



AOP Live Transcript

Rising to the Challenge: Driving Procurement Excellence in 2023

Dipan Karumsi, Principal, Procurement & Outsourcing Advisory Practice Leader, KPMG US and Len Prokopets, Managing Director, Procurement and Outsourcing Advisory, KPMG US, in conversation with Philip Ideson and Kelly Barner

0:00

Philip:

Welcome to today's AOP Live webinar!

First of all, I want to thank you so much for joining us today.

My name is Philip Ideson. I'm the Managing Director here at Art of Procurement.

I am joined onscreen by my cofounder – Kelly Barner.

Welcome and thank you for joining me, Kelly!

0:20

Kelly:

Absolutely!

We're glad everybody is with us live today for an afternoon session! Usually, we are in the morning Eastern.

0:26

Philip:

We're going to be tag teaming the questions as we go through the conversation.

If you're unfamiliar with AOP Live and the format of an AOP Live, it is all about the conversation. We have one single slide which is a poll finding that we want to share and use to stimulate some discussion around. Apart from that, it's all conversation with our guests.

As we go throughout the webinar today, we would invite you to add your questions and add your comments. You can do that in the sidebar within this platform. You can see the chat box at the side of you.

There's also a Q&A tab. You can pop the questions in the Q&A tab, but don't be shy to pop them in the chat. Kelly and I will be keeping an eye on those as well. We will get to as many as we possibly can throughout the conversation which I know is action-packed today. We have got an awful lot to talk about.

1:17

Kelly:

Yes, we do.

I'm going to have to use that fast talking to get through it all.

1:22

Philip:

The topic today is "Rising to the Challenge: Driving Procurement Excellence in 2023."



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How is procurement navigating challenges like the economy, ESG, supply disruptions, shifting workforce dynamics, regulatory requirements, and generative AI. There is a lot that's being thrown at us at the moment.

KPMG recently conducted a survey of 400 global procurement leaders capturing insights on the current challenges, goals, priorities, and outlook. We are going to be talking in a little bit more detail, sharing the findings and some of the considerations behind those findings.

We're going to be joined and we're going to pull them onstage in a moment here by Dipan Karumsi – the Principal of Procurement and Outsourcing Advisory Practice Leader at KPMG US; and Len Prokopets – Managing Director of Procurement and Outsourcing Advisory at KPMG US.

With that said, let's bring Dipan and Len into the conversation.

Hey Dipan! Hey Len! Thanks for joining us today!

2:31

Dipan: Thank you for having us!

2:32

Len: Thanks!

2:34

Philip: Now, I always start these conversations with the same question, so I am going to do that, and I will ask you first, Dipan. The question I always ask really gives some context into your background. Did you find procurement? Or did procurement find you?

2:48

Dipan: For me, I think procurement found me. I was really working more on the traditional supply chain type areas. Long time consulting, for sure, but as I got into supply chain a little bit more, it was an interesting niche area at that time that I thought was quite interesting and that not many people had focused their careers on.

With a little bit of testing and trying out things, that's what I focused on, and I've stuck with it for the last 20 years. It's been great!

3:13

Philip: Len, how about you? How did you find yourself in procurement?

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3:16

Len:

I would say probably both – I found procurement, and it found me.

I was working with Dipan on supply chain, supplier collaboration, some customer collaboration topics, then I realized chief procurement officers had a whole bunch of other interesting challenges to wrestle with, so I got immersed.

3:37

Philip:

I think there are a lot of commonalities between supply chain and procurement. We may talk about them as being separate functions, but really, a lot of the things we do are very similar in both the verticals. I am sure a lot of those experiences carry through into procurement.

The first question I want to ask today, Dipan, I'm going to ask this of you. We talked in the intro about how we were going to be doing some research that KPMG is doing. I wonder if you can share a little bit more about the research study that we are going to be discussing today.

4:07

Dipan:

Absolutely.

