The Future of Procurement (and other musings)

Dubai, UAE
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Jason Busch, Founder and Head of Strategy, Spend Matters
Some quick background on us …

- The Spend Matters Network™ helps organizations spend and manage cash more effectively. We combine one of the fastest growing B2B digital media platforms with a set of expert analyst, research and advisory products. The Spend Matters Network includes:
  - Expert and influential procurement, supply chain and finance content that **connects** with individuals
  - Innovative **subscription products** that improve how businesses interact with markets
  - **Custom** research and advisory solutions for clients
Spend Matters Network – by the numbers

Spend Matters Network

• 12 different sites / brands / research services
• 1,500-2,000+ unique companies visit daily
• 1,000+ subscribers (paid members)
• 95%+ of Fortune 500 visit monthly
• 150+ free and subscription articles published weekly across the network
• The only global procurement, supply chain and trade financing media and research platform
• A mix of expert contributing analysts and supporting editors and journalists

Parent company: Azul Partners, Inc.

• Privately-held by the founders and management team; no external shareholders
• 30+ team members
Behind Spend Matters Network are expert voices and faces that connect with our audience including …

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Exploring Spend Matters: our coverage

**Spend Matters Procurement Taxonomy**

Core Procurement Workflow
("Foundational Process Architecture")

<table>
<thead>
<tr>
<th>Information / Technology Areas</th>
<th>Analytics Centric</th>
<th>Master Data / Information Management</th>
<th>“Source-to-Pay”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Supplier Information Management</td>
<td>Sourcing</td>
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<tr>
<td></td>
<td></td>
<td>Item / Catalog Management</td>
<td>Contract Management</td>
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<tr>
<td></td>
<td></td>
<td>Cost / Price Management</td>
<td>Supplier Management / SRM</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supply Market / Category Intelligence</td>
<td>Req-to-Pay (P2P)</td>
</tr>
</tbody>
</table>

**Information / Technology Areas**

- Core Procurement Workflow
- Master Data / Information Management
- Analytics Centric

**Analytics Centric**

- Supplier Information Management
  - Item / Catalog Management
  - Cost / Price Management
  - Supply Market / Category Intelligence
  - Supply Risk & Compliance Management
  - Procurement/Supply Performance Management
  - Supply Network Analytics

**Master Data / Information Management**

- Master Data Management Infrastructure
  - “Knowledge Management”

**Core Procurement Workflow**

- Procurement/Supply Performance Management
- Item / Catalog Management
- Cost / Price Management
- Supply Market / Category Intelligence

**Knowledge Areas**

- Category Management
- Procurement Value Contribution
- Supplier Networks
- Sustainability
- Systems & Architecture
- Innovation
- Commodity Risk
- Benchmarking
- Global Trade

**Outsourcing**

- Outsourcing
- Shared Services / GBS
- Working Capital
- Customer / Demand Management
- Globalization & Localization
- Transformation & Change
- Supplier Diversity
- Talent Management
- Asset Management
- Time & Expense

- Supplier Chain
  - Supply Chain
  - Product Lifecycle Management
  - Finance
  - Customer Relationship Management
  - Enterprise Governance, Risk and Compliance
  - Quality
  - Environment, Health & Safety

**Commodities / Categories**

- Direct Procurement
  - Metals
  - Logistics
  - Indirect Goods
  - Indirect Services

- Sourcing
  - Contingent Labor-Based
  - SOW & Project-Based
  - Retainer / Subscription
  - Software App Services
  - Advisory Services

**Adjacency Areas**

- Procurement Provider Market

**Industry**

- All – At High Level
- Discrete Manufacturing
- Metals
- Raw Materials
- Process (Other)
- Public Sector
- Healthcare
- Professional Services
  - Procurement Provider Market (Core Market Coverage)
Agenda

- A Global Procurement Update
- Spend Matters Crystal Ball
- Closing Thoughts
Considering the big economic picture in early 2016

- Negative interest rates in Europe (ECB)
- A flight to (perceived) safety in the dollar
- Lackluster growth in China
- Commodities variation and volatility continues unabated
- US GDP grew at 1% in Q4
  - Because of inventory levels!
  - Business capital / infrastructure spending waning
  - Exports a drag
- Europe: Ireland, Poland and Lithuania are the only bright GDP spots, despite a weak euro driving exports; Germany growth subdued
- Declining manufacturing purchasing manager index (PMI) in US – negative territory

