



# Procurement Transformation Fuels Supply Chain Resilience

# What you need to know

**The need for supply chain resilience** has become the new norm in this post-pandemic world.

- **Procurement resilience** is a critical capability and enabler of organizations looking to achieve broader operational and supply chain resilience.

**The big picture:** New global trade realities confront procurement leaders with a crucial choice: sustain their traditional focus on cost and efficiency or embrace a more strategic mindset centered on resilience.

- This new bearing requires understanding the value and impact suppliers can have on the organization's operations, reputation and financial performance.

**Redesigning procurement capabilities** to support supply chain resilience is a comprehensive undertaking, but execution is straightforward.

- Identify risks and opportunities related to resilience.
- Design, enable, monitor and adjust new processes and activities with resilience baked into them.

**The result:** A resilient sourcing and procurement capability that is aligned with guiding principles to deliver outcomes most important to your organization: value, cost savings and spend management, flexibility and agility, efficiency, risk protection, and innovation.

**Our thought bubble:** These outcomes are necessary amid a new post-pandemic era of supply chain and procurement realities and increasingly complex global supply chains.

Updating supply chain risk management is a board priority. As boards, executive teams and procurement leaders consider how to update the source-to-pay lifecycle, they should keep in mind that:

- Procurement resides at the center of supply chain risk management
- Resilience and efficiency are not oppositional
- Procurement resilience is a function of visibility, accuracy and speed

## A new way of thinking

**Procurement's transformation** resides at the heart of a larger transition to a resilience-centered approach.

**By the numbers:** The global pandemic obscured a fundamental redesign of supply chains and the capabilities needed to manage supply chain risks.

- Nearly half of organizations today are moving away from efficient supply chain models to revenue-assurance supply chain models.
- Senior leaders may neglect the comprehensive overhauls and upgrades required to address today's realities of supply chains.
- **A more effective sourcing approach** calculates suppliers' residual risk as well as the operational and financial impact on the organization.

## Resilience cannot be an afterthought

**Nearly 90%** of the 1,300 supply chain professionals surveyed by Gartner indicate that their organizations intend to make investments to strengthen resilience within the next two years.

**Six in 10** of these respondents acknowledge that their supply chains are designed for cost efficiency rather than resilience.

**Why it matters:** The procurement function can generate organizational value by hard-coding leading practices throughout the source-to-pay lifecycle.

**Where to focus:** Organizations can build greater resilience in the procurement function through:

- Planning and spend analysis
- Sourcing and category management
- Contract management
- Purchasing and accounts payable
- Supplier management

**The bottom line:** There will be no post-pandemic back-to-normal. The era of solely focusing on country sourcing is behind us. To adapt to the new normal, procurement must transform.

# The risk appetite framework

Procurement leaders, senior executives and boards of directors are facing a new era in procurement that dawned even before COVID-driven disruptions upended sourcing and supply chain strategies. Global procurement activities are subject to national political swings and geopolitical skirmishes, as evidenced by the Russia-Ukraine war and the U.S.-China trade war, sparked by escalating tariffs that were issued in 2018 and 2019 and took effect in weeks or months, and even the collapse of Silicon Valley Bank (SVB), Signature Bank and others, which has raised concerns around availability of capital for startups and small companies — “suppliers” in our supply chain and economy. All of these have impacts not only on procurement, but also on how we protect against such events up and down the supply chain.

The impacts of these trade gyrations were experienced by businesses quicker and deeper than in the past. New global trade realities confront procurement leaders with a crucial choice: they can sustain their traditional focus on cost and efficiency or embrace a more strategic mindset centered on resilience. This new bearing requires a more complete and realistic understanding of the value and impact suppliers can have on the organization’s performance in the areas of operation, reputation and financial performance. This fundamental shift also requires procurement leaders, senior executives and boards of directors to address three urgent questions:

- Do we know where we are exposed?
- Are we ready?
- If not, what changes do we need to make?

