

Operations Practice

Five themes can help procurement shape recovery in the next normal

For procurement to help lead growth in the next normal, now is the time for leaders to begin work on reimagining every aspect of the function.

by Tarandeep Singh Ahuja, Sharat Chikatmarla, Levix Liang, Yen Ngai, and Ling Zhao



In the year since the COVID-19 health crisis began, business leaders around the world have been in crisis-management mode to protect their people, their customers, and their enterprises. Procurement leaders have been no exception. A particular vulnerability the pandemic's global nature exposed is in supply chains, which have been stressed at a scale with few precedents.

As economies begin their transition to the next normal, crisis management is evolving into recovery, with a few signs of growth starting to return. Our conversations with procurement leaders have identified a common theme: of newfound energy to apply hard-won lessons learned from an extraordinary time. These executives' new focus is on reimagining the procurement function so that it can lead efforts in the great reset to follow.

We spoke with about 160 procurement leaders from across the Asia-Pacific region to learn more about the themes shaping their efforts for recovery, now and into the future.

Procurement leaders' priority: Reimagination

Procurement leaders were close to unanimous in agreeing that a reimagination of the procurement function will be required, both to succeed in recovery efforts and to transition to a new operating model that's fit for the next normal. As summarized in Exhibit 1, five central themes are top-of-mind for the survey respondents:

- *Recalibrate cost-saving targets* by zero-basing category and value-creation strategies
- *Unlock new opportunities* by investing in supplier partnerships and joint innovations
- *Accelerate value capture*, leveraging digitization and spend analytics
- *Enable remote-working models* by transforming to a future-ready operating model

Exhibit 1

Five themes can guide procurement in the next normal.

1 Zero-base category and value-creation strategies

2 Develop supplier partnerships and co-innovation

3 Accelerate adoption of digital and analytics



4 Transform to a future-ready operating model



5 Reinvigorate core and new procurement capabilities

81%

agree or strongly agree that
**procurement will need to
reimagine its operations
based on five themes**

Source: 2020 Reimagining Procurement for the Next Normal Survey

- *Help employees adapt* to new working models by reinvigorating both core and new capabilities

Of course, the emphasis on each priority is different depending on the industry context. For example, industries such as transportation and logistics, consumer goods, telecommunications, and technology are focusing more on supplier collaboration, perhaps because of the global nature of their supply chains and the disruption they have felt from movement restrictions. Traditional heavy industries, such as oil and gas, chemicals, and advanced materials (such as nanomaterials) are facing huge cost challenges resulting from significant reductions in demand, while financial services and agriculture leaders are also looking to transform their functions—not because of cost pressures, but instead to accelerate digital and spend-analytics adoption to unlock new opportunities.

Zero-basing value-creation strategies

Almost half—46 percent—of procurement organizations report having lowered their cost-reduction targets as a direct result of the COVID-19 pandemic, while only 28 percent say they have raised targets (Exhibit 2). Respondents cite a wide range of reasons, including resource redirection to boost supply-chain resilience, financial difficulties among suppliers, and major shifts in both demand and supply volumes.

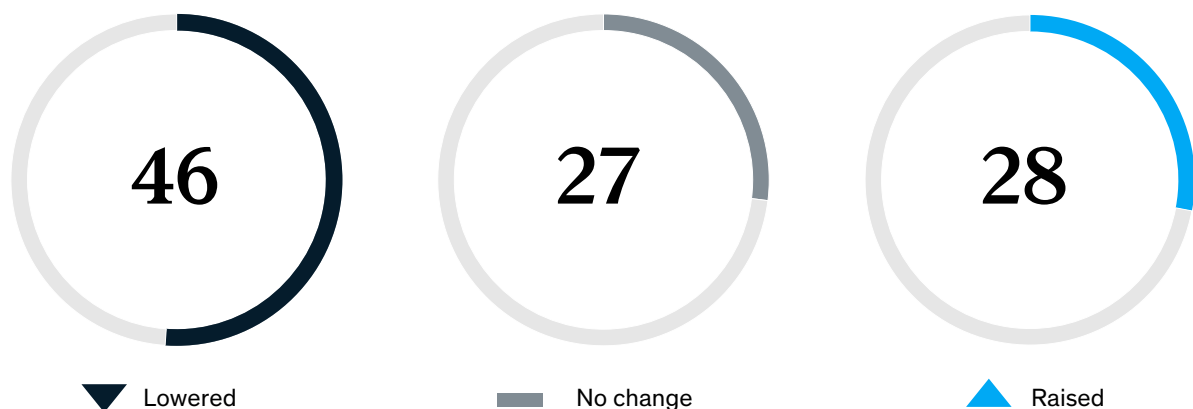
While leaders may be tempted to slow or reduce expectations, procurement has a central role to play in efforts to raise earnings by shrinking expenditure as a percentage of revenue. We saw similar scenarios play out in the recovery efforts from the 2008 global financial crisis.