<table>
<thead>
<tr>
<th>Month</th>
<th>NMI®</th>
<th>Month</th>
<th>NMI®</th>
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<tbody>
<tr>
<td>Feb 2016</td>
<td>53.4</td>
<td>Aug 2015</td>
<td>51.0</td>
</tr>
<tr>
<td>Jan 2016</td>
<td>53.5</td>
<td>Jul 2015</td>
<td>51.9</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>55.8</td>
<td>Jun 2015</td>
<td>53.1</td>
</tr>
<tr>
<td>Nov 2015</td>
<td>48.4</td>
<td>May 2015</td>
<td>53.1</td>
</tr>
<tr>
<td>Oct 2015</td>
<td>49.4</td>
<td>Apr 2015</td>
<td>51.6</td>
</tr>
<tr>
<td>Sep 2015</td>
<td>50.0</td>
<td>Mar 2015</td>
<td>52.3</td>
</tr>
<tr>
<td>Nov 2015</td>
<td>56.6</td>
<td>Mar 2016</td>
<td>56.9</td>
</tr>
<tr>
<td>Oct 2015</td>
<td>58.3</td>
<td>Mar 2015</td>
<td>56.9</td>
</tr>
<tr>
<td>Sep 2015</td>
<td>56.7</td>
<td>Mar 2015</td>
<td>56.9</td>
</tr>
<tr>
<td>Average for 12 months – 50.5</td>
<td></td>
<td>High – 53.1</td>
<td>Low – 48.0</td>
</tr>
</tbody>
</table>

PMI Source: Institute for Supply Management
GDP trending and the Eurozone only tell part of the overall picture: into the global procurement/finance maelstrom!

**Global Manufacturing and Supply Chain**
- Demand and supply variability, artificial markets and general volatility
- Currency impact of strong dollar, weak euro

**Finance and Trade**
- Small and middle-market credit crunch is still real and worse in emerging markets — mitigated in many cases only through expensive financing costs
- Moral suasion to accelerate cash in the supply chain remains more politics than policy

**Political and Economic**
- GDP forecast uncertainty and slowing PMI
- Elephant (Panda?) in the room: China
- Energy, environmental standards
- The future (or lack) of intervention
Despite a weak currency driving exports, European GDP growth is still in the doldrums…

Source: Trading Economics, Bloomberg
... And downward trends and volatility in commodities is continuing in 2016

Source: MetalMiner / Spend Matters
Agenda

• A Global Procurement Update
• Spend Matters Crystal Ball
• Closing Thoughts
We admit, this crystal ball thing is a bit of an inexact science practiced by snake oil salesmen … but we’ll try!
Pulling out the Spend Matters Crystal Ball for 2016

1. The powerful world and intersection of financial and physical supply chains takes off – and comes with new dangers as well.

2. Gamification, social and mobile – exploring the future of procurement

3. Spend goes three dimensional – the rise of multitier everything (spend analysis, sourcing, risk management, etc.)

4. Straightening out the direct spend fiasco – will someone please step up and take ownership of the intersection of direct purchasing, supply chain, R&D and manufacturing? ...

5. … And truly seizing control of indirect procurement (and spend) in the meantime – beyond just “P2P” and strategic sourcing efforts

6. Appreciating the speed (and rise) of commodity management – not just in food, agricultural, CPG and retail anymore!

7. Getting the division labor right along with services procurement – exploring the emerging importance of services provision to the business and how this changes the structure and charter of procurement (and how the function is perceived)

8. Becoming truly intelligent about market intelligence – of all kinds (spend, supplier, supply market, geography, geopolitical, risk, etc.)

