

# Roland Berger

## Focus

### Procurement endgame

The future of procurement in times of digitalization and disruption



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## Management summary

Nothing is as dangerous as a great victory. The winning team tends to get lazy, take its eye off the ball and start to believe that it is unbeatable. What's true of sport is true of business. Many industries are in the final stages of a transformation process driven by various global megatrends. This has a particularly strong impact on procurement.

The final stage of transformation has begun. Four factors will shape the procurement function of the future: Digitalization, automation, commoditization and industry-specific disruptive processes. These factors will have enormous consequences on the future organization of procurement. The procurement function will take on an increasingly entrepreneurial role. It will more and more operate as a network facilitator and innovation manager.

Today, the procurement function has a once-in-a-lifetime opportunity to put strategy at the top of its agenda and start acting as a value generator within the firm rather than simply a cost saver. But only if it can successfully navigate the final stage of the transformation and survive the period afterwards, too.

We identify six core questions that CPOs now have to answer: What does the procurement endgame look like? What performance level does the business require from you in the near and distant future? What are your relevant future scenarios? Where are you today? What is an ambitious and realistic target for you? How do you get there?

Only by addressing and answering these six questions will procurement succeed in navigating the final stage of transformation successfully and putting strategy, rather than operations, on the agenda.

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**"An opportunity has arisen to put strategy, rather than operations, at the top of the procurement agenda. Tomorrow's procurement function will be less concerned with monitoring costs and availability, and much more interested in adding value."**

**Sven Marlinghaus**

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# Contents

<b>1. Every end is also a beginning</b> .....	<b>4</b>
The final stage of transformation for procurement has begun.	
<b>2. A new order</b> .....	<b>6</b>
The procurement function of the future.	
<b>3. Playing the procurement endgame</b> .....	<b>9</b>
What should the procurement function be doing now?	
<b>4. Stay on the offensive</b> .....	<b>11</b>
Nothing is as dangerous as a great victory.	

# 1. Every end is also a beginning

The final stage of transformation for procurement has begun.

However good a soccer team is, the likelihood that it will win the World Cup twice in a row is tiny from a statistical point of view. That creates a somewhat odd situation: The final game in the tournament is both an end and a beginning.

The final match is not the end of soccer. Rather, it signals the end of the existing order and the beginning of a new order. What's true of soccer is also true of business. Today, many industries find themselves in the final stage of a transformation process – a process that will change their business forever. A number of interconnected global megatrends are putting them under greater pressure and causing them to change their value chain models, and consequently the core functions of their organizations. → [A](#)

This transformation has a particularly strong impact on procurement. More than any other function, procurement is a seismograph for global change – an early indicator of the shocks, disturbances and innovations that today's highly complex international networks of companies are subject to. Furthermore, disruptions in industry, manifested as changes in value chains, inevitably trigger a revolution in the functions that control those value chains. The final stage of transformation for industry also means the final stage of transformation for procurement.

## **TECHNOLOGICAL AND INDUSTRIAL TRENDS TRIGGER A REVOLUTION IN PROCUREMENT**

So, procurement has entered the final stage of transformation. Already the direction of change is clear to see. Four main factors will shape the procurement function of the future:

1. New technology will lead to the complete digitalization of procurement and create end-to-end, real-time transparency over value chains, from the producers of raw materials to the end customers.
2. At the same time, most tactical and strategic processes in procurement will be fully automated. Artificial intelligence (AI) and specialist "bots" will make the majority of traditional operational procurement decisions. In many areas, human input will be entirely superfluous.
3. Automation will inevitably lead to the commoditization of many procurement processes and their subsequent outsourcing to specialist providers. Third parties can offer economies of scale, enormous computing power, robust data security and powerful AI-based applications. Amazon Business and the like indicate the shape of things to come.
4. In parallel, the requirements placed on procurement in terms of support for corporate strategy will change significantly, both within industries and between different industries. The tasks of procurement are becoming more and more diverse, largely due to disruption in specific industries, dramatic changes in business models and the development of new products and services.

Taking these four factors together, it is clear that the final stage of transformation for procurement is far more than just an evolutionary process of digitalization. It is the result of a revolution, triggered by new requirements from industry and businesses combined with radical opportunities offered by digitalization. This is a unique chance for procurement to reinvent itself as a value creator – and for chief procurement officers to become playmakers within their teams. A once-in-a-lifetime opportunity has arisen to put strategy, rather than operations, at the top of the procurement agenda. Tomorrow's procurement function will be less concerned with monitoring costs and availability, and much more interested in questions of added value, risk and innovation.