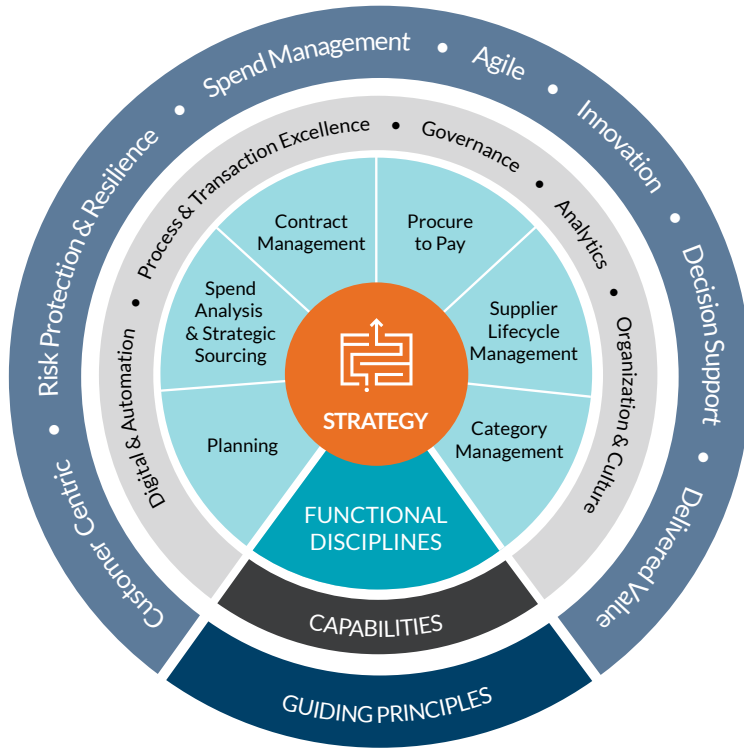
Transforming the procurement function into a resilient operation that generates value throughout the supply chain requires more than implementing a technology solution or diversifying the supplier base. Achieving procurement transformation calls for an integrated strategy across planning, spend analysis, sourcing and category management, contract management, procurement, accounts payable, and supplier management. Each of these areas demands the right blend of strategy, talent, technology solutions, and methodologies and frameworks across a connected operating model (pictured on next page).

The result will be a resilient sourcing and procurement capability that is aligned with targeted guiding principles to deliver outcomes that are most important to your organization: value, cost savings and spend management, flexibility and agility, efficiency, risk protection, and innovation. These outcomes are necessary amid a new post-pandemic era of supply chain and procurement realities and increasingly complex global supply chains.

---

*Achieving procurement transformation calls for an integrated strategy across planning, spend analysis, sourcing and category management, contract management, procurement, accounts payable, and supplier management.*

- • • Procurement Operating Model



**Procurement Operating Model** is comprised of the components needed for procurement excellence

**Functional Disciplines** represent processes and activities necessary to support the business

**Capabilities** are the enablers necessary to deliver against the guiding principles

**Guiding Principles** form the foundation that drives behaviors and desired outcomes

# A new age in procurement calls for new ways of thinking

Procurement's transformation resides at the heart of a larger transition from a purely cost and efficiency-dominant brand of supply chain to a resilience-centered approach that subscribes to a more complete and "21st-century realistic" understanding of the value of suppliers and the impact they can have on your organization in terms of operational, reputational and financial performance.

While the global pandemic accelerated many preexisting business trends, it also obscured major changes that were underway well before the initial outbreak of COVID-19 struck — including a fundamental redesign of supply chains and the capabilities needed to manage supply chain risks.

Senior leaders who view procurement challenges as pandemic-related disruptions may neglect the comprehensive overhauls and upgrades required for organizations to address today's realities of supply chains — tariffs and trade wars, protectionism, climate-related disruptions, constantly changing political and macroeconomic currents, and more — that began emerging in the 2010s and have now been compounded by inflation and labor challenges. Although events such as COVID-driven shutdowns in China and the grounding of Ever Given, one of the largest container ships in the world, serve as popular symbols of the need for better supply chain risk management, the United States' 2017 withdrawal from the Trans-Pacific Partnership (TPP) Agreement and the escalating global tariffs that the Trump administration triggered in 2019 represent earlier and perhaps more far-reaching drivers of the new supply chain (and procurement) era.

Globalization, a shortsighted emphasis on low-cost sourcing and single-sourcing, escalating cybersecurity threats, environmental, social and governance (ESG)-related considerations and growing competitive pressures also contribute to the need for more resilient

supply chains. In addition, as competitive pressures spur businesses to outsource more functions to focus on core competencies, suppliers and third parties exert a larger influence on company performance. As a result, more boards and executive teams recognize the potentially substantial risks and total costs associated with aggregating spend with fewer suppliers to obtain lower prices without having alternatives, exit strategies and business agility in mind. This realization is driving interest in a more distributed sourcing model, one that may feature higher unit prices but that also enhances resilience while reducing the total cost of ownership (TCO). In fact, results from our recent global survey of chief financial officers (CFOs) and finance leaders show that nearly half of organizations today are moving away from a focus purely on cost and efficient supply chain models to revenue-assurance supply chain models.

