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Lately, Nathalie worked as the Technical Assistant to IBM's CPO, John Paterson, coordinating various Supply Chain projects and the reporting of Procurement KPI, getting a deep insight into the life of a CPO office, and benefited from experiencing the leadership skills of a high profile senior executive with more than 40 years of experience in Procurement.

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## 9 Considerations for Procurement Transformation

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Procurement today is certainly a very different function from that of even ten years ago. Regardless of the procurement organisations' maturity, today the base expectations from CEOs and other C-level executives are the same: procurement organisations must continue to fulfil our business as usual duty (e.g., cost control, negotiation, supplier management) but also add value, be innovative, control risks, ensure compliance with growing regulations, deliver better customer experiences, provide best-in-class support, and all in an easy, simple and user friendly way. In summary, do more with less. Contribute more to broader business objectives.

Why is this? Procurement has moved away from its standing as a simple back office function and is now recognised as a true differentiator with huge potential for the enterprise, especially in today's patience-poor culture where consumers are accustomed to everything at their fingertips.

It took time for Procurement to gain this recognition, and it required fundamental transformation. To be able to meet these mounting expectations Procurement strategy must continuously evolve with an additional requirement, speed. Organisations have limited time to adapt and to reach best-in-class status.

So herein lies the challenge: How do we accelerate the metamorphosis of the caterpillar into the butterfly? What is important to focus on to successfully take the transformation to the next level, especially when we know that 70% of all launched transformation processes do not create the intended impact?

In this whitepaper, I will go through 9 key observations and factors to consider and leverage extensively when undertaking transformation as I believe they have a major impact on Procurement evolution. I will cover Strategy, Process, Technology, People, Millennials, Social Media, Big Data Analytics, Risk and Security and Innovation. Whether wanted or not, they are changing the way procurement organisations operate.

## Strategy

This is centered on linking Corporate and Procurement objectives. The prerequisite is to gain a clear understanding of the strengths and weaknesses of the organisation, maturity levels in terms of spend under management, compliance (e.g., to process, to contract), automation and client satisfaction.

We must also be clear on organisational priorities and how a company defines success then provide natural direction on what procurement should also focus on. From there it is more straightforward to define what can be realistically achieved, and set the relevant measurements, KPI and controls to track the progress of the implemented strategy. Because, we must be honest here, it is a complex and daunting task to really effectively transform a 'simple' purchasing organisation into a truly relevant and strategic Procurement function. There are clearly priorities which should be taken care of to begin with, getting some successes recognised early and develop from there.

Hence, the role and value of the Key Performance Indicators (KPI) is hugely important. The old adage, 'What gets measured, gets done' is true, and having the right KPI's at various stages of the journey is critical to the success of the transformation.

From the market, we can see that most organisations are moving in the same direction. Focusing on cost saving is still a key indicator for Procurement, but other objectives and goals are now rising up in priority on the CPO's agenda.

Deloitte stated in their most recent Global CPO Survey (2014) that "*Cost control remains a priority, but its relative importance is lower than last year*".

Roland and Berger in their analysis "The CPO Agenda 2014" came to the conclusion that: "*Generating and measuring savings is still on top 3 challenges to focus on, however other areas of focus are gaining significant importance: managing volatility and risk, developing supplier partnership, and securing innovations.*"

It is a clear sign that with good leadership, Procurement is therefore seeking to adopt a more collaborative approach to add value to the overall organisation, and this has to happen in two dimensions: internally and externally.

On one side, we need to increase collaboration with internal stakeholders by engaging with them earlier in their business, building the relationship, understanding their needs and being able to guide them as a trusted partner. Some companies have already made significant improvements in this area, such as Deutsche Telekom where its SVP Group Procurement explains in a recent blog from Procurement Leaders\*(1) that his Procurement team is now part of the budget planning, part of all investment committee and is also heavily involved in the decision the business makes around what they buy.

Externally, we must also improve collaboration and partnership with our suppliers. These are key success factor in my opinion as the squeeze on suppliers must be limited. In fact, suppliers are one of our most important assets for success since they have a holistic view of the market and on what the business does in addition to what competitors do. They are also experts in their field and therefore best positioned to help us solve pertinent business challenges. Acting as an 'orchestrator' of activities between suppliers and internal clients will be critical as it will facilitate speed and transparency of execution.