## A: Global megatrends – Pressure to change value chains and organizations.

Roland Berger Trend Compendium 2030.

- 1 Demographic dynamics
- 2 Globalization & future markets
- 3 Scarcity of resources
- 4 Climate change & ecosystem at risk
- 5 Global knowledge society
- 6 Dynamic technology & innovation
- 7 Sustainability & global responsibility

Source: Roland Berger

The procurement function will radically change its traditional modus operandi. Today, it plows most of its resources into managing systems and suppliers; in the future, it can focus exclusively on critical aspects of these largely automated processes. This will allow procurement to concentrate on developing the value chain and cooperating with strategic suppliers.

The shift in the range of tasks for procurement toward strategic, qualitative issues places strict limits on the effectiveness of standardized solutions and procedures. The digitalization, automation and commoditization of a large part of procurement's work is just one aspect of the transformation affecting procurement. In parallel, industry-specific disruptive processes are changing the

environment in which procurement operates, creating enormous complexity. Examples include electric drive concepts and multimodal mobility in the automotive industry, 5G and narrowband in telecommunications, new healthcare concepts, and blockchain in banking and insurance.

### THERE ARE NO ONE-SIZE-FITS-ALL ANSWERS: SOLUTIONS DIFFER FROM CASE TO CASE

The changes that are taking place differ significantly between industries, markets, corporate structures and supplier networks. The solutions therefore also differ from case to case. As with the changes triggered by digitalization, there are no one-size-fits-all answers but only solutions tailored to individual companies.

This final stage of transformation for procurement, driven by technological and industry-specific factors, will determine what role procurement will play in the future. It remains to be seen whether procurement will seize the opportunities available.

## 2. A new order

### The procurement function of the future.

What will the world of procurement look like once the final stage of transformation is complete? Different, for sure. The costs of procurement processes, the size of procurement teams and the amount of communication in the supply chain will fall dramatically. Long stretches of the value chain will function without a word being spoken: Automatic processes will enable fast, uninterrupted and extremely cost-efficient value flows between suppliers, companies and customers, with no human intervention necessary. → [B](#)

#### **THE ORGANIZATIONAL SETUP OF PROCUREMENT: FROM SILO-BASED TO SWARM ORGANIZATIONS**

These fundamental changes are made possible by the combined effect of several disruptive processes. In the first place, they affect the procurement function itself, which will find itself in a very different organization once the final stage of transformation is over. The days of traditional silo-based organizations with their hierarchical structures are over. Even global corporations, inspired by startups, are increasingly becoming "swarm organizations".

The platform for this is provided by new technology, which enables an enormous reduction in the complexity of coordinating networks. Particularly significant developments include the global standardization of source code and application programming interfaces (APIs), the comprehensive use of blockchain to ensure integrity, data management systems that are integrated across entire companies, the use of artificial intelligence (AI) and the automation of processes.

In swarm organizations, the procurement function is lean, flexible and project-oriented. The days of large, fixed teams are past: Technology service providers have taken over previously time-consuming, labor-intensive "commodity tasks" and automated them. As a result, the procurement function has become a virtuosic project and HR manager, putting together internal and external

competencies from the global network for particular jobs. Procurement is searching for top talent worldwide – no easy task, as suitable candidates need not just professional skills but also technological expertise, a customer focus, team spirit and an understanding of the overall strategic goals.

The procurement function is taking on an increasingly entrepreneurial role, trying not just to reduce the cost of products and services but to generate added value, too. It does this by procuring innovations, reducing time to market and coming up with new offers based on supplier relationship management (SRM) data or logistics data, say. Tomorrow's procurement function is responsible for complete transparency across the entire value chain. It sees itself as responsible for external value creation and a key partner to the sales department, providing up-to-the-minute cost information for use in pricing.