Make no mistake, the era of solely focusing on low-cost country sourcing is behind us. Certainly, regions with access to cheaper labor and materials will continue to play a key role in keeping overall costs down. However, the implications (and cost benefits) of such decisions need to be weighed against potential impacts and supply assurance risks, including the inherent risks of such structure as well as the residual risk exposure once internal and external controls and potential risk response strategies are applied. This change has major implications on product design, manufacturing locations and strategy, as well as procurement strategy, structures and processes — all of which need to reflect a governance model that enables and sustains resilience throughout the source-to-pay (S2P) lifecycle. A more effective sourcing approach calculates and monitors suppliers' residual risk as well as the operational and financial impact on the organization, which enables procurement leaders to understand and manage the breadth and depth of the exposure and value that procurement generates for the enterprise.

# Resilience cannot be an afterthought

Nearly 90% of the 1,300 supply chain professionals surveyed by Gartner indicate that their organizations intend to make investments designed to strengthen resilience within the next two years. Six in 10 of these respondents acknowledge that their supply chains are designed purely for cost efficiency rather than for resilience.<sup>1</sup>

This design flaw is built into the standard supply chain model, which favors a narrowly defined focus on cost and efficiency while giving little or no attention to reliability, responsiveness and resilience. This issue is drawing attention from leaders throughout the enterprise — as well as the board of directors. In fact, the need to update supply chain risk management now qualifies as a board priority, according to Protiviti's white paper, *Prospering in the New World of Supply Chain Risk Management*.

---

## *Activities and processes in each phase of the S2P lifecycle can be redesigned to cultivate greater resilience.*

Activities and processes in each phase of the S2P lifecycle can be redesigned to cultivate greater resilience. These overhauls and improvements frequently center on enabling greater visibility and speed. When disruptions arise and supply chain pivots are made, procurement must be prepared to quickly enable, rather than impede, those pivots. While procurement functions can help enhance resilience in response to external disruptions, the function can generate as much, if not more, organizational value by hard-coding leading practices throughout the S2P lifecycle.

Designing a leading procurement capability requires a blend of purposeful planning, functional precision and rigorous governance throughout the S2P lifecycle,

which consists of planning and spend analysis, sourcing and category management, contract management, purchasing and accounts payable, and supplier management.

Build greater resilience in the procurement function through the following areas:

- Planning and spend analysis
- Sourcing and category management
- Contract management
- Purchasing and accounts payable
- Supplier management

## **Planning and spend analysis**

From a process perspective, planning and spend analysis encompasses data collection and verification, data cleansing and classification, transaction analysis, and the identification and prioritization of opportunities.

From a resilience perspective, optimizing these processes requires the presence of a risk management mindset from the very beginning. This, in turn, necessitates a comprehensive understanding of critical suppliers:

- Who are they?
- Where are they located?
- Are they single-source providers or do multiple providers deliver similar goods or materials?
- What contingency plans need to be in place for each critical supplier?

Answering these questions often requires procurement to create and sustain visibility into fourth-party suppliers.

