



ADVANCING PROCUREMENT

# CPO Strategies for 2023

# TABLE OF CONTENTS

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2023 Procurement Challenges .....	page 3
Introducing the Advanced CPO .....	page 4
Advancing Procurement: CPO Strategies for 2023	
1. Ensure Supply Continuity .....	page 6
2. Minimize Inflationary Impact .....	page 7
3. Advance Spend Management .....	page 8
4. Assess Exposure, Mitigate Risk .....	page 10
5. Develop an Agile Supply Chain .....	page 11
6. Modernize Category Management .....	page 13
7. Architect The Technology Landscape .....	page 15
8. Mix Talent Strategies to Bridge Skill Gaps.....	page 18
Conclusion.....	page 20

## 2023 PROCUREMENT CHALLENGES

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Chief procurement officers (CPOs) face constant pressure to optimize their supply chains, reduce costs, and mitigate risks. In the current business landscape, these challenges have become even more complex due to the pandemic, supply chain disruptions, and shifting consumer demands.

### INFLATION

The continuing rise of the Federal Reserve interest rates is causing anxiety in the procurement industry. With higher interest rates, borrowing costs increase, which ultimately leads to higher prices of goods and services. This puts pressure on procurement professionals to manage costs and find cost-effective solutions while still maintaining quality standards.

### CONSUMER SPENDING

CPOs are also keeping an eye on consumer spending. While US consumers have gradually spent down pandemic savings, recent retail sales data indicates that consumer spending is on the rise. This mixed signal highlights the need for procurement leaders to remain agile and adapt to changing market conditions while still managing costs and ensuring quality standards are met.

### NEW TECHNOLOGIES

With new technologies becoming the cornerstone of the procurement practice, CPOs are worried about their ability to staff appropriately to support these changes. As procurement processes become more complex, the need for multi-skilled professionals increases. However, the shortage of talent makes it difficult to find the right people to fill these roles. Procurement professionals need to be well-versed in the latest technology trends to stay competitive, and the shortage of skilled talent is a growing concern for CPOs.

### MANAGING RISK

To effectively address these issues, CPOs must adopt a vigilant and proactive approach to managing procurement operations. This will involve closely monitoring market trends and supply chain risks, identifying potential disruptions, and taking proactive measures to mitigate them. By staying ahead of the curve and taking decisive action, procurement leaders can help their organizations navigate these challenging times with greater resilience and success.

## INTRODUCING THE ADVANCED CPO

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A decade ago the CPO was charged with achieving savings, while today's CPO is required to create value, align with ESG initiatives, and deploy/manage increasingly complex technologies. The CPO needs to transform the procurement organization to embrace robust technologies, new areas of responsibility, and increased contribution to corporate governance. This requires today's CPO to develop a new view of the workforce they place in their organization to manage these new initiatives.

Ultimately, the ability of CPOs to navigate these challenges will determine the success of their procurement operations. This is a roadmap for establishing a forward-thinking procurement organization, under the guidance of a visionary Chief Procurement Officer – the Advanced CPO.



**ADVANCING PROCUREMENT**

# **The Roadmap**





# 1

## ENSURE SUPPLY CONTINUITY

Organizations need to adopt a diversification strategy across the entire supply chain. Dependence on a small, select group of primary suppliers is no longer sufficient. If the past several years taught the procurement leader anything, the lesson was this: multi-layering supplier strategies will be key to ensuring continuity.



### JUST IN TIME INVENTORY MANAGEMENT PROVES COSTLY

While previous strategies relied on just-in-time inventory, a realignment must be realized to safeguard against global uncertainties which exposed the weak links in this supply chain strategy. The risk proved to be costly to many organizations and the Advanced Procurement practice will seek to secure continuity through diversification.

By identifying potential risks early on and developing contingency plans, procurement organizations can reduce the likelihood of supply chain disruptions and minimize the impact of unexpected events. A successful diversification plan involves a regional focus, with an objective to increase sourcing and suppliers, allowing for a higher percentage of coverage overlap as well as increased buffer stocks for mission critical items.