What we wanted to do is really take a pulse on the procurement market. We polled 400 folks at the VP, SVP, and C levels globally across all industries.

We got a really nice subset from each of those different groups to better understand the challenges that they are facing today, the types of things that they are focusing on as they come into the next year and beyond, and even learn a little bit about the challenges they may have faced over the last year or two and what they are doing about it.

That report is going to come out by the end of the year. Everybody here will get an email with the link of that report, but today we are going to talk about some of the preliminary findings and some of the things that we find interesting.

4:45

Philip:

Great! A sneak preview! We all like sneak previews!

4:46

Dipan:

Yes, exactly!

4:48

Philip:

We actually did not quite as detailed research as you have done, but we posted a LinkedIn poll coming up into the conversation today with a question. I am going to share

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the question and the answer then we will have a little bit of a discussion around whether this is in line with what you were seeing in the research that you have done.

I am going to read out the question for anybody who is not able to watch and is listening to this later. The question was “which of the following supply challenges has created the greatest opportunity for procurement in the last few years?”

The answers in order of popularity of result, top was an uncertain economy at 59 percent; second was shifting workforce dynamics at 26 percent; third was corporate ESG targets at 9 percent; and fourth was new regulatory requirements at 7 percent.

Dipan, is this surprising to you? Or is this in line with what you are seeing out in the market?

5:43

Dipan:

No, definitely not.

Whether it be how your budgets are being impacted, whether it be what savings you are going to be able to produce next year, whether it be what demand you are going to have for some of the products and services which are going to translate to some of the procurement priorities has been really focused on the economy for our clients as well.

It's not surprising to see that at the top. Hopefully, as we get into next year and beyond, maybe we see that trail off a little bit into some other priority areas, but let's see.

6:10

Philip:

Len, any surprises from your perspective?

6:12

Len:

I would say this is actually quite consistent.

This is something that we see day in and day out with our clients. Obviously, the macroeconomic environment has put a huge strain on businesses and all industries. Procurement is on the frontlines having to deal with these issues.

Really, there hasn't been business as usual for the last couple of years and procurement is in a reactive mode dealing with some of these challenges.

We got some data back from respondents around the threats that they are seeing and that they are anticipating. The top three that we heard were rising material and freight costs – obviously, something that they've wrestled with for the last couple of years, but

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this is still out there; upstream supply disruption and material shortages; and upstream cybersecurity exposures.

7:06

Philip: Interesting.

7:07

Len: I would say the supply disruption and material shortages were probably number one on the list for a little while for the last couple of years as organizations struggled to get materials in the door, but it's still on the list.

7:21

Philip: Yes, and it's interesting how those are our bread and butter when you think about the procurement value proposition. I think part of the challenge is how we move out of being seen as a trusted advisor beyond those areas that when you are at that point in the business cycle, it creates an opportunity for procurement versus when we're in more of a growth and perhaps business as usual. Maybe we're never going to have business as usual again.

7:45

Len: Time will tell.

7:47

Philip: Yes.

7:48

Len: Let's hope we do go back to normal.

7:52

Kelly: Len, to ask you a follow up on what we were talking about, I hear you say roadblocks, I hear you say struggles, I hear you say the challenges, but each one of those – especially when there is uncertainty – does create an opportunity for procurement and supply chain to add additional value.

There is some fatigue associated with the window of time we have been through, but do you feel like procurement has done a good job of looking for and – whenever possible – leveraging those opportunities that have presented themselves?

8:25

Len: That's a really good question. I would say, remarkably largely, procurement has weathered the storm in most of our clients and the organizations that responded to our survey. It's quite interesting, despite all these challenges, all the flux in the broader

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environment, the current cost reduction levels that organizations reported in our study were about 4.6 percent which is historically quite healthy.