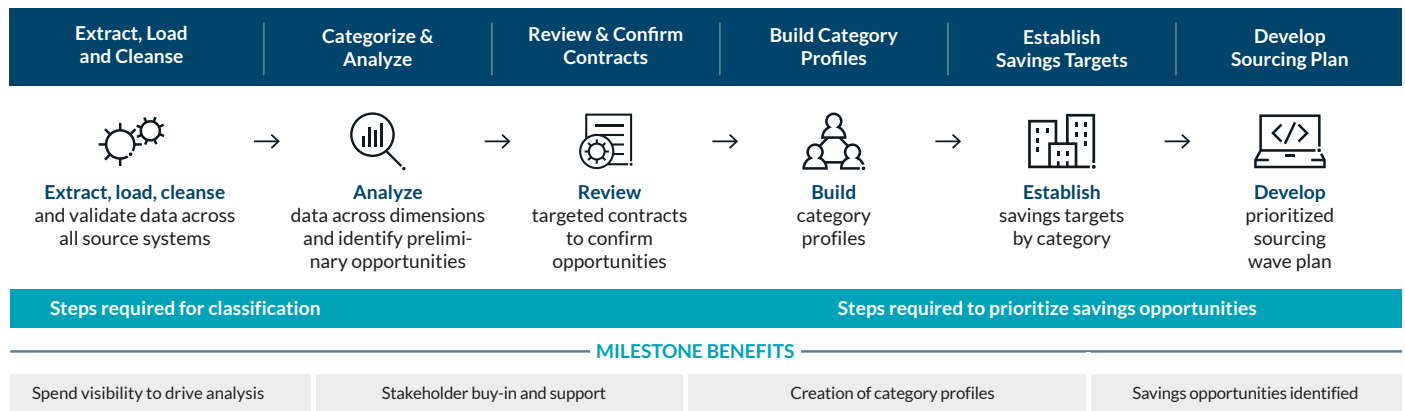
<sup>1</sup> "Gartner Survey Finds 87% of Supply Chain Professionals Plan to Invest in Resilience Within the Next 2 Years," press release, Gartner, February 10, 2021: [www.gartner.com/en/newsroom/2021-02-10-gartner-survey-finds-87-of-supply-chain-professionals-plan-to-invest-in-resilience-within-the-next-2-years](http://www.gartner.com/en/newsroom/2021-02-10-gartner-survey-finds-87-of-supply-chain-professionals-plan-to-invest-in-resilience-within-the-next-2-years).

In addition to contingency plans, procurement teams should consider creating dual-sourcing arrangements or diversified geographical options to strengthen resilience; these two approaches should operate in concert. For example, if a supplier in Asia provides 70% of the materials needed for production and an onshore supplier handles the remaining 30%, what mechanisms help to adjust that ratio up or down quickly when a disruption strikes? This planning also should consider how fluctuations in other industries affect crucial third- and fourth-party suppliers. Procurement

groups in an oil and gas company, for example, should recognize that a federal infrastructure spending bill may inflate the price of steel needed to build offshore rigs. This type of awareness is typically driven by having robust category management capabilities.

Spend analyses should be anchored in knowing where spend is today down to a procurement category and subcategory level (not GL level); this enables procurement groups to embed contingencies into their plans in terms that are not oriented to just how a company tracks expenses and reports financials.

• • • **Spend Analysis Framework**



**Sourcing and category management**

Sourcing and category management activities include forecasting and planning (i.e., supply planning), strategy development, sourcing strategy execution, supplier evaluation and selection, and category analysis.

Effective sourcing and supplier selection activities require clarity. Procurement leaders should have a firm grasp of inherent and residual risk while conducting sufficient supplier due diligence. This scrutiny should apply to each supplier’s complete capabilities, extending well beyond the provision of a good or service to other proficiencies, including:

- How suppliers manage their resilience
- How suppliers manage their subcontractors and suppliers (i.e., nth parties to the purchasing company)
- How suppliers proactively monitor, identify and respond to supply chain issues and other risks

The output of this risk assessment and other due diligence should be used to develop supplier segmentation. This tiering ultimately informs what needs to be included in the contract and dictates the frequency, depth and level of rigor that should be applied in the ongoing monitoring of that supplier.

Category management represents a procurement lifecycle process without clear starts and stops. A resilience-centered category management approach is not linear in nature. Instead, it continually evolves and should be recalibrated in the pursuit of continuous improvement.