Exhibit 2

A majority of respondents have lowered cost-reduction targets as a result of COVID-19.

Change in procurement cost-reduction targets as a result of COVID-19

Respondents, %



86% believe procurement is playing a sufficiently influential role in leading their organization's recovery post-COVID-19

Source: 2020 Reimagining Procurement for the Next Normal Survey

To achieve the earnings improvements many organizations are looking for, procurement leaders will want to examine new ways to create value. Applying zero-basing to spend categories can reveal previously hidden resources—which can prove critical in responding to significant changes in demand—supply dynamics. For example, as remote work reduces demand for office space, organizations may choose to rethink their property strategies and recalibrate their real-estate cost baselines.

The adoption of new technologies may compound zero-basing's impact, as at a telco that recently embarked on a technology-enabled journey to reduce the cost of its contact centers. Costs indeed fell by almost half, while customer experience improved significantly. That success

is leading the company to pursue end-to-end digitization by deploying chatbots, voice bots, and self-serve capabilities that could virtually eliminate the need for customers to contact the company.

Unlock new opportunities with partners

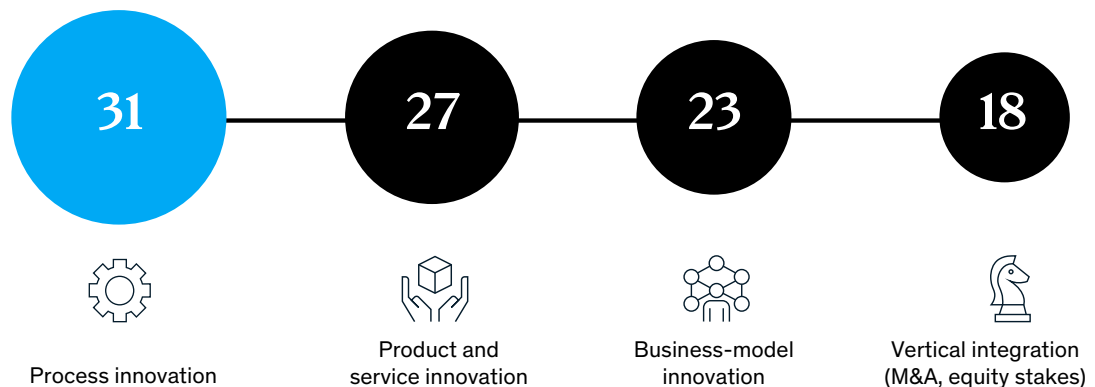
Beyond a focus on cost, companies with advanced procurement functions know that supplier collaboration offers opportunities for both parties to boost revenue and profits. Indeed, companies that innovate regularly in partnership with suppliers can achieve higher earnings growth (by up to 10 percent). Not surprisingly, then, 88 percent of respondents told us that they either have started, or plan to start, joint-innovation programs with their suppliers (Exhibit 3). While procurement leaders report focusing mainly

Exhibit 3

Joint-innovation programs can unlock new opportunities for procurement teams and suppliers.

Types of existing or planned joint-innovation programs that respondents report pursuing with suppliers

Respondents, %



88% either have started or plan to execute **joint-innovation programs with suppliers** to help unlock new opportunities through the downturn

Source: 2020 Reimagining Procurement for the Next Normal Survey

on process, service, or product innovations with their suppliers, some collaborations encompass business-model innovation. Vertical integration opportunities are also emerging to open previously untapped sources of value.

A major automotive player in Asia, facing cost pressure and demand shortfalls due to COVID-19, turned its attention to component costs. By establishing joint ventures with suppliers offering leading-edge technologies, the company managed not only to reduce parts cost but also to bolster supply-chain stability—while extending new technologies into its product-development arsenal.