## Process Simplification

With focus on speed of execution, and desire for simplicity from everybody, there is a lot of work to do in this area, and this is valid for every organisation.

Too many procurement organisations have complex and inefficient procurement processes in place, which not only block the significant cost savings that can be achieved but also damage their reputation with internal customers who may express their feelings and opinions about processes being too complicated and too long in client satisfaction surveys when conducted.

Arguably, the best way to improve processes is to start to free up resources from operational tasks by diverting transactional, repetitive, low-value but time consuming activities to dedicated resources who can become experts in them. Automating these tasks where possible drives further improvement in the form of efficiency and effectiveness. Today, with the right technology, it becomes easier to make a sound assessment of where inefficiencies in the process lie, through capturing data about the process – such as time taken to complete the overall process, how long certain steps take, whether tasks are continually reassigned (adding cost and delay).

Moreover, reworking processes is a continuous exercise. With increasing regulatory requirements or changes in our own environment due to transformation, the perfect process for today may become obsolete tomorrow.

Let's take the example of IBM, having embarked on its procurement transformation journey almost 20 years ago and is today one of the world's best in class procurement organisations (achieving last year \$6.9Bn of savings). Bob Murphy, CPO, recently explained that his organisation is constantly working on its processes: *"We also are much more critical of our own operational performance as is evidenced by the 12 work streams we have in place through our #getsimple initiatives where we*

*measure ourselves on our ability to decrease complexity, increase our speed and improve our agility.”*

Whether having just embarked on the transformational journey or progressing through the evolution, improving efficiency cannot be achieved without robust and standardised process. But in today's world, it must be designed to allow Procurement organisations to become more and more agile and transparent, focusing on speed and simplicity.

## Technology

In recent years, technology for Procurement activities has evolved considerably. Before deciding upon a technology strategy, it is important to be clear not only on what needs to be achieved in the short term, but also in which direction we are going to grow and what we will have to achieve in five years' time.

It is also important to keep in mind that the use of technologies is not a substitute for the development of a solid strategy; it can only facilitate its development and delivery, in addition to supporting the iterative processes within the strategy.

Technology is frequently held to account for failure when results expected did not materialise, but after deeper analysis, in most of the cases, it was simply because the chosen technology was not the appropriate choice to support the strategy objectives.

There are two categories of technology: one covering downstream activities, typically Procure to Pay (P2P) and one supporting upstream activities, S2P (Source to Contract). These are complementary, and should really be fully integrated.

On the downstream side, which is more operational or transactional, technology should offer a solution to automate repetitive tasks as much as possible. As of today, there are still many procurement organisations which still haven't yet fully taken advantage of this. The latest IBM CPO Study produced by IBM Institute for Business Value (IBV) published in December in 2014, reveals 22% of the top performers only have their Procurement actions “somewhat” automated and this is even more prevalent for underperforming organisations (26%). This means that in many organisations, there are potentially much more savings to be achieved. For example, freeing up the time of highly skilled professionals for more strategic activities, as well as improving end user experience and process adoption, or also compliance and contract usage. Therefore, objectives when implementing downstream systems are efficiency and agility, speeding up the procurement cycle and providing greater access to more opportunities for suppliers.

Upstream systems will help to gain maximum intelligence out of the ever-increasing amount of data now available, to increase transparency and take advantage of the reporting capabilities.

The Procurement community has big and precise expectations in this area. *“The number-one issue in procurement is visibility and predictability... Tools and techniques for upstream visibility will be critical. If you know there is going to be a problem somewhere, you can be proactive about solving it or avoiding it before it happens”* says Flextronics CPO Tom Linton\*(2).

In the IBM CPO Study, when asked, 91% of procurement role models believe procurement technology should include advanced analytics solutions, and 85% said it must include integrated risk management capabilities. The ability to engage with suppliers of all kinds and sizes on a consistent, procurement defined platform is critical if we want to take full advantage of these relationships. ABInBev understood well this critical need and explained in a recent case study<sup>(3)</sup> that they launched an e-sourcing and Contract Management suite allowing them to realise the best value, not just the best price, from their supply base by factoring cost, risk, and performance drivers into decision-making. With the appropriate advanced Procurement suite, ABInBev now has the ability to manage variables such as commodity price and fluctuation and identify alternative suppliers to guarantee supply when regional droughts or other issues could impact their suppliers.