### MULTI-TIER SUPPLIER STRATEGIES ENSURES CONTINUITY

To effectively implement the equation for resilient supply chains, it is crucial to have a comprehensive understanding of supplier locations and offerings. Multi-tier mapping of suppliers and a review of sourcing strategies for critical components are essential to prevent production delays caused by the failure of small but crucial parts.

### MAPPING FOR SUCCESS IN COMPLEX BEST COST COUNTRY SOURCING (BCCS) PROGRAMS

The rise of economic nationalism has led many organizations to consider localizing or nearshoring their suppliers. In response to changes in global trade policies caused by the pandemic, a right-shoring emphasis has emerged, which seeks to balance localized and globalized business options based on cost & efficiency.

### DOUBLE-IMPACT SOURCING

To achieve this, organizations may need to explore new supplier relationships. Leveraging diverse suppliers can contribute to building resilience, achieving better environmental, social, and governance (ESG) outcomes, as well as enabling more cost-effective and innovative approaches. With close attention to spreading risk through diversification, there is a greater viability to achieving and maintaining supply chain continuity even within the face of unforeseen weather, social or health crisis.

# 2

## MINIMIZE INFLATIONARY IMPACT

Lean into strengthening relationships with key suppliers to find solutions for managing on-scale price inflation. Strengthening these relationships and developing deeper partnerships to proactively partner in innovation as well as shared technologies will help to curtail price surges, minimize price inflation and mitigate contract exposure – while also managing key supplier partnerships proactively will serve as an additional safeguard in mitigating risk of supply disruption.

As inflation is expected to increase through 2024, it's important for procurement teams to implement strategies to minimize its impact on their organization. Here are some ways a procurement team can minimize the inflationary impact with the following strategies:

### STRICT DEMAND MANAGEMENT

A procurement team can minimize inflationary impact by implementing a strict demand management strategy. This involves working closely with other departments to identify their needs and prioritize them. By doing so, the team can prevent unnecessary purchases and ensure that the organization only buys what it needs. This can help to prevent inflationary pressures caused by excess demand.

### INVENTORY MANAGEMENT

Effective inventory management can also help to minimize the inflationary impact. By optimizing inventory levels, the procurement team can prevent stockouts and overstocking. This can help to prevent price increases caused by supply shortages and excess inventory.

### DEFEND EXISTING CONTRACT PRICING

The procurement team can negotiate with suppliers to maintain existing contract pricing. This can help to prevent price increases caused by inflation and other market factors. The team can also leverage long-term contracts with suppliers to lock in prices for critical items and services.

### MAX OUT LOW-PRICE CONTRACTS AND BUILD INVENTORY

The procurement team can work to secure low-price contracts with suppliers and build up inventory levels of critical items. This can help to lock in low prices and prevent price increases caused by market factors. The team can also leverage bulk purchasing power to secure lower prices and better deals.

“By implementing these strategies, a procurement team can effectively minimize the 2023 inflationary impact on their organization. These strategies not only help to minimize the impact of inflation but also contribute to the overall efficiency and effectiveness of the procurement function.”





# 3

## ADVANCE SPEND MANAGEMENT

Spend management means much more than just keeping track of the organization's expenses. It involves analyzing the organization's spending patterns to identify opportunities for cost savings and efficiency improvements.

By implementing strategic spend management practices, businesses can achieve several outcomes, including recognizing price arbitrages, eliminating unnecessary purchases, preventing delayed fees, optimizing working capital, retaining lower prices by augmenting supplier relationships, reducing expenses by canceling undesirable contract renewals, and intervening in lower prices and volume rebates.

### PRICE ARBITRAGE & REBATING

Identifying price discrepancies among various suppliers for the same product or service is key to recognizing price arbitrages. With this understanding, businesses can negotiate better prices and achieve significant cost savings. By intervening in lower prices and volume rebates, additional cost-saving opportunities can be created, ultimately improving the overall cost-effectiveness of the purchasing process.