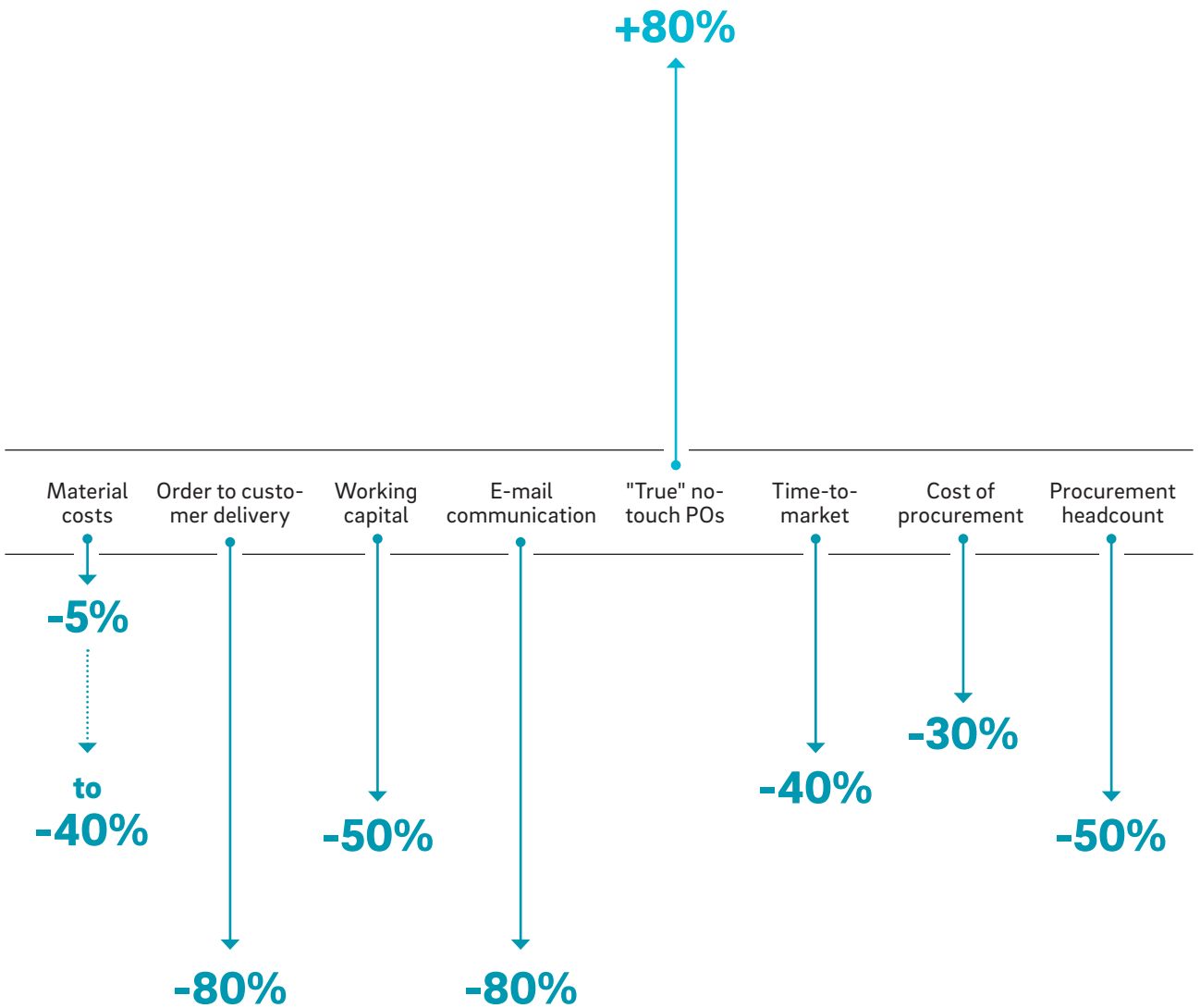
#### **THE CAPABILITIES OF PROCUREMENT: NETWORK FACILITATOR AND INNOVATION MANAGER**

The reorganization of the procurement organization, combined with the disruptive changes seen in most industries, means that procurement requires skills and competencies that are currently only a minor part of most job profiles. Technology plays a central role here. The automation of the value chain and procurement processes requires the procurement function to deal closely with IT resources. The procurement function needs an overall perspective on software, connectivity, security and data management. At the same time, technology is changing procurement's work processes, particularly with the increasing use of artificial intelligence (AI). AI plays a key role in the automation of operational procurement and strategic procurement, in both scenario development and decision-making processes.

Meanwhile, digitalization is increasingly dominating companies' business models, and therefore also their supply chains, procurement structures and procure-

**B: Procurement endgame.**

Possible impact – Roland Berger estimation.



