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PROCUREMENT 20/20

Supply Entrepreneurship In A Changing World

By Peter Spiller, Nicolas Reinecke,
Drew Ungerman, and Henrique Teixeira

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This book “takes a bold look into the future and explores the changes that the procurement function needs to make. It is a must-read . . .”

–Barbara Kux, Member of the Managing Board, Siemens AG

NEW BOOK BY MCKINSEY EXPERTS HELPS COMPANIES GAIN COMPETITIVE ADVANTAGE BY TURNING PROCUREMENT INTO “SUPPLY ENTREPRENEURSHIP”

In PROCUREMENT 20/20, Authors Argue That The Megatrends Of The Next Decade Offer Unprecedented Opportunities For Procurement To Step Up And Add Value

“Upwards of 80% of a company’s expenditures go toward procured goods and services, say McKinsey experts Peter Spiller, Nicolas Reinecke, Drew Ungerman, and Henrique Teixeira in their new book **PROCUREMENT 20/20: Supply Entrepreneurship In a Changing World** (Wiley; December 2013). With the growing risks of resource depletion, intensified competition, political turbulence, and government intervention, along with accelerating technological change, procurement must evolve to grapple with these new global, social, and economic issues.

In their book, the authors examine these megatrends to offer a visionary prediction of the challenges and opportunities to come over the next ten years, and show why this demands an evolution from today's best-practice supply management to what they call “supply entrepreneurship.”

They contend that it is critical for CEOs and Chief Procurement Officers (CPOs) to take a serious look at how the world is changing, and strategize *now* about the near-term actions

More

procurement must take to stay ahead. “A mandate from the CEO is essential for CPOs to step up to a broader role,” say the authors. “CPOs must strengthen their cross-functional influence and convening power, and build capabilities in areas like big data, advanced analytics, or risk management.”

In **PROCUREMENT 20/20**, the authors draw on McKinsey research – including more than 1,500 global procurement studies and in-depth examinations of more than 700 organizations – that confirms that best-practice procurement consistently lowers costs, identifies growth opportunities, and helps insulate companies from a variety of hazards – including weather events, price shifts, and the complexities of environmental and regulatory issues.

The authors then turn to the five megatrends that will transform the way business is done over the next decade, and explore how procurement must evolve. These include:

The Great Global Rebalancing: Sourcing will take place across the entire world; “white spaces” that may exist today will disappear. The future of the sourcing organization therefore is global and multicultural. Sourcing-footprint considerations will become increasingly multidimensional and dynamic. Sourcing decisions will have to be made against the backdrop of an integrated company footprint including manufacturing, sales, and R&D. Procurement is in a prime position to lead these integrated company-footprint considerations given its deep cross-functional nature and thorough understanding of global and local markets.

The Productivity Imperative: Integrated companies will increasingly turn to external functional specialists that provide individual slivers of the integrated company’s value chain at superior performance—the result of economies of skill and scale. The management of a company’s end-to-end value chain will cross more and more company perimeters, requiring new management principles and attention to control value creation. Procurement is best positioned to assume the role of “orchestrating” the end-to-end chain since CPOs control the supplier relationship and are deeply embedded with their cross-functional value chain partners.

Big Data and the Global Grid: Available data and communication bandwidth will continue to increase by orders of magnitude in the next few years. Big data and the global grid will have a profound impact on businesses by enabling new insights, collaboration at scale, and superior, data-driven decision making. Already, procurement uses internal and external data for decision making and communication bandwidth for supplier integration

and management. The advent of even more data and bandwidth will strengthen and expand procurement's role.

The Volatile New Normal: Procurement will have to manage not only the increasing scarcity of raw materials but also substantially greater volatility that will have a significant impact on a company's profitability and ability to do business. Defensive strategies, such as hedging or recovery plans, will be part of the solution, but not all of it. Agile procurement will allow CPOs to cope with risks; doing this well will also allow them to capture opportunities and create a competitive advantage by better managing sourcing risks.

The New Economic Drivers: Environmental, social, and regulatory (ESR) issues will become increasingly important, presenting procurement with new costs, risks, and opportunities. Governments and consumers will make fast and significant decisions on ESR; as a result, functions including procurement will have to anticipate and prepare. To incorporate ESR into sourcing decisions sustainably, procurement must define a comprehensive approach based on "total impact of ownership" considerations.

PROCUREMENT 20/20 outlines precisely how procurement can step up to respond to these megatrends. This includes leading the way into new markets, helping prepare the ground for other functions; orchestrating all relationships along the supply chain, maximizing control, collaboration, and value extraction through new technologies; exploring new types of analytics that convert supply-base-related big data into opportunities; acting with agility and decisiveness in the face of challenges and opportunities presented by environmental changes; and actively shaping the sustainability agenda of both the company and its suppliers.

"In the decade ahead, procurement's role will be more important than ever in maintaining constant supply, best cost, reduced volatility, faster and improved innovation, and positive corporate brand-image," explain the authors. Revolutionary and forward-thinking about the role of procurement, **PROCUREMENT 20/20** lights the way.

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About the Authors

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