Furthermore, I believe that the technology must be more accessible, meaning more intuitive and able to easily integrate with other systems. It should be more graphical, easy to use and mobile; in other words, it must empower the user. Lastly, it should be scalable, and fully secure. These factors are important not only for the outcomes and the benefits technology brings, but also because Procurement professionals now deserve and expect the most advanced technology. This links in to the fourth and arguably most pertinent point, People.

## Skills and Talent

Shockingly, 50% of Procurement executives feel their team lack the skills needed to deliver their Procurement strategy. (Deloitte Global CPO Survey 2014).

Why is that? Originally, Procurement was heavily based on process management, negotiation and basic spend analysis. The function is evolving, and professionals have to adapt to a new environment and to new and growing expectations; this requires new and different skills for a more advanced profile.

Procurement professionals are expected to be much more analytical, with the ability to do more data mining. They also have to learn to manipulate and understand financial data and indicators (e.g., P&L, balance sheets). They should also be able to work with the latest technology and last but not least, probably one of the most important skills to develop is a customer centric world-view. In today's customer-centric world, this becomes crucial. In my opinion, understanding internal customers, being able to communicate in their language, knowing what they want or helping them to understand what they need is the most difficult skill to learn and develop since often it goes against the ingrained training that many procurement professionals have traditionally received. It's time to stop hiding behind the processes and open up and face the internal customers. Given the back office environment we, as procurement professionals are coming from, there is still a lot to do to change the mind-set and the behaviour of everybody involved. Procurement professionals need to develop their consultative skills and become 'less' process focused since heavy process is one of the factors inhibiting speed and agility.

Another challenge involves attracting and retaining fresh talent in our industry. The situation needs to be addressed now to prevent a more difficult position within the next couple of years. Actually, 66% of UK procurement professionals are either actively or passively seeking a new role (Source: PSD Group) and Procurement Leaders also warned in their last trend report "Procurement in 2015": "*As baby boomers will quickly retire over the next few years, and procurement teams lose their highly skilled, senior leaders, succession planning will become ever more critical*". The good news is that

organisations realised the issue and some of them started to address it. I read about one of the most recent initiatives taken was highlighted in an article from Supply Management\*(4) where they reveal that Tom Wilson, Head of Procurement at Skills Development Scotland (SDS), said 60% of buyers in the NHS in Scotland were aged over 55. “Where is the pipeline coming from, where is the youth?” he said. As a result of the Procurement Reform (Scotland) Act 2014, SDS introduced a new responsible and sustainable procurement strategy and is aiming to introduce 500 Modern Apprenticeships (MAs) in Procurement and Supply Chain over the next three years.

Procurement managers, leaders, executives must do a better job to develop the image of the profession as well as encouraging people to join it. The type of people Procurement should be looking to attract include Millennials, who many executives say typically need to be inspired and motivated. However, the current perception of the function is less than glamorous. The perception of Procurement as a function existing only to deliver cost savings by sourcing goods and ensuring compliance to the process is outdated and can be revitalised through current technologies and techniques to motivate Millennials. It is down to Procurement professionals to change this. Our role today should include working in partnership with customers to ensure they have best in class support, using current and advanced technology available on mobile devices, and also partner with our suppliers to be as innovative and creative as possible. Presented like this, working in Procurement sounds much more attractive.

## Millennials

This generation is our next source for professionals who can deliver Procurement Transformation. As a proportion of the population their numbers are increasing. By 2025, 75% of the global population will be Millennials according to a Procurement Leaders report. What does that mean? In order to attract and retain this new generation of people, procurement leaders have to better understand them.

Millennials, also called Generation Y, are those professionals born from the early 1980s to the early 2000s in a digital world with mobile technology and social media. This generation, connected and tech-savvy, is very much accustomed to “always-on” computing, communicating constantly and immediately, irrespective of where they are. They are very critical towards technology, having high expectations of its capabilities, but they are also often highly creative and optimistic. Millennials expect to have a meaningful job (or career) for companies where they believe that they can make an impact. They prefer to collaborate with peers in multiple creative ways and have strong aversion to rigid hierarchies, and do not want to be working in the shadow of a back office. They tend to multi-task, they have strong analytical skills and use diverse communication channels which can unsettle senior executives.