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**"The procurement function is taking on an increasingly entrepreneurial role, trying not just to reduce the cost of products and services but to generate added value, too."**

**Oliver Knapp**

ment partnerships. This creates an explosion of complexity for the procurement function. More and more often, it needs to purchase not just individual products and services but bundles of hardware, software and services to be used across the entire company. These bundles are very difficult to compare with one another. This has far-reaching implications for procurement and the number of internal and external interfaces it must deal with. The result? The procurement function moves into a new role as network facilitator and innovation manager. With customers and suppliers closely involved in developing smart solutions from a very early stage, the line between R&D, procurement and production becomes increasingly blurred. The ability to manage complex networks of stakeholders (each with their own economic, technological, social and cultural constraints), to build mutual trust, manage expectations and resolve

conflicts thus becomes a core competency of tomorrow's procurement function.

#### **MANAGING THE SUPPLIER NETWORK – THE HEART OF THE PROCUREMENT FUNCTION IN THE FUTURE**

The automation or outsourcing of a large swathe of traditional procurement tasks means that managing the supplier network becomes the heart of the procurement function in the future. With industries undergoing unprecedented transformation, companies and their strategic suppliers find themselves in the same boat – a boat that to a large extent is steered by procurement. The procurement function must draw on all its capacity and resources, all its communication and strategic skills, to ensure that the company remains competitive long term. This requires a clear differentiation of tasks based on strategy. The old tasks of procurement can now take care of themselves, so the procurement function can dedicate its time and resources to new tasks. With the help of new technology, the procurement function can enjoy complete transparency over supply structures and risks, monitoring both in real time. The procurement of simple and non-critical product groups can be fully digitalized and automated with the help of intelligent platforms. This frees up the procurement team so that they can focus on strategic issues, such as ensuring security of supply for scarce resources, creating and developing networks, procuring innovations and managing intellectual property (IP) globally. Systematically implementing differentiated supplier management models also creates the right conditions for finding solutions to the key changes of the coming years within strong strategic partnerships. That includes reassessing best-cost country sourcing (BCCS) in light of Industry 4.0 and additive manufacturing, establishing highly localized, customer-oriented production and achieving cost-effective production of lot size one.