### TAIL SPEND MANAGEMENT

Eliminating unnecessary purchases can help businesses reduce expenses and direct funds towards more valuable investments. By implementing effective tail spend management strategies, organizations can identify and eliminate inefficiencies in their procurement processes, such as over-ordering or purchasing redundant products. This can ultimately result in cost savings that can be redirected towards investments in more critical areas of the business.

### RESET CONTRACT & PAYMENT TERMS

By cancelling undesirable contract renewals and negotiating lower prices, businesses can cut expenses and redirect resources to more essential areas. Furthermore, incorporating more sophisticated procurement performance monitoring solutions can enable the organization to monitor payment terms, ensuring price adherence and timely payments to prevent costly penalties and fees.

### OPTIMIZE WORKING CAPITAL

Optimizing working capital involves minimizing the time and resources tied up in inventory and other purchasing-related expenses. By streamlining the purchasing process and optimizing inventory levels, businesses can free up cash flow and direct funds towards more strategic investments.

### AUTOMATE SPEND MANAGEMENT

By utilizing spend management solutions to organize your purchasing process, procurement can streamline the approval, purchase, receipt, and reconciliation of goods, ultimately enhancing manufacturing and distribution timelines.

Additionally, utilizing automated category management and spend reporting can provide real-time and detailed insight into every purchase and contract. This allows for better management of spend categories and informed decision-making, ultimately resulting in a more optimized purchasing process.



## TAP INTO ARTIFICIAL INTELLIGENCE

One of the key new trends in spend management in procurement is the use of advanced analytics and artificial intelligence (AI) to analyze spend data. This approach enables procurement teams to gain deeper insights into their spending patterns and identify areas for optimization.

From scenario development and modeling to price forecasting and decision-making, artificial intelligence can offer a range of benefits to the procurement team.



With the increasing availability of big data and the advancements in data analytics technology, procurement teams can now use advanced analytics tools to quickly and accurately analyze large amounts of spend data. This enables them to identify trends, patterns, and anomalies that may have been missed using traditional manual methods.

AI-powered spend management tools can also help to automate spend data classification, enabling procurement teams to quickly and accurately categorize spend data. This improves data accuracy and enables more informed decision-making.



# 4

## ASSESS EXPOSURE, MITIGATE RISK

Enhancing the risk operating model involves assessing and managing risks throughout the supply chain. CPO's should design the organization to conduct regular audits, identify potential risks, develop contingency plans, and work with suppliers to implement risk mitigation strategies. This process requires collaboration with internal stakeholders, including finance, legal, and operations, to ensure that procurement is aligned with the overall business strategy.

### AUDITING

Frequent contract audits can have a significant impact on ensuring compliance with both internal and external contracts, leading to cost reduction and increased savings. Enterprises can achieve the highest level of savings and avoid savings leakage by minimizing off-contract spend, also known as "maverick" spend, and maximizing on-contract spend.

### MEASURING COMPLIANCE

Auditing contract usage and identifying individuals or departments that are not leveraging existing contracts can help procurement teams mitigate the risk of savings leakage. Reinforcing the importance of contract compliance through regular audits is a simple yet effective way to ensure that procurement activities align with organizational goals and objectives.

### DUAL-SOURCING

Active management of strategic suppliers and consolidating the total number of suppliers is also critical to maximizing procurement savings. Dual sourcing uses two (or more) suppliers for a given component, raw material, product, or service. Dual sourcing enables flexibility, added capacity, and price optimization at a given time for each order or batch.

CPO's must have processes in place to continually evaluate the supplier landscape, market trends, and changing business needs to develop effective strategies that deliver value to the organization. This process involves collaboration with suppliers to identify opportunities for innovation, efficiency, and cost savings.