Deploy digitization and spend analytics

In our research, 69 percent of procurement leaders told us that they consider digital and analytics

solutions to be even more valuable in the next normal than they are today, with greater potential to increase procurement’s effectiveness (Exhibit 4). These technologies can help identify new savings opportunities, deepen supply chain transparency, and enhance resilience, while facilitating more-collaborative remote-working models.

In particular, it was spend analytics that most respondents identified as the use case with the greatest potential to support procurement activities, with insights that can guide procurement functions in prioritizing value-creation opportunities and identifying the most important factors for capturing the impact.

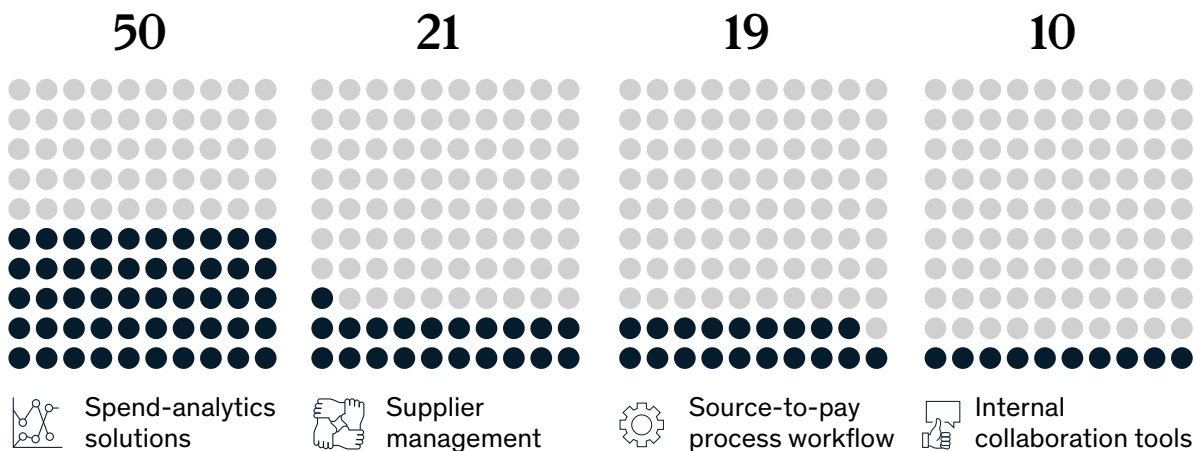
As organizations reimagine for the next normal, procurement functions can use this time to

Exhibit 4

Spend analytics is cited as the digital solution with the greatest potential impact on procurement functions.

Highest-impact digital and analytics solutions in procurement

Respondents, %



69% consider **digital and analytics solutions** to be more valuable post COVID-19

create a digital roadmap laying out the route to a procurement function of the future. Beginning with an assessment of the digital and analytics capabilities required along the end-to-end source-to-pay process, procurement leaders can identify the points most requiring enhancement, and then prioritize the most relevant use cases.

A global technology provider that adopted digital and analytic spend solutions is already realizing these benefits. Prior to the COVID-19 pandemic, it was facing cost pressures to meet its aggressive targets, while data was fragmented across platforms, owners, and business units. These challenges were exacerbated by complex market dynamics and the wide-ranging impacts of the pandemic on spend categories. Additionally, long-tail spend components weren't even being considered for optimization because of the high manual effort required to include them.

Implementing a digital solution took the company's spend cube to the next level. Thanks to CXO-level sponsorship, procurement leaders were able to build a balanced, cross-functional stakeholder team (including end users), who made quick progress by validating a detailed data-source landscape. Once the data were incorporated into the revamped cube, users could tailor their own cockpit-style views of category insights presented from multiple, intuitive angles. For tens of thousands of individual components, specialists could now easily identify savings opportunities corresponding with changes in procurement-volume data, including estimates of potential impact from supply-chain disruptions in specific countries and regions. Suppliers' performance metrics were now transparent as well, enabling better-informed trade-offs.

With this menu of insights generating actionable recommendations, the company now enjoys automatic analysis of 100 percent of its spend categories, including its long tail—all of which is now available to procurement specialists engaged in negotiations. Decision-making processes are now twice as fast as before, despite the company's pandemic-driven transition to remote work.