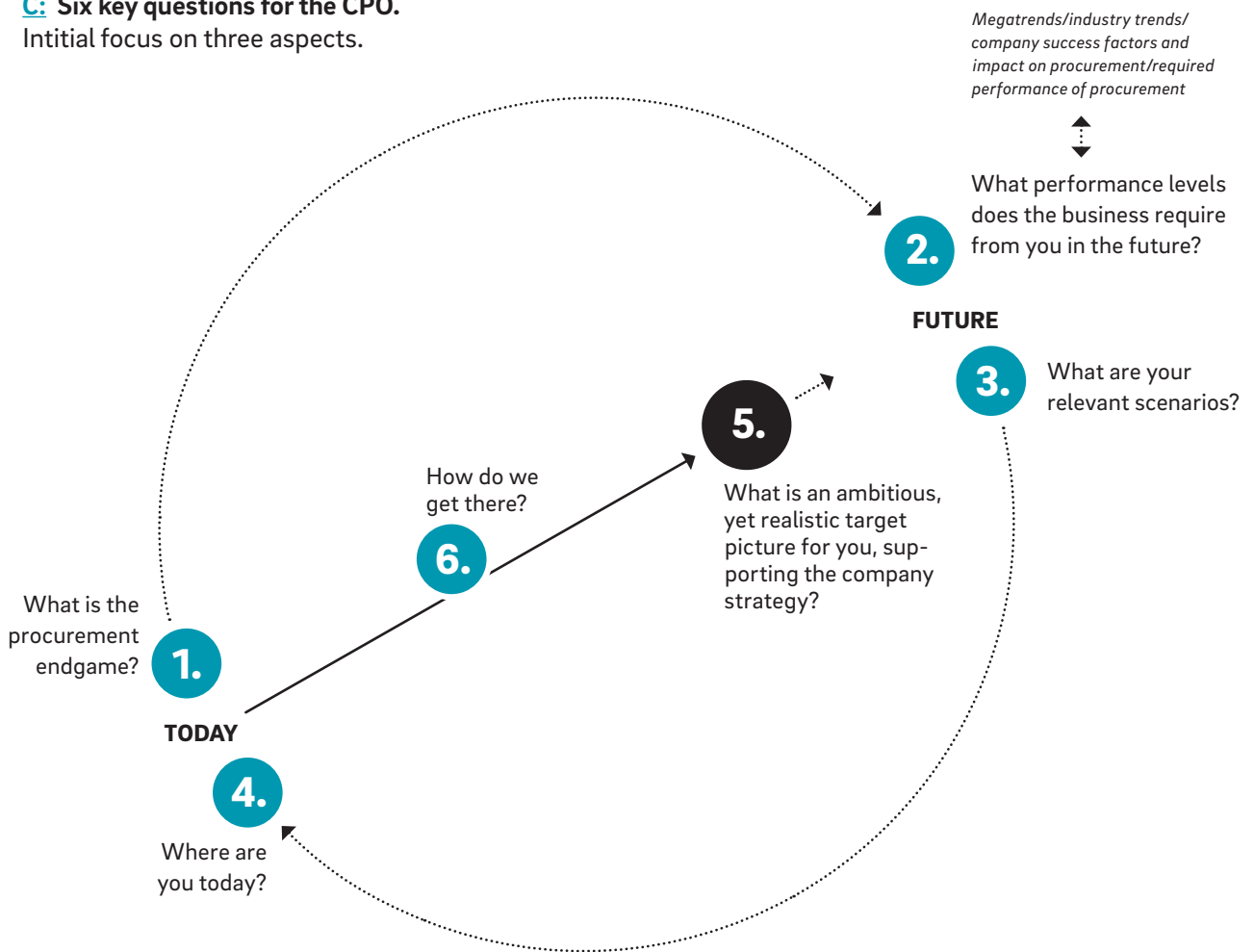
### 3. Playing the procurement endgame

What should the procurement function be doing now?

What steps should procurement be taking to ensure that it navigates the final stage of transformation successfully – so successfully that it also survives the period after the transformation and doesn't become a victim of

its own success? We identify six distinct steps. The first step is to recognize that this really is the final stage of the transformation process. → C

**C:** Six key questions for the CPO.  
Initial focus on three aspects.



## **SIX KEY QUESTIONS FOR THE CPO – INITIAL FOCUS ON THREE ASPECTS**

1. Procurement must understand the factors at work and how they combine to shape the final stage of the transformation process. Those factors include disruptive changes in specific industries and in procurement as a whole, the latter being a reaction to the changes in industry as well as general trends. Procurement needs to recognize that it is currently passing through a limited phase of intense transformation. And understand that this is the only way to generate the necessary engagement and mobilization.
2. The procurement function needs to develop a clear vision of what will be expected of it once the final phase of the transformation is over. It must develop a holistic perspective including a range of factors, in particular the megatrends affecting all industries, industry-specific trends, its own corporate strategy and specific success factors for the company. Doing this will show it what must be done to complete the transformation and how much time is left to do it in.
3. Building on this, the procurement function should then draw up scenarios for the post-transformation world. Relevant factors here include changes within the procurement function and the rest of the organization, the new role of purchasers, a fresh understanding of the supplier network, and finally the potential for action resulting from digital, data-driven technology. The importance of each factor must be weighed up individually for each industry and company, and evaluated with regard to its positive or negative impact and the likelihood of its taking place. This then forms the basis for the scenarios of how things could play out in the future.
4. Before the final match in any sports tournament, teams need to take a brutally honest look at their current makeup. The same goes for the procurement function. A comprehensive self-examination is essential if the vision, scenarios and strategic actions are to come to fruition.  
This self-examination produces a clear picture of where the procurement function is now in terms of key factors such as strategy, processes, organizational setup, systems and HR management, and includes a review of where the procurement function has come from, its past successes, failures and initiatives, and their lasting influence.
5. Once the procurement function knows where it is today and what the new world holds in store for tomorrow, it is time for it to set its own goals. That means developing an ambitious yet realistic vision of the future procurement function – a procurement function that makes a strategic contribution to the long-term success of the firm.
6. Finally, this process forms the basis for a systematic implementation plan based on a roadmap – the path that will lead to the envisaged goals. This can be supported by continuously comparing the ongoing transformation process with the predefined scenarios.

## 4. Stay on the offensive

Nothing is as dangerous as a great victory.

**In sports, a world-class trainer is one who keeps the team on the offensive even after winning the final game. The trainer knows that nothing is as dangerous as a great victory. The winners cannot afford to rest on their laurels: The risk is too great that they become lazy, overly confident, careless, and start underestimating the competition. In three of the last four soccer World Cups, the previous world champions were knocked out right at the start in the group stages.**

**The history of business offers many examples of firms that have ultimately failed on the back of a success. Procurement cannot afford to make the same mistakes. It faces a dual challenge: to achieve victory in the final game and so secure its future role in the company, and to maintain its level of ambition, flexibility and motivation even after the victory. Because no sooner is one competition over than the next one begins.**

## WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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by Roland Berger

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