# 5

## DEVELOP AN AGILE SUPPLY CHAIN

An agile supply chain is key to achieving this flexibility, and as the individual responsible for procurement, these are key steps the Advanced CPO can take to design an agile supply chain:

### EMPHASIZE SUPPLIER RELATIONSHIPS

An agile supply chain requires strong relationships with suppliers. The CPO should prioritize collaboration with suppliers, working to build long-term partnerships that are based on trust and mutual benefit. This will help to ensure that suppliers are willing to work with the organization to respond to changes in demand and supply chain disruptions.

### FOSTER A CULTURE OF FLEXIBILITY

In addition to strong supplier relationships, an agile supply chain requires a culture of flexibility throughout the organization. The CPO can work with other departments to promote a mindset that is open to change and willing to adapt quickly to new situations. This can include establishing clear communication channels, empowering employees to make decisions, and implementing agile project management methodologies.

### LEVERAGE TECHNOLOGY

Technology can play a key role in creating an agile supply chain. The CPO should explore new technologies, such as real-time inventory tracking, predictive analytics, and automation, that can help to improve visibility, reduce lead times, and increase efficiency.

### FOCUS ON RISK MANAGEMENT

An agile supply chain requires effective risk management strategies. The CPO should identify potential risks to the supply chain, such as natural disasters, geopolitical instability, and supplier bankruptcies, and develop contingency plans to mitigate these risks. This can include diversifying suppliers, creating safety stock, and implementing alternative transportation routes.

