transformational technologies

Which of the following technologies are you investigating currently? Which are you working on integrating currently? Which do you have in place? Which will you have implemented within the next 12 months?

Legend:
- ■ Investigating currently
- ■ Integrating currently
- ■ Have in place
- ■ Will implement in the next 12 months

Chart data:

Technology	Investigating currently	Integrating currently	Have in place	Will implement in the next 12 months
Robotic Process Automation	25%	29%	32%	14%
AI / Machine Learning	18%	29%	39%	14%
Blockchain	46%	29%	17%	8%
Source to Contract S2C	4%	20%	64%	12%
Procure to Pay P2P	4%	11%	78%	7%
Contingent labor management system	11%	14%	75%	0%
Spend analytics	7%	11%	78%	4%
IT asset management	11%	14%	68%	7%

RPA, AI, and Blockchain are the technologies that procurement is currently seeking to learn more about and integrate into their operations, contrasting with more established procurement tools that larger organizations already consider important to managing at scale.

With key pieces of spend management technology now in place for the majority of procurement teams managing high-dollar annual spending, their attention is turning towards the next level of solutions that will be integrated in the coming years. These new investments will be focused on delivering continuity of information across solutions, as well as the next layer of analytical insights that can be derived from a complete picture of the end-to-end sourcing process.

"It's one thing to do cognitive procurement where you're identifying trends, creating predictive analytics, and putting information in front of your sourcing professionals. That's a great first step. Take it another step and actually start creating sourcing events on behalf of the professional, so that they no longer have to do the heavy lifting.

Think about the day when sourcing professionals have data digitalization in front of them, where the system does the spend analytics and presents them opportunities to source. Then, the sourcing engine kicks in and creates the event on their behalf, absent them having to do work.

Your technology creates supplier intelligence to identify the right sourcing partners. It's identifying who you want to source from. It's prequalifying the suppliers from a capability, financial viability, and risk perspective. Then, it's just queuing up events.

The future state of the sourcing professional will not be doing analysis. It will focus on engaging the business to validate opportunities. The sourcing events, the spend analytics, cognitive sourcing, will simply be presented to them. They'll act on it, as opposed to doing all the tactical work."

— **Greg Tennyson**, CPO, **VSP Global**

"Understanding how to create a budget and deliver ROI within the organization is very helpful, because many times as a sourcing organization, you see the need well before the business that you serve needs it. That stated, a budget conversation is always very difficult to get through. It's important to be able to communicate not only what will create an advantage in the short term within the organization, but what will continue to deliver value three to four years out. This can be more difficult within a growing organization, but it's critical in order to keep the business moving in the right direction."

— **Keith Woody**, VP, Global Indirect & Logistics Sourcing, **Technicolor**

What percentage of your department budget are you investing in future-facing technologies (AI/machine learning, RPA, cognitive procurement tools, etc.)?

Range	Percentage
10%-20%	50%
21%-30%	32%
31%-40%	7%
41%-50%	4%
51%+	7%
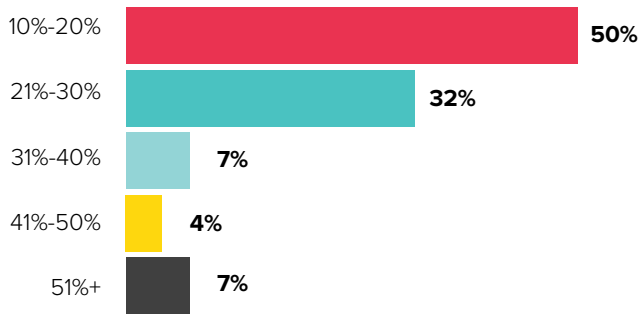
While 50% of respondents will allocate between 10% to 20% of their budgets to transformational technologies, the other 50% are spread out on a spectrum of more aggressive investment levels.

As digital transformations continue, they will have an exponential effect on the level of investments that can be used to develop stronger technologies. With cost savings in place through the automation or outsourcing of tactical processes, procurement can reallocate more budget into expanding their technology infrastructure.

"My message to CPOs is that you have to first define the value that your organization is looking for out of your supply chain. And if you need to go down the digital transformation route to do it, that's where you need to build the business case to enable your value creation.

I think there are other organizations out there that are happy just sitting back and doing the transactional elements of procurement themselves. But, with the pace of industry now and how much the digitization and the AI piece is playing a role now and, in the future, you are going to quickly find yourself left behind, far behind if you don't begin a process to change."

— **Joshua King**, VP & CPO, **American Water Company**

Key Recommendations

Whatever the size of the organization, the CPO has a duty to assist with digital transformation now, putting solutions in place that increase the amount of automation as well as the self-service opportunities related to routine procurement. The dividends from reduction of tactical work go beyond ROI or cost reduction—they provide the means for procurement leadership to focus on high-level strategy.

As digital transformations progress, the ideal skill set of a procurement hire will begin to shift. While the ability to communicate effectively and understand the mission of the business has been growing in importance over the past several years, CPOs must now start to look for skill sets related to data science and the processing of analytics. New data and insights created by the integration of AI and machine learning necessitate procurement talent who is able to make sense of the patterns they uncover and deliver prescriptive recommendations to the business based upon them.

RPA, AI, and Blockchain are the technologies that CPOs will be evaluating the most within the next 12 months, yet in many situations it can be a challenge to create buy-in for transformational technologies. This is particularly true when they do not obviously contribute to pure cost reduction, which remains the most common metric the C-suite will use for evaluating procurement's impact. Instead, procurement should look to communicate the overall value that comes from new technology integration which includes time savings, risk mitigation, and the generation of strategic insights. As the skill set of the procurement organization continues to develop, the value of the data driven insights they provide will continue to catch up to the traditional emphasis on value present within a typical organization.

Appendices

Appendix A: Methodology

The results analyzed in this report were gathered from responses to a digital benchmarking survey delivered to members of ProcureCon Indirect West's invitational CPO roundtable. 30 executives responded to the survey, representing organizations with over $1 billion in annual spend under management. Interviews with sources were conducted after survey data was compiled and centered on discussion of benchmark results.

Appendix B: Demographics

What is your title?
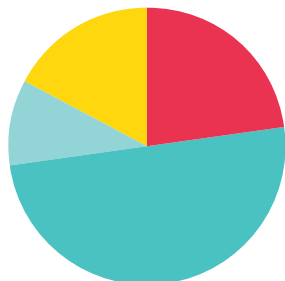
- **23%** CPO
- **50%** Director of Procurement/Global Procurement Director
- **10%** Head of Procurement
- **17%** Vice President of Procurement

Are you the highest ranking procurement officer within your organization?

- **37%** Yes
- **63%** I share responsibility with another leader

What is the USD amount of total spend under management within your organization?

$1B	17%
$1B-$5B	50%
$5B-$10B	20%
>$10B	13%
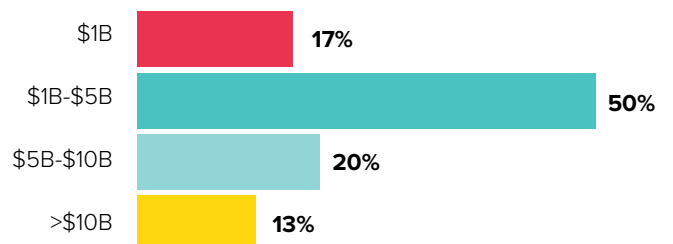
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