Having an honest look at most of our Procurement organisations, one may have to admit that we are still often using very heavy and complex processes involving manual tasks, lots of paper work, data entry and excel files when collaborating with suppliers and internal stakeholders. Now imagine a Millennial entering this type of organisation. It is clear that in many cases the organisational environment and the characteristics of Millennials may be incompatible, or at best compromised. In other words, Procurement, but also enterprises in general have to create an environment with infrastructure that supports Millennial expectations and allows them to bring value.

Because Millennials in general are so ambitious, they will also want to progress at a faster pace than the organisation may be able to follow, and may leave the company for another one fulfilling their need for growth. They are also highly motivated (however can get demotivated very quickly), but not necessarily willing to compromise their personal life. To attract or influence Millennials, it is therefore important to be interactive by acting as a connector and providing them a platform to become more visible to industry leaders, as they will appreciate any support provided to boost their profile.

Additionally, this generation is known for having a strong creative mind-set and a fantastic source of innovation that will be a very powerful asset especially in this extremely demanding environment.

Millennials are also digital natives who are more likely to explore brands on social networks and to favour brands that have social pages and mobile websites (53%), therefore, being social meaning actively engaged in Social Media is becoming a fundamental imperative for Procurement and cannot be ignored anymore, nor under-estimated. Which leads me to the next point, Social Media.

## **Social Media**

The power of Social Media is incredible. It can bring extremely useful insights and intelligence but can also damage the reputation of a company, instantly. Every day we see organisations publicly highlighted for brand-impacting failings due to factors such as Corporate Social Responsibility, contractual, supply or quality failings. Within seconds of a source finding out about such information, it can be instantly shared with millions of viewers online through multiple social channels, having huge impact on a company's reputation and ultimately stock price. Once this information is in the public domain it is impossible to control.

However, Social Media can have positive impacts too. It is a fantastic, free, and open way to position an organisation. Procurement organisation can stay visible, transparent, and demonstrate expertise and willingness to collaborate. It is also an unlimited forum to announce activities, develop ideas, exchange observations with peers and other analysts, gather data points, promote and discuss research publications or events, and engage with key stakeholders.

Furthermore, social media is now recognised as a powerful source of real time information that will help to predict customer/supplier behaviour. It can also be used in "predictive" activities, enabling Procurement organisations to anticipate supply impacts and consider "next best actions". Today's technology is able to capture data from social media to understand attitudes, sentiments and trends, manage online reputation and inform decision-making. Twitter alone generates 6,000 tweets a second, and there can be a lot to analyse and learn from that unstructured data.

That said, it seems that at the moment, Social Media is still quite low on the priority list of Procurement executives. According to Deloitte Global CPO Survey, in 2014 "Social Networking attracts attention from a mere 26% of the CPO". In my opinion, there is an urgent need to reconsider this as the impact of social media, whether it is positive or negative, cannot be ignored. Companies who are going to systematically leverage social media will gain significant advantage over their competition. Some companies, acknowledging the power of social media, have started to leverage it in quite an innovative ways, Adidas being a very good example. Adidas started to use social media to publish the results of their work on managing compliance with their suppliers. By doing so, they showed that they do take ethics and compliance seriously and that they can demonstrate transparency, as they are not afraid to reveal that they found non-compliant suppliers

that led to 13 contract terminations last year. They are now able to turn their findings into a positive, credible story and a competitive differentiator.

There is one additional side of social networking to consider: the Enterprise Social Network (ESN), a platform used for internal communication to replace emails. Receiving an average of 200 mails per day cannot be the norm anymore, which is why using ESN becomes more and more popular.

This new technology is well received by employees because they can gain rapid answers to their questions from peers and managers which may otherwise take days or weeks. It also makes everyone's job easier and more productive, reducing considerably the amount of unnecessary emails. Since networks around topics such as innovation or change-programs can spring up quickly with subject-matter experts more readily available it generates a new behaviour amongst the workforce, who start to associate with each other on the basis of the problem/challenge to work on instead of working within the bounds of hierarchy and following the traditional organisation chart, which appears to be much more efficient. Bob Murphy, IBM CPO decided last year to leverage social collaboration into the day-to-day life of his team. "Early last year we established a Global Procurement Community which has become our central communications centre for the team. Anyone can post information they feel will be of interest while also staying current on activities across the team. Since establishing this community last year our membership has grown from 80 members to almost 3000."