9. Realizing the power of digital disruption

10. “Leap-frogging” emerges as a core strategy for emerging procurement organizations
1) Exploring the powerful world & intersection of financial and physical supply chains

- Discounting and Supply Chain Finance (SCF) have become industry buzzwords, and CFOs / treasurers of corporations are increasingly becoming responsible for Supply Chain finance solutions (not A/P and procurement alone)

- There is a general confusion as to how SCF works & the role of different players. For example, today’s buzz words include reverse factoring, vendor financing, payables financing, receivables purchasing and trade payables backed financing, which all tend to be variations on the theme of the umbrella term of SCF

- There are many benefits for procurement becoming more involved in discounting and payables beyond just leveraging one’s balance sheet to provide financing and to earn a solid APR; one benefit, for example, is overall control and oversight of the end-to-end transaction with suppliers to reduce risk

* Parts of this section, including the definition, are sourced directly to Spend Matters partner, David Gustin (Global Business Intelligence).
2) Gamification, consumerization, social and mobile – the future of work

• What happens when our kids join us in the procurement workforce already (hint: they have)?
  – Social (imagine applications and procedures build around a social construct rather than traditional visual workflow)
  – Internal competition
    • Savings
    • Games, point systems
    • Name and shame
  – Prediction markets
  – Mobile (next generation interfaces will look and act the same on notebooks/desktops and larger tablets; smaller mobile devices/smart phones will offer contextual navigation)
  – Consumerization – already here and getting more important by the day
3) Spend goes three dimensional – the rise of multitier everything (spend analysis, sourcing, risk management, etc.)

**Focus on two things:**
- Understand what lurks under the tier-one surface
- Appreciate the space that exists in between organizations – e.g., new information exhaust

**Leadership, talent and systems are key**
- Requires a new mindset focused on understanding the broader supply chain as well as the ability to muster the right resources to make it happen
- There are multiple internal (and external) customers for this data; which also raises the question of security and data ownership (but more on this in a minute)
- New applications, networks and platforms will change everything around transactional facilitation and insight (and are starting to do so already) across multiple tiers

*Further reference: Spend Matters PRO – Supply Chain Data: How Many Puzzle Pieces are You Missing (October 2013)*
4) Straightening out the direct spend fiasco…

Will someone please step up and take ownership of the intersection of direct purchasing, supply chain, R&D and manufacturing?

### Procurement Responsibility/Influence Model (% of respondents)

<table>
<thead>
<tr>
<th>Category</th>
<th>Accountable Owner</th>
<th>Leading / Transforming across matrix</th>
<th>Participating / Enabling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier management / &quot;SRM&quot; (measure, monitor, Sourcing)</td>
<td>47%</td>
<td>34%</td>
<td>14%</td>
</tr>
<tr>
<td>Sourcing (strategy &amp; execution; multi-tier; Buy-Sell; SB)</td>
<td>53%</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Commodity Risk Management</td>
<td>40%</td>
<td>29%</td>
<td>13%</td>
</tr>
<tr>
<td>Supplier ramp-up / onboarding</td>
<td>38%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Supply Risk Management (IP, natural hazard, supplier)</td>
<td>32%</td>
<td>29%</td>
<td>18%</td>
</tr>
<tr>
<td>PO planning, allocating, and monitoring (including multi-</td>
<td>38%</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>Supplier discovery and Early Supplier Involvement in Strategic 3rd party procurement (e.g., CMs, ODMs, 3PLs)</td>
<td>27%</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Extending GRC/Sustainability requirements to supply</td>
<td>17%</td>
<td>25%</td>
<td>29%</td>
</tr>
<tr>
<td>Inventory positioning (who stores how much raw</td>
<td>15%</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>Supply Planning via S&amp;OP</td>
<td>25%</td>
<td>13%</td>
<td>30%</td>
</tr>
<tr>
<td>3rd Party innovation (crowdsourcing, IP licensing, JVs,</td>
<td>19%</td>
<td>17%</td>
<td>36%</td>
</tr>
<tr>
<td>Tax advantaged supply chain design</td>
<td>14%</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Design / Specification creation (including make vs. buy)</td>
<td>8%</td>
<td>40%</td>
<td></td>
</tr>
</tbody>
</table>

Minority of Procurement organizations own or lead these processes

Source: Spend Matters/ISM
5) … And truly seizing control of indirect procurement (and spend) in the meantime – beyond just “P2P” and strategic sourcing efforts

• “Just do it – yesterday”
  – Item level spend analysis (yes, it matters)
  – Strategic sourcing & spend portfolio strategy (e.g., MRO)
  – eProcurement
  – E-invoicing (true e-invoicing)
  – Supplier on-boarding, enablement and visibility
  – Contingent spend / VMS
  – Supplier diversity

• “Plan and act”
  – Market / category intelligence
  – Supplier development / partnering
  – Supplier risk management
  – Services procurement (beyond the VMS)

• “Get smart and explore”
  – Advanced sourcing
  – Financial supply chain
6) Appreciating the speed (and rise) of commodity management – not just in food, agricultural, CPG and retail anymore!