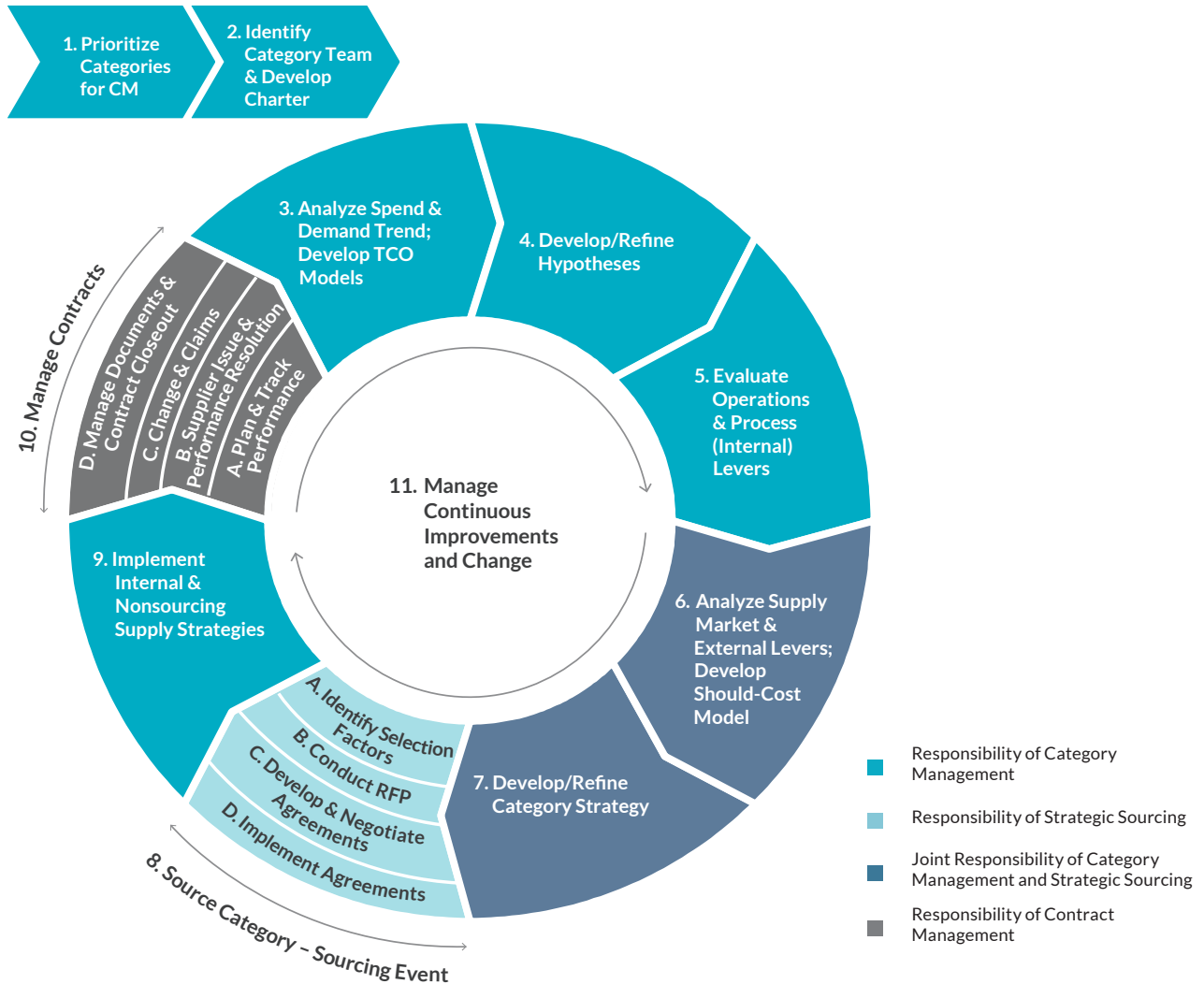
A modern category management methodology:

- Prioritizes categories based on multiple criteria, such as criticality to the business and level of spend
- Identifies the category team and establishes a charter

- Analyzes spend and demand trends that seed the development of a TCO model
- Develops and refines hypotheses concerning opportunities for resilience and efficiency improvements
- Evaluates operational and process levers as well as external levers
- Continually refines the category strategy
- Develops category-specific pricing models and requests for proposal

• • • **Category management methodology**

**Category Management (CM) Start Up/Refresh**





## Contract management

Processes within the contract management phase of a resilient S2P lifecycle include contract request, authoring, negotiation, execution, post-award contract administration (including change orders and amendments), reporting and analysis, and the development and upkeep of templates by contract type and a clause library.

Creating and sustaining visibility is the ultimate objective of a leading contract management capability. Procurement teams need visibility into contractual terms and clauses to ensure they are not caught flat-footed when required to pivot in response to internal and/or external changes and challenges. They should ask question such as:

- What functions, business units, locations and products are impacted by a contract? How do issues with fourth parties/subcontractors impact this contract?
- Do we have volume commitments or other performance obligations? What are the implications of canceling a contract or PO?
- What notification requirements exist?
- What level of contractual exposure exists with a contract (e.g., indemnity, liability, warranties) for a contract breach?

Visibility also enables procurement groups to prepare in advance of looming sourcing events and renewals. This foresight strengthens their decision-making and negotiating hands.

In this area, as in others, resilience is a function of speed. Procurement teams that can address these questions in near-real time tend to have mature processes in place, and these processes are supported by advanced automation and data analytics. Leading procurement groups also forge highly collaborative relationships with

their legal teams. These collaborations help ensure that clauses designed to support supply chain resilience (and, therefore, organizational resilience) are incorporated into master agreements and individual order forms.