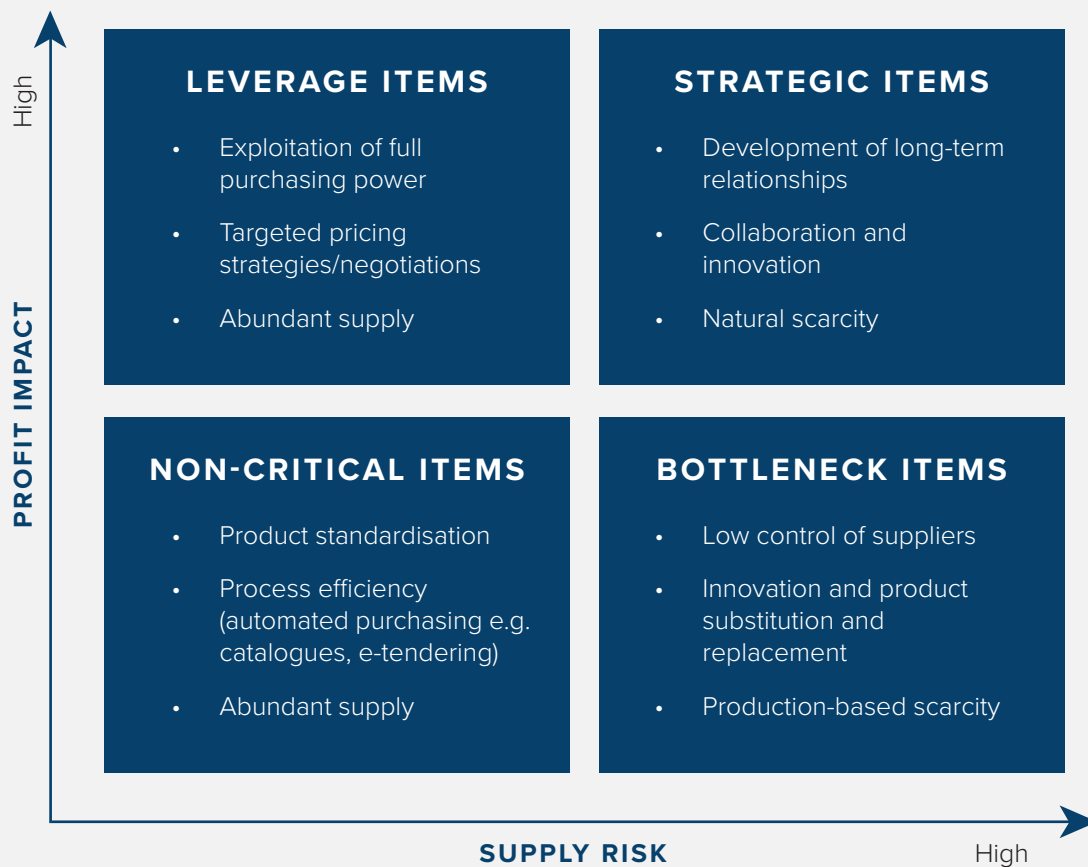
### PRIORITIZE CONTINUOUS IMPROVEMENT

Finally, the CPO should prioritize continuous improvement to ensure that the supply chain remains nimble over time. This can include regular reviews of supplier performance, ongoing optimization of inventory management, and ongoing training and development of employees.



## KRALJIC MATRIX

Businesses that underestimate the strategic value of their suppliers risk losing out on significant profits over time, potentially jeopardizing their overall viability. Kraljic's key insight was to encourage buyers to manage their resources more intelligently, with a clear understanding of the true strategic value of their suppliers.



Source: Peter Kraljic, HBR



# 6

## MODERNIZE CATEGORY MANAGEMENT



In partnership with the supply chain, procurement leaders must adopt a holistic approach to category management that considers risks, sustainability, and innovation. The volatility of the global economy makes even traditional tasks more complex. Many businesses have traditionally hedged on commodity prices, but that tactic now requires CPOs to be experts in macroeconomics. Refreshing category strategies involves taking a fresh look at the goods and services that the procurement function manages. In 2023, procurement needs to focus on the following key areas to optimize category management:

### REAL-TIME MARKET INTELLIGENCE

Procurement leaders need to have access to real-time market intelligence on suppliers and commodities to make informed decisions. This requires leveraging technology and data analytics to monitor market trends and supplier performance, and identify opportunities for cost savings and risk mitigation.

### BEST-PRACTICE METHODOLOGIES

Procurement leaders must adopt best-practice category and industry methodologies to develop effective category strategies. This includes collaborating with suppliers, developing robust sourcing processes, and incorporating sustainability and social responsibility into category planning.

### PRECISE CATEGORY PLANNING

Procurement leaders need to develop precise category planning that encompasses forecasting and budgeting to manage costs effectively. This requires a deep understanding of business needs, supplier capabilities, and market trends.

### SUPPLIER PERFORMANCE TRACKING

Procurement leaders must track supplier performance to ensure that suppliers meet quality standards, delivery timelines, and pricing agreements. This involves setting key performance indicators (KPIs), conducting regular reviews, and establishing supplier development programs.

### IMPROVED COMPLIANCE

Procurement leaders must improve compliance with internal policies and external regulations to mitigate risks and protect the organization's reputation. This requires establishing robust compliance processes, monitoring supplier compliance, and providing training to internal stakeholders.

### PROACTIVE CONTRACT REVIEWS AND RENEWALS

Procurement leaders must conduct proactive contract reviews and renewals to optimize supplier relationships, negotiate better terms, and ensure continuity of supply. This involves establishing clear contractual terms and monitoring compliance with contract obligations.

### DECREASED OFF-CONTRACT PURCHASING

Procurement leaders must decrease off-contract (maverick) purchasing and increase spend under management to optimize procurement performance. This involves establishing clear policies and procedures, providing training to internal stakeholders, and leveraging technology to monitor spend.

By refreshing category strategies and enhancing the risk operating model, procurement leaders can drive value, reduce costs, and mitigate risks throughout the supply chain. This approach not only helps the procurement function deliver value to the organization but also enhances the overall competitiveness of the business.

# 7

## ARCHITECT THE TECHNOLOGY LANDSCAPE

In today's global business environment, managing supplier risks and improving supplier performance are critical to ensuring the success of any procurement organization. As such, many procurement organizations are turning to innovative tools and solutions to help them more effectively manage these challenges.