**Value Proposition of Procurement**

- Increase business value derived from spend
- Reduce demand activity, complexity and variability
- Shift from lowest price to Total Cost of Ownership
- Right goods and services AND at the right price
- Right goods/services at right time & place

**Commodity Management Context**

- Strategic Commodity Management is intrinsically linked to business strategy
- Price/Cost Forecasts must feed the business planning process
- Price/Cost Forecasting needs good demand forecasting process
- Price is only one TCO element
- Availability drives Price (need to manage both)

**Further reference:** *Manufacturing’s Procurement Black Hole: Sourcing and Commodity Management (October 2013)*
7) Linking services procurement initiatives in the human supply chain to broader procurement and supply chain programs

- Services procurement (especially outside of contingent labor) has many touch-points with existing procurement and supplier management processes
  - Sourcing – integrating services procurement into a standard strategic sourcing process (e.g., reverse auction, multi-round sealed bid)
  - Supplier management – measuring supplier performance, developing key suppliers and ensuring contract compliance
  - Compliance / risk – beyond just worker classification!
  - Cyber/security
  - “Inventory” for services/virtual goods
- ...But it is also critical to remember that with services procurement, managing the entire lifecycle is essential to manage for total value (not just cost) and improve outcomes for stakeholders
8) Becoming truly intelligent about market intelligence

- Start here: understanding the complete market spectrum and definition
  - Macroeconomic environment
  - Exploring different options (e.g., outsourced, in-house, bundled supplier services, single service, etc.)
  - Understanding standard pricing models
  - Understanding advanced approaches
  - Understand levers based on industry (e.g., M&A)
  - Supply market segmentation

**Source: The Smart Cube**
9) Truly predicting the future with forecasting

- Interest rates
- China PMI
- BDI
- Scrap prices
- Electricity rates
- OECD growth
- Capacity util.
- RMB/USD Forex
- Strikes
- Mine safety
- China interest rates
- Stimulus programs
- Exchange stocks
- VIX

- Housing starts
- Automotive sales
- GDP
- Iron ore costs
- Commercial const.
- Mortgage defaults
- Unemployment claims
- Coking coal costs
- ETF investments
- Water supplies
- Skill shortages
- Environmental
- Canceled warrants
- MW premiums
- Exchange rates
- US trade deficits
- Product substitution
- Demand
- China bank lending
- Consumer durables
- Inventory overhang
- Easy credit
- China GDP
- Inflation
- Import levels
- Commodity spot markets
- SRB buying

Tracking all of the input variables and knowing how much each of these impacts the commodities you buy remains a challenge!

Source: Spend Maters PRO / MetalMiner
9) Besides price, what else can I forecast?

- Budgets
- Demand (duh ...) – but have you done it for indirect or services spend? And do you have a formal S&OP process tied into direct procurement?
- Supplier performance (more on this in a minute!)
- Supplier quality/SLAs
- Other supply risk factors
- Internal performance (vs. market)
- Peer performance (vs. market)
- ...and much more

*Source: Spend Matters PRO / MetalMiner*
10) “Leap-frogging” emerges as a core strategy

Emerging organizations will be able to ‘leap-frog’ others if they make the right set of investments and look to the future, paying attention to five key disruptors

1. Digital
2. Big data / analytics
3. Social
4. Financing trade and the supply chain
5. Radical new technology / infrastructure
Agenda

• A Global Procurement Update
• Spend Matters Crystal Ball
• Closing Thoughts
Keep in mind the “three procurements”

- The cost / goods / services supply chain
- The information supply chain
- The financial supply chain
The cost / goods / services supply chain
The information supply chain
The financial supply chain
For more on these topics, check out Spend Matters Plus/PRO
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