## Big Data Analytics

"Big data is transitioning from one of the most hyped and anticipated tech trends in the last couple of years into one of the most significant challenges that we are all trying overcome now."\*(5) In the IBM CPO Study 41% of top CPOs reported that they embed analytics into their procurement processes vs 16% of lower-performing CPOs, which shows that there are still many organisations who are not yet adequately leveraging Big Data.

Historically many Procurement functions were "data poor". Big Data, driven by the "internet-of-things", mobile devices and social media to name a few, now potentially means data overload. Procurement needs to be both data and information rich. Still, data in itself means nothing if it is not converted into an insight that will help make decisions, or simply help professionals to do their job more effectively. The new challenge is no longer gathering data, but doing something useful about it, as well as selecting the right data appropriate to business decisions, given its abundance. This runs at two levels. It makes sense to optimize and take the most out of the data companies already have in house (e.g., in their ERP and internal systems). Then, it is also about taking advantage of the wealth of data in an increasingly connected world through social media, blogs, reports, analyses, and news, to extract useful information and inform decisions.

Precise forecasting is the starting point of the value that Procurement can deliver but some events happen so quickly that executives need to respond in real-time. This is where analytics can make the difference - to make better-informed decisions. Gregory Mark CEO of Hubwoo, said in an interview\*(6), "*Finding out that you had a lot of maverick spend last year doesn't do anything for you now except make you angry; well, maybe it alerts you that you need to do something about it. But it would be a lot more useful if your procurement system alerted you when someone was about to approve a maverick purchase order that was not contract compliant.*"



The next advantage of Analytics is that it allows us to become predictive. A comprehensive analysis of the market from a range of data sets (e.g., structured and unstructured) will help to accurately predict the direction of certain markets and to predict the fluctuation in demand for specific resources, allowing procurement to adapt strategies accordingly, optimise supply conditions and help mitigate risks before they happen. In this area, IBM has taken analytics to another level, to influence requestor and buyer behaviour, and integrated to its catalogues a Competitive Item Verification (CIV) process. It directs requestors of products to equivalent, alternative and more cost effective products. The importance and the potential benefits of Big Data has now led IBM to appoint a Procurement Chief Data Officer.

## Risk and Security

This is probably the hottest topic on every CPO's agenda. Deloitte in its Global CPO Survey 2014, states that geopolitical risk grew from 7% in 2013 to 25% in 2014, economical risk from 33% to 55% in the same period. In such an environment, ensuring the continuity of supply is a major area of focus, but unfortunately, it is only the tip of the iceberg. What else could go wrong? Using CIPS' definition of risk "the Probability of unwanted outcome," risk is everywhere: in contracting, in supplier performance, from cyber-attacks or due to natural or political disasters.

Keeping this under control is critical. First of all, education of the Procurement staff is important. All procurement staff must be fully trained on regulations, governance, risks and compliance; they must be able to recognise risks, and alert, eliminate or mitigate them. Whenever setting up a new process the notion of risk and security must be fully integrated, and proper control points implemented. Deloitte explains that "about 77% of CPOs are addressing risk during supplier qualification and on boarding phase and less than 20% use predictive analytics to assess potential supply side risk".

Leveraging analytics could make procurement organisations' lives easier. With the potential consequences mentioned, it becomes more and more important to implement solutions with an integrated view of financial, operational quality, performance and risk information using structured and unstructured data. This can ensure accurate prediction of potential risks and provide enough time to put the right set of mitigating actions in place, as it was the case for IBM after Japan's earthquake and tsunami in 2011. Analytics provided IBM with a comprehensive knowledge of its supply chain before the earthquake, which helped the company make good decisions after the disaster. IBM was able to immediately gain visibility of the number of suppliers in Japan, which categories were affected (e.g., commodities, logic, memory) and what tier supplier was impacted, allowing them to implement the relevant mitigating actions (e.g., moving manufacturing to alternative locations).

## Innovation

Because we cannot rely on continually compressing the costs alone to deliver savings, we need to find other sources of value and ways of increasing our competitive advantage. Adding questions in to an RFP asking supplier if they embrace innovation in their strategy is not sufficient.