Analytics and spend visibility tools offering dashboards and visual tools to better understand spend have been adopted by almost 50% of organizations. Leveraging spend analytics as part of the spend management strategy is critical. Yet, half of procurement organizations have checked that box and should now be evaluating emerging technologies that will better equip procurement to digitize and automate procurement processes to drive additional value.

The newest addition to the procurement tech stack that is being piloted is tail-spend software and procurement performance management software, which helps organizations gain better visibility into their procurement operations, optimize their sourcing pipeline, and reduce costs by efficiently managing their tail spend and improving the overall performance of their procurement teams.

By piloting such tools, procurement organizations can gain valuable insights into their supply chain, identifying areas of risk and opportunities for improvement.







## PROCUREMENT PERFORMANCE MANAGEMENT

Procurement performance management is key in measuring the ongoing level of business activity and stakeholder compliance to contract as well as external factors that are outside of procurement's control. Procurement performance management software is also an emerging tool key in measuring the ongoing level of business activity and stakeholder compliance to contracts as well as external factors that are outside of procurement's control. By automating manual tasks, tracking key metrics, and providing actionable insights, procurement performance management software enables procurement teams to streamline operations, identify areas for improvement, and drive better business outcomes.

Here are some of the key benefits of procurement performance management software:

**Increased Visibility:** Procurement performance management software provides real-time visibility into procurement operations, allowing procurement teams to track spending, monitor supplier performance, and identify areas of inefficiency. With this increased visibility, procurement teams can make more informed decisions, reduce risk, and drive better business outcomes.

**Better Data Management:** Procurement performance management software centralizes data from multiple sources, making it easier for procurement teams to track spending, manage contracts, and monitor supplier performance. This helps to reduce errors, improve data accuracy, and streamline procurement processes.

**Improved Supplier Management:**

Procurement performance management software enables procurement teams to track supplier performance against key metrics, such as delivery times, quality, and pricing. This helps procurement teams to identify high-performing suppliers and build stronger relationships with them, while also identifying underperforming suppliers and taking corrective actions.

**Increased Efficiency:** Procurement performance management software automates manual tasks and streamlines procurement processes, reducing the time and effort required to complete procurement tasks. This helps procurement teams to be more productive and focus on more strategic activities.

**Enhanced Compliance:** Procurement performance management software helps to ensure compliance with internal policies and external regulations by automating approval workflows, tracking contract renewals, and monitoring supplier performance. This helps to reduce risk and ensure that procurement operations are aligned with organizational goals.

**Actionable Insights:** Procurement performance management software provides actionable insights into procurement operations, enabling procurement teams to identify areas for improvement and take corrective actions. With this real-time data, procurement teams can make more informed decisions and continuously improve procurement processes.



## TAIL SPEND MANAGEMENT SOLUTIONS

Tail spend, also known as long-tail spend, refers to the large volume of small and infrequent purchases that are typically not managed closely by procurement organizations. These purchases often fall outside the scope of existing contracts and can result in inefficiencies and increased costs.

To address this issue, procurement organizations are turning to tail spend management solutions, which use data analytics and other technologies to identify tail spend items and consolidate them into larger

purchasing agreements. By aggregating small purchases, procurement organizations can negotiate better pricing and terms, reduce transaction costs, and streamline procurement processes.

By consolidating tail spend items and negotiating better pricing and terms with suppliers, procurement organizations can achieve significant cost savings and reduce transaction costs.



These tools allow procurement organizations to identify potential risks early on and take corrective actions, such as diversifying suppliers or developing contingency plans, before problems escalate. Additionally, procurement performance management tools enable procurement organizations to evaluate supplier performance against key metrics, such as on-time delivery, quality, and pricing, and provide feedback to suppliers to help them improve.



# 8

## MIX TALENT STRATEGIES TO BRIDGE SKILL GAPS



Introducing new technology roles and skills into a procurement organization requires a well-planned approach that takes into consideration the current capabilities and future goals of the organization.

### ASSESS THE CURRENT STATE OF THE PROCUREMENT ORGANIZATION

Conduct a thorough assessment of the current procurement processes, technology infrastructure, and skillsets of the procurement team. Identify the gaps and areas that require improvement.