## Purchasing and Accounts Payable

There are several critical processes within Procure to Pay. Two key areas where Procurement and AP can focus their efforts for improvement are increasing spend on POs and improving working capital.

The first focal point concerns PO and non-PO buying. Procurement groups can sharpen their visibility into payment obligations and supplier selection by increasing the portion of purchases covered by POs. A PO signifies that a predetermined amount of money has been approved to pay a supplier, the need is valid and the supplier is the preferred supplier. It provides leadership visibility of commitments and serves as a clear communication mechanism to suppliers around what is needed and when. In these cases, the execution of the payment can occur quickly and smoothly on the back end, in accordance with preapproved payment terms and, in many cases, automatically. Non-PO purchases usually require approval on the back end, which can create uncertainty concerning payment obligations and can extend approval time, which could lead to late payments to the suppliers.

The second area involves improving working capital management. From a resilience perspective, procurement groups need to take a more holistic, supplier/category-specific view of payment adjustments to improve cash flow. This means considering the impact on the organization's cash flow as well as the financial impacts on suppliers of all sizes. The vast majority of buyers may want to quickly extend payment terms from 30 days to 60 or 90 days when a need arises to increase cash flow. While that adjustment may succeed from an internal working

capital management perspective, it also can trigger unintended consequences. A smaller, more specialized supplier may not have the ability to wait 90 days until settlement. If that specialized supplier's product is critical to the organization, the procurement team should consider other options for increasing cash flow. A growing number of these options are available, including discounts for early payments, receivables factoring and other supply chain finance mechanisms. Applying a strategic and holistic approach can increase working capital without jeopardizing critical goods or services to an organization.

### Supplier management

Supplier management activities include the following interrelated processes: supplier enablement and onboarding, supplier performance management, supplier risk management, and supplier relationship management.

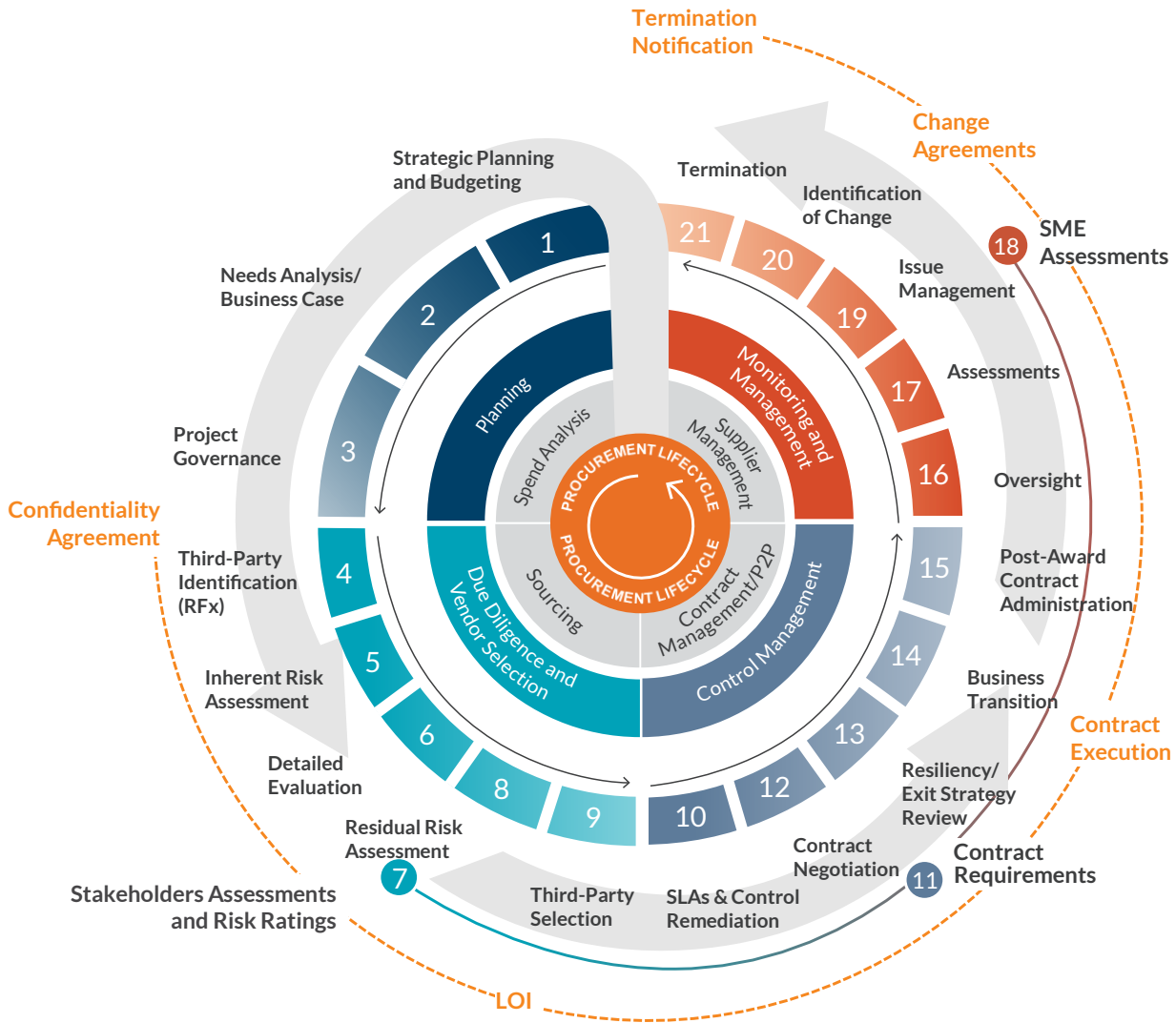
These activities require procurement teams to apply a combination of art and science. To manage supplier performance, procurement applies both objective and subjective evaluation criteria. In heavily regulated industries, certain objective performance requirements are mandated by regulatory requirements. It is crucial for procurement teams to incorporate resilience considerations into all supplier management processes while ensuring that monitoring is conducted on a continual basis. Red flags should be raised when risks and potential issues arise, as opposed to after the fact.