Procurement must be given the chance to become more and more creative. Thinking outside of the box is something one can improve if given the opportunity, and will be rewarded for it. Too often, because by implication procurement is often risk averse, we tend to stick to what we know. This is

something that may take time to overcome, but some companies are already working to integrate innovation into the DNA of their people and their strategy. Google is well recognised for continually contributing new innovations and using as many channels as possible. To mention a few, there are Google Cafés, which are designed to encourage interactions between employees, or Google Moderator, an innovation management tool to discover existing ideas, questions or suggestions, and vote for ideas. IBM is similarly focusing greatly on innovation and has an annual Research & Development budget of six billion dollars. Amongst the many initiatives, IBM establishes collaborative “Centres of Excellence” with governments, universities, cities and companies all over the world, implementing the On Demand Workplace or using brainstorming idea creation event platforms called Jams. Another example is the Technology Adoption Program (TAP) which facilitates employee collaboration and reduced turnaround time from idea to pilot to product in certain cases to as little as 5 months, as opposed to the traditional 18-month cycle.

We also have to become experts in internal customer process and objectives. Being able to anticipate their needs will give us the ability to plan ahead and being able to deliver proactively.

Procurement is uniquely positioned and capable to introduce and facilitate supplier innovation within the enterprise. The organization’s end-to-end view of the supply process can act as a catalyst to leverage the expertise of suppliers. They are one of the best sources of market information. Actually, I see growing numbers of suppliers helping to solve a business challenge just by being engaged into the details of a project as a partner. The IBM CPO Study reveals that only 38% of the top performing organisations say that “introducing innovation into the enterprise from suppliers and other sources is among their top three priorities” and 33% of procurement role models believe procurement should suggest new products, solutions and extensions to the company, compared to only 20% of underperformers. Similarly, 55% of role models have successfully convinced their leaders to enter new markets or lines of business”. Facilitating innovation from suppliers and revenue growth become critical success metrics. In an article from Supply Chain Matters<sup>(7)</sup>, we see a good example from the automotive industry with General Motors who is working on two new vehicle product development programs and is now making a lot of effort to develop more long term collaboration with key suppliers. Their intention is to foster needed innovations and better processes that will ultimately help them to successfully deliver on their stringent planning strategy and save money.

## Conclusion

In conclusion, the metamorphosis of the caterpillar into the butterfly has begun; Procurement organisations are becoming increasingly agile, shifting into a more central role, positioning focus on customers, whilst continuously partnering with suppliers. The ever-changing environment and the growing expectations push procurement organisations to speed up this transformation.

Procurement is at a turning point where decisions need to be made more quickly and actions taken to move forward, keeping in mind that ensuring the right workforce level will require preparation. In terms of Big Data and technology, procurement knows where it must go and what must be achieved, so preparing the field to implement the right technology is not only important, but must be imminent. This is key to reach business goals, and maintain competitive advantage.

Procurement prepares for the future by its actions today, and given the pace of change in this environment, technology can act as an enabler in addressing these growing challenges.

If changes continue at this pace John Paterson's (IBM's Former CPO) notion of a buyer-less Procurement may edge closer to reality more quickly than we would all expect. The idea of having the entire sourcing process automated may have sounded absurd only recently, but today with procurement processes maturing, it no longer sounds impossible. We just need to further leverage and develop the technology used, and could culminate in having buyers taking the decision based on the output of the system very quickly. This would allow them to spend more of their time focusing on customers and working on innovative projects with suppliers. Buyer-less process could bring great advantage, leaving little room for potentially unfair supplier selections, or possible bribery situations. Automating the selection process serves to mitigate this risk. Arguably, humans could only be there to engage with customers translate their needs into an automated process and take the final decision. But, perhaps procurement is not yet at that point; technology merely serves to highlight how automating the ordinary could allow us to reallocate workforce resources to more innovative, creative and strategic activities.

We have talked about Procurement today and the next logical question is what will Procurement look like tomorrow? In fact, should we even still be referring to ourselves as 'Procurement' or will it be, by then, an understatement? I believe we are already doing more than what the term Procurement suggests. At this pace, our influence and role is becoming so critical that we are one step away from having a board level Procurement representation as the norm.

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