### DETERMINE THE TECHNOLOGY NEEDS

Determine the technology needs of the procurement organization and how they align with the overall business strategy. Identify the technologies that can help streamline procurement processes and increase efficiency, such as procurement software, data analytics tools, and artificial intelligence.

## IDENTIFY THE REQUIRED SKILLS

Identify the skills and roles required to effectively implement the new technologies. Determine the training and development needs of the procurement team to acquire the necessary skills. Consider adopting new consulting and technology partners who not only can future-vision your technology landscape, but also work alongside you for years to come as AI proliferates new areas that accelerate decisioning. Adoption of these technologies will be key to maintaining a competitive market position.

## COMMUNICATE THE VISION

Communicate the vision and benefits of the new technology roles and skills to the procurement team. Clearly articulate the impact of the new technologies on their day-to-day activities and the benefits to the overall organization.

## DEVELOP A TRAINING AND DEVELOPMENT PLAN

Develop a training and development plan that aligns with the identified skill gaps and technology needs. Provide the necessary training and resources to enable the procurement team to acquire new skills and adapt to the changes.

## MONITOR PROGRESS

Monitor the progress of the procurement team's adoption of the new technology roles and skills. Evaluate the effectiveness of the training and development plan and make adjustments as necessary.



The Advanced CPO must also consider sustainability and social responsibility in their category strategies to meet the expectations of consumers and stakeholders. Procurement teams need to establish a robust set of policies, processes, and governance to support corporate ESG objectives by sourcing and managing suppliers in a responsible manner, supporting decarbonization plans and sustainability initiatives across the supply chain.

Corporate governance is increasingly asking procurement teams to focus on sustainability and diverse sourcing. Procurement teams are now placing greater emphasis on working with suppliers that have sustainable and ethical practices as well as supporting supplier diversity to ladder up to the organization's overarching DEI commitments. This involves evaluating suppliers based on their social, economic and environmental impact and ensuring that they adhere to responsible sourcing practices and there is an appropriate mix of minority-owned businesses within the supply chain.



This means a new set of skills are needed within the organization to effectively create strategy and internal governance against these new areas of responsibility. Enhancing existing teams competencies and designing a new org chart for the team is critical for designing an appropriately staffed and resourced procurement team.

Organizations should be actively investing in training and development programs for their procurement teams. This helps to ensure that team members have the necessary skills and knowledge to perform their roles effectively. This can include training on procurement processes, negotiation techniques, supplier management, ESG competencies, increasingly complex technologies, and other relevant topics.

## CONCLUSION

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In conclusion, the procurement landscape is evolving rapidly, and CPOs are facing a multitude of challenges that require a progressive approach. The CPO must shift their focus from solely achieving savings to creating value, aligning with ESG initiatives, and managing complex technologies. To successfully navigate the evolving procurement landscape, the CPO needs to embrace new areas of responsibility, manage a new workforce, and contribute to corporate governance.

The CPO is going to be watching for emerging technologies to improve their organization's ability to be nimble in rapidly changing market conditions, such as negotiations enabled by artificial intelligence, advanced category management tools and supplier collaboration/innovation solutions.

The Advancing Procurement strategies outlined within provides the roadmap for establishing a forward-thinking procurement organization that can effectively manage these challenges under the guidance of a visionary CPO. Ultimately, the success of procurement operations in the years to come will be determined by the ability of CPOs to adapt to the changing landscape and lead their organizations in a progressive direction.





## ABOUT INSIGHT SOURCING GROUP

Insight Sourcing Group is the premier professional services firm in North America exclusively focused on strategic sourcing, cost optimization, and procurement operational transformation.

Founded in 2002, Insight's capabilities are designed to accelerate impact through the expertise of its 250+ procurement experts, its market-leading Category Center-of-Excellence model, and practices specializing in Private Equity, Supplier Diversity, Energy Management, and Sustainability.

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