

The procurement 2.0 wave can mitigate supply chain risks

By Girija Pande

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The tech transformation over the last two decades offers pointers for the tectonic shifts under way in procurement and sourcing operations. **BY GIRIJA PANDE**

AS PRESIDENT, Asia-Pacific of Tata Consultancy Services (TCS) for over a decade just after the dot-com bust in 2000, I would often meet harassed chief technology and chief information officers (CTO/CIO) struggling with large-scale Internet adoption. And as mobility became mainstream, the ubiquity of 24/7 computing created additional technology challenges for enterprises.

Meanwhile, the first regional Sars virus pandemic in 2003 shuttered key Asian countries, creating further risks in 24/7 operations.

Enterprises desperately needed to transform to compete in a newly emerging tech-savvy consumer landscape replete with mobile phones. To survive, they over-hauled their obsolete technology to cloud-enabled systems. This move created new risks around cybersecurity, data protection (and of late, sustainability). Meanwhile the innovative tech industry and the global startup ecosystem were luring away tech talent in droves from corporate tech departments. Retaining or attracting tech talents became a major headache for CIOs and CTOs.

The response to all these changes was substantial outsourcing of IT services and purchases of cloud-native standard tech products (compared with the earlier stance of developing bespoke solutions in-house with large groups of tech developers).

Tech product vendors and outsourcers meanwhile consolidated and grew to global scale, and offshoring to low-cost but tech-talent-heavy countries such as India and the Philippines became mainstream. Major Indian systems integrators such as TCS and Infosys, along with traditional players such as IBM and Accenture managed this wave of outsourcing well. CIOs carefully outsourced non-core functions to tech vendors – who by now had become more capable and cost-effective with process discipline and scale.

Consequently, companies transitioned to the new world of cloud-enabled services and standard systems which improved productivity.

The vendor ecosystem itself evolved and matured, which allowed the firms to absorb employees as well.

For employees who transferred to vendors, a non-core function became core, and their horizons widened as they worked on new projects with different clients.



Unstable geopolitics and the possible re-emergence of pandemics have created new challenges beyond the usual price-value trade-offs in procurement from a simple focus on just cost, quality and delivery. PHOTO: BT FILE

Procurement 2.0 wave

Similar winds of change in procurement and sourcing operations in enterprises are now clearly visible, creating a similar tectonic shift. These are primarily related to three major factors:

- **Splintering supply chains**

Unstable geopolitics and the possible re-emergence of pandemics have created new challenges beyond the usual price-value trade-offs in procurement from a simple focus on just cost, quality and delivery. From just-in-time to just-in-case is now the new mantra in supply chains. De-risking of supply chains by broadening supplier bases and moving to geographically diverse locations is now urgent. Many global companies are moving to a “China +1” strategy of operations (i.e. avoiding investing only in China), and such moves over the next decade will transform procurement operations significantly.

- **Inflationary cost pressures**

The price pressures require offsetting purchase costs by bulk buying and developing

close relationships with vendors of all sizes located in many countries. Figuring out optimum tariff- and logistics costs within or outside free trade agreement (FTA) countries gets more complicated even as simpler earlier trade-pact rules slowly become irrelevant.

- **Rise of sustainability and ESG regimes**

This will be the hardest change to implement going forward. ESG is now the No 2 priority for procurement executives, a recent Deloitte survey found. It is also patently clear that Scope 3 carbon emissions (which relate to supply chain emissions) will need to be included in corporate ESG disclosures. Scope 3 emissions are usually multiples of Scope 1 and 2 emissions of companies and are harder to track. Recent International Financial Reporting Standards (IFRS) and sustainability benchmarks have mandated this, which could complicate relations with even a loyal vendor base.

Companies will have to collaborate closely with their various tiered vendors to promote responsible and sustainable buying practices that can measure emissions accurately and, more importantly, work through a transition plan for their net-zero journey.

For example, Amazon’s 2022 sustainability report states that Scope 3 emissions – those originating in the company’s value chain outside of its direct control – account for over three-quarters of its emissions footprint. Amazon will consequently require thousands of its vendors to align with its sustainability practices if they want to continue doing business with the company!

Specialist global procurement organisations

In line with developments in technology organisations, there is a discernible shift I see in the restructuring of procurement and sourcing units within companies, and their early links with newly-emerging global procurement organisations (GPOs).

GPOs are independent specialist-buying organisations whose multidimensional roles involve streamlining procurement via use of intelligent technology while building relationships with vendors and supply chains to reduce enterprise risks, especially diversifying the supplier base to.

offset geopolitical risks. Some of these GPOs have been carved out of existing procurement units of well-known MNCs and banks, and benefit from their expertise and scale.

For instance, GPOs address the issue of volume discounts much better as their volumes are usually multiples of what even a large company can have. Their business models are powerful and usually outcome-based – only if they reduce your procurement cost would they get paid, which would seem a very compelling proposition today. As they have exceptionally large stakes in procurement operations spanning the globe, they are rapidly building capabilities to deliver ESG functions using specialist consulting and artificial intelligence to measure Scope 3 emissions. Advising vendors on frequently-changing ESG rules and assisting them in their net-zero journey is best undertaken by such specialist-buying entities as they can do it at scale and globally.

All these developments point to the chief procurement officer (CPO)’s role being elevated to that of a supervisor of procurement risks rather than an operational buyer. Their role will become more important and strategic as boards scrutinise ESG strategies and geopolitical risks of supply chains ever more closely in future. I am seeing it gaining traction already in Europe and North America, as banks and financial institutions work with well-known GPOs, and Asia will surely follow.

In time to come, as was the case in IT operations, the outsourcing of procurement functions including employees will become mainstream. Procurement talent within organisations will then transition to much more meaningful “core” roles within GPOs.

How soon we will see the contours of these changes will depend on how hard boards and CPOs try to mitigate current supply chain risks. I have witnessed first-hand the previous tech transformation driven largely by CEOs/CIOs, and I am optimistic about the procurement transformation too, driven by farsighted CEOs/ CPOs.

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Girija Pande is based in Singapore and is chairman of Apex Advisors Pte Ltd. He is also the chairman of Apex Avalon Consulting (Advisory Board) a company which he co-founded with Avalon Consulting. Mr. Pande is ex-President of Tata Consultancy Services (TCS) Asia Pacific which is part of India's largest business conglomerate.



Having over three decades of experience in senior positions in Banking and Financial Services and having served on multiple Boards of government bodies as well as non-profit organizations, Mr. Pande is currently the Chairman of Chain IQ's ESG (Environmental, Social and Governance) Advisory Board. He also serves on the Advisory Board of a Global ESG Fund and on High Level Advisory Board of Brussels based Digital Goes Green Foundation working on sustainability issues of digitalization.

Mr. Pande holds an engineering degree and an MBA. He has extensive experience throughout Asia, and has held senior postings in Korea, Hong Kong, Bahrain and India. He has co-authored a successful book on building business in China and India 'The Silk Road Rediscovered' published by John Wiley.

He was awarded Public Service Medal by the Government of Singapore on National Day in 2021 and received the best CEO Award from Singapore HR Institute and two Social Services Award by Ministry of Social & Family Development.



About Chain IQ

Chain IQ is a leading global independent indirect procurement service company. Chain IQ supports its corporate clients across a multitude of industries in more than 49 countries in strategic, tactical and operational procurement services. Chain IQ's growing organization with procurement experts around the globe, both on and offshore, is known for generating significant value through volume bundling from its global clients, digitalization of procurement processes as well as achieving the latest ESG standards.

For more information about Chain IQ, please visit www.chainiq.com

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