Enable remote working models

Our respondents reported worrying decreases in employee satisfaction among their procurement teams as a direct result of the COVID-19 pandemic. Some 43 percent of procurement leaders witnessed a significant decline in morale and 49 percent reported a drop in productivity due to remote working (Exhibit 5).

The reduced productivity and morale were mainly caused by lack of efficiency and cohesion due to lack of co-location. To improve both of these measures as remote and flexible working models become more widespread, procurement organizations can start designing and implementing a future-ready operating model. Procurement organizations that can reimagine their operating model across six enablers—process, digital, data, organization, governance, capabilities, and culture—will be best-equipped to realize improved employee morale and productivity in the post-pandemic environment.

A major logistics player needing to deliver higher-complexity procurement projects without adding staff found a solution by developing an “agile procurement pool” under a virtual co-location model. Between 40 and 50 percent of pool staff were strategic buyers, with big-data analysts, cost engineers, negotiation experts, and other specialists providing additional capabilities. By allocating resources dynamically as needed, the agile pool provides flexible project support. Cost reductions have been substantial, but the more important impact includes improved cross-divisional and -regional sharing of knowledge and best practices, stronger team morale, and better talent attraction. The ability to move between many different types of projects has turned the pool into a magnet for young professionals and high performers.

Deepen capabilities, both core and new

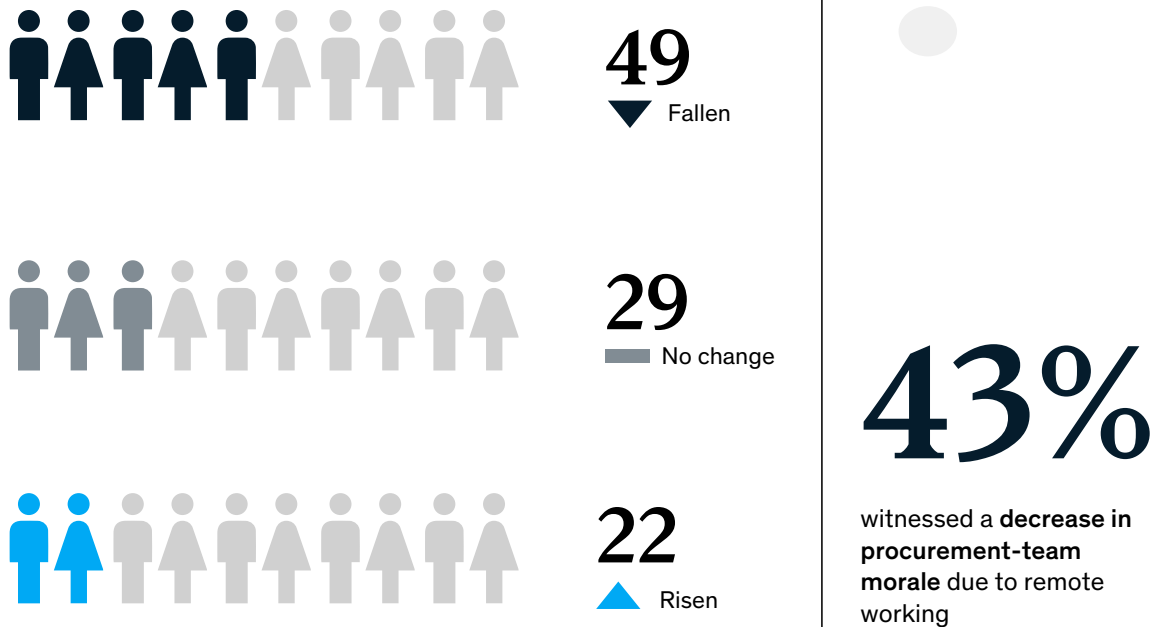
The past year has surfaced new challenges and exposed weaknesses in key procurement processes: the survey found that 86 percent of procurement leaders observed capability

Exhibit 5

Respondents say that procurement morale and productivity are falling because of remote working.

Change in productivity in procurement teams

Respondents, %



Source: 2020 Reimagining Procurement for the Next Normal Survey

gaps in their procurement process (Exhibit 6). This finding suggests that core capabilities likely need to be reinforced, through measures such as better coordination with business units to drive procurement efforts while teams are working remotely. New processes may also be needed, such as for embedding joint-innovation programs with strategic suppliers.