Supplier, or vendor, scorecards can help manage supplier performance. The scorecards should be broad and balanced. Balanced performance criteria extend beyond operational performance to all the factors that are important to the purchasing organization, such as contract compliance, ongoing monitoring of financial performance, changes in management, monitoring of reputational risk (e.g., negative news about the suppliers), information security and data privacy, and more.

In addition to managing supplier risk and performance, having a supplier relationship management (SRM) program is a key enabler to driving improved business outcomes. Furthermore, as proven by companies that most successfully navigated the pandemic waters, a SRM program can be a critical aspect of creating resilience in the supplier base through collaboration with strategic vendors. Beyond managing suppliers to agreed commercial terms, SRM moves away from traditional transactional arrangements to a holistic view of collaborative supplier relationships. This approach can lead to incremental savings, innovation and continuous improvement, joint process improvement, and improved communication and collaboration with key suppliers.

Third-party risk management (TPRM) marks another component of supplier management, one that may apply to traditional suppliers as well as other vendors — and their suppliers (e.g., nth parties). An effective TPRM capability extends from initial due diligence on potential vendors to contract management, onboarding and ongoing risk, and continuous performance monitoring. Due diligence and upfront risk assessments produce data and insights that should inform and shape contracting and performance-monitoring activities.

- Integrating procurement and third-party risk management (TPRM) to drive value



To increase efficiency, control speed to value and customer experience, the Procurement Lifecycle should be embedded within and throughout the TPRM Lifecycle

- Inner Lifecycle – TPRM Governance and Business Stakeholders
- Middle Lifecycle – Risk Stakeholders
- Outer Lifecycle – Contract Lifecycle

# In closing: visibility, speed and accuracy drive resilience

While redesigning a procurement capability to support supply chain resilience is a comprehensive undertaking, execution is straightforward in most organizations. Risks and opportunities related to improving resilience should be identified. New processes and activities with resilience baked into them are then designed, enabled, monitored and adjusted as needed.

As boards, executive teams and procurement leaders consider how to update the S2P lifecycle, they also should keep in mind that:

- **Procurement resides at the center of supply chain risk management:** Boards are discussing supply chain redesigns and risk management because redesigns of these capabilities are rightly viewed as a key driver of business agility and resilience. Supply chain resilience is achieved through the combination of purposeful planning and functional excellence, and is supported by core capabilities, including procurement.
- **Resilience and efficiency are not oppositional:** While the new supply chain era requires a comprehensive focus on resilience, this does not mean that procurement costs necessarily must increase. A more complete and accurate assessment of actual total costs equips procurement teams with more and better insights regarding how to manage those costs and opportunities to eliminate potential redundancies.
- **Procurement resilience is a function of visibility, accuracy and speed:** Supply chain resilience requires dual sourcing, contingency plans and a truly complete accounting of costs — including those related to continuity management, logistics workarounds, customer satisfaction declines in response to delays, and more. Procurement resilience equips organizations with sharper visibility into the purchasing and performance-related activities that either enhance or weaken supply chain resilience. Maintaining an accurate and current assessment of these factors enables procurement teams to react quickly when disruptions or changes arise.