To help address these concerns, procurement organizations will want to define best-practice processes and the capabilities needed for their execution—both within and outside the procurement team. Procurement functions can start a capability-building journey by benchmarking organization and

individual capabilities, defining the gaps in core and new skills, and developing a programmatic approach to developing capabilities that addresses key skill gaps.

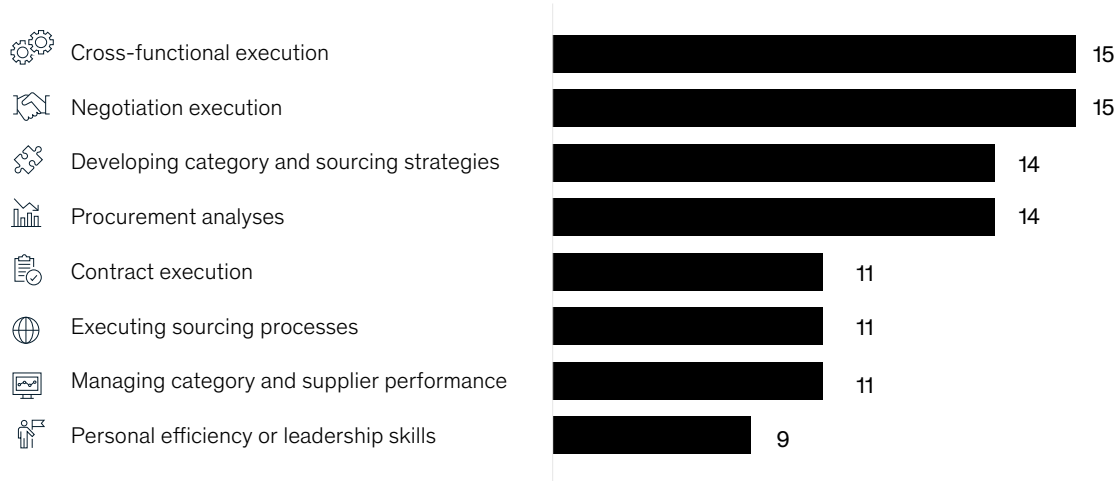
The needs have intensified in crisis. For example, when face-to-face negotiations become online meetings, procurement professionals need to prepare even harder, paying closer attention to small details that can easily get lost in unstable internet connections. Accordingly, a multinational corporation with hundreds of procurement professionals worldwide deployed an interactive, digital procurement-training platform whose

Exhibit 6

A systematic approach can help rebuild capabilities in procurement teams.

Capability gaps to be addressed as a result of COVID-19

Respondents, %



86% observed procurement capability gaps as a result of COVID-19 impact

Source: 2020 Reimagining Procurement for the Next Normal Survey

curriculum included exercises on negotiation basics, remote communications, and COVID-19 specific communications, such as tips on conveying empathy via email to suppliers going through hard times. By providing a wide range of resources on tactics and case examples, the platform equipped the global procurement team with a set of negotiation and influencing skills that proved essential for virtual discussions with suppliers.

Charting the way forward

Over the next 12 months, as business recovery becomes the priority for many organizations, procurement leaders can take stock by asking a few questions to evaluate how ready their function is for the next normal.

- Are we maximizing value creation in a post-COVID world, such as through rebalancing cloud and on-premise IT infrastructure, revamping office footprints, and accelerating adoption of new automation technologies?
- Have all important categories fully adapted to shifting demand–supply dynamics and supply-chain risks?
- Are purchasing channels and processes enhancing user experience, minimizing value leakage, and maximizing suppliers' performance?
- How much more value could we generate in our partnering, both internally with the business, and externally with suppliers?

- Where could additional investment in processes, digital, data, organization, governance, capabilities, and culture could help procurement operate more efficiently and effectively?

As companies globally face a challenging transition to the post-COVID next normal, it will

be tempting for procurement leaders become either too conservative in their value-creation expectations, or too aggressive in trying to create value without the right enabling operating-model elements in place. If history is any indication, it will take parallel efforts, both in creating new sources of value and in reinvigorating the operating model, for procurement to thrive.

Tarandeep Singh Ahuja is a partner in McKinsey's Melbourne office; **Sharat Chikatmarla** is a senior expert in the Sydney office, where **Yen Ngai** is an associate partner and **Ling Zhao** is a consultant; and **Levix Liang** is an associate partner in the Shanghai office.

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