Finally, business and procurement leaders should recognize that there will be no post-pandemic back-to-normal. The seeds of a new supply chain era were sown prior to COVID-19. Businesses have adapted to new supply chain eras in the past — think of the move from purchasing to strategic sourcing in the 1990s, or offshoring in the early 2000s. Now, they need to adapt again, which means that procurement also must transform.

## ABOUT PROTIVITI

Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, digital, legal, HR, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the *2023 Fortune 100 Best Companies to Work For*<sup>®</sup> list, Protiviti has served more than 80 percent of *Fortune* 100 and nearly 80 percent of *Fortune* 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

## CONTACTS

**David Petrucci**  
Managing Director  
+1.704.317.8307  
[david.petrucci@protiviti.com](mailto:david.petrucci@protiviti.com)

**Christopher Monk**  
Managing Director  
+1.713.314.4970  
[christopher.monk@protiviti.com](mailto:christopher.monk@protiviti.com)

**Holly Lindstrom**  
Director  
+1.507.382.5587  
[holly.lindstrom@protiviti.com](mailto:holly.lindstrom@protiviti.com)



## THE AMERICAS

### UNITED STATES

Alexandria, VA  
Atlanta, GA  
Austin, TX  
Baltimore, MD  
Boston, MA  
Charlotte, NC  
Chicago, IL  
Cincinnati, OH  
Cleveland, OH  
Columbus, OH  
Dallas, TX  
Denver, CO

Ft. Lauderdale, FL  
Houston, TX  
Indianapolis, IN  
Irvine, CA  
Kansas City, KS  
Los Angeles, CA  
Milwaukee, WI  
Minneapolis, MN  
Nashville, TN  
New York, NY  
Orlando, FL  
Philadelphia, PA  
Phoenix, AZ

Pittsburgh, PA  
Portland, OR  
Richmond, VA  
Sacramento, CA  
Salt Lake City, UT  
San Francisco, CA  
San Jose, CA  
Seattle, WA  
Stamford, CT  
St. Louis, MO  
Tampa, FL  
Washington, D.C.  
Winchester, VA  
Woodbridge, NJ

### ARGENTINA\*

Buenos Aires

### BRAZIL\*

Belo Horizonte\*  
Rio de Janeiro  
São Paulo

### CANADA

Toronto

### CHILE\*

Santiago

### COLOMBIA\*

Bogota

### MEXICO\*

Mexico City

### PERU\*

Lima

### VENEZUELA\*

Caracas

## EUROPE, MIDDLE EAST & AFRICA

### BULGARIA

Sofia

### FRANCE

Paris

### GERMANY

Berlin  
Dusseldorf  
Frankfurt  
Munich

### ITALY

Milan  
Rome  
Turin

### THE NETHERLANDS

Amsterdam

### SWITZERLAND

Zurich

### UNITED KINGDOM

Birmingham  
Bristol  
Leeds  
London  
Manchester  
Milton Keynes  
Swindon

### BAHRAIN\*

Manama

### KUWAIT\*

Kuwait City

### OMAN\*

Muscat

### QATAR\*

Doha

### SAUDI ARABIA\*

Riyadh

### UNITED ARAB EMIRATES\*

Abu Dhabi  
Dubai

### EGYPT\*

Cairo

### SOUTH AFRICA \*

Durban  
Johannesburg

## ASIA-PACIFIC

### AUSTRALIA

Brisbane  
Canberra  
Melbourne  
Sydney

### CHINA

Beijing  
Hong Kong  
Shanghai  
Shenzhen

### INDIA\*

Bengaluru  
Chennai  
Hyderabad  
Kolkata  
Mumbai  
New Delhi

### JAPAN

Osaka  
Tokyo

### SINGAPORE

Singapore

\*MEMBER FIRM

© 2023 Protiviti Inc. An Equal Opportunity Employer M/F/Disability/Veterans.  
Protiviti is not licensed or registered as a public accounting firm and does not issue  
opinions on financial statements or offer attestation services. PRO-0723-103167

protiviti®