We also asked questions around the maturity of all the different capabilities that procurement has to have. What we heard was that most organizations feel that they have quite mature capabilities, particularly in strategic sourcing, value generation areas, regulatory compliance, and procurement operations. Clearly, there is some comfort level there.

What really does highlight a cause for concern though is that a very small minority of the respondents – 25 percent – believe that they would get a high rating for the service that procurement provides to their stakeholders.

Clearly, there is some room for improvement. We know about this anecdotally from our clients where procurement is always out there, putting out fires, trying to deal with supply issues. Clearly, some of those challenges are things that the stakeholders perceive as issues.

10:10

Kelly:

Dipan, if I can pull you into this conversation, we have already heard from both of you about some of the top priorities, some of the things externally that procurement has needed to dedicate energy and attention to, but then maybe some opportunity internally.

Have we been in a situation where maybe there has been some competition or friction between externally driven objectives for procurement and internally driven things around user experience or improved solutions? What were some of the things that you learned from your research about procurement's top objectives and how that's aligning with our priorities?

10:48

Dipan:

Externally, Len mentioned supplier costs, rising inflation, economic environment – a lot of those things came in and were pretty clear. Internally, there was a lot around outdated systems and infrastructure.

It's surprising; we've done a lot of work over the last 10 to 15 years of modernizing platforms and providing something nice to our stakeholders that's easy to use and self-service-oriented, but that seemed like a fairly big pain point still. There's still work that needs to be done.

Getting that true integration across all the platforms internally is a big source of insights. When you don't have that, we're seeing through the results that they're seeing those pain points will come out. Not being able to provide those insights is a challenge. It doesn't



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allow them to showcase the value that procurement can bring to the table. There's a little bit of focus there.

Other things we heard were that demand management is a big focus area right now. We wouldn't have seen that a couple of years ago perhaps, but companies are purchasing things like software at record-pace still, and it's important to be able to manage the demand on the licenses and what you're actually going to need versus what you're paying for.

What we saw with a lot of our clients who have actually implemented nice operational systems in the last couple of years is they changed their approval workflows so that they could either reduce the approval limits or give more visibility to senior executives around the purchases that are happening. That allowed them to reduce that demand – by routing transactions to certain places.

Having some of those controls in place internally was really important for them and they are still looking to do some of that stuff.

12:25

Kelly:

Interesting!

That's actually a great transition because, Phil, I think we are looking at some of those executive perspectives next.

12:32

Philip:

Yes.

Before we do, Len, I want to jump on something you said around that 25 percent. If I am understanding it correctly, 25 percent of procurement leaders believe that they are not well-perceived by the rest of the business. Is that right?

12:46

Len:

It's close.

Our respondents basically rated the level of satisfaction that they believe the broader organization has with the procurement services. Basically, the respondents were saying that only 25 percent of them see themselves rated as providing high service.

13:12

Philip:

It's a lack of self-confidence.

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13:15

Len:

Perhaps, but it also speaks somewhat to the friction that has been out there that procurement has had to deal with. It's been difficult to provide high service in an environment where your suppliers can't ship, or your suppliers don't have the labor and resources to serve you on time.

13:34

Dipan:

On top of that, the remit of procurement continues to change.

Historically, it was more around strategic sourcing and supplier management. Now, supplier risk management has become a key component of it, doing advanced analytics, identifying what predictive analytics looks like in terms of where we're going to go next year, really managing master data around catalog content and the things to tie everything together.

There are a number of things that have been thrown to procurement as well which they are having to spread their tight time across.

14:07

Philip:

I think this segues interestingly into a question. We constantly hear about CEOs not necessarily understanding the procurement value proposition. Dipan, do you see that from the client base that you work across or from the procurement leaders? Is there that gap of perception or perhaps the relationship between procurement and the CPO and the office of the CEO?

14:31

Dipan:

Yes, procurement has been doing a good job of working themselves to a seat at the table for many years now. They have done a nice job showcasing some of that value, but I think it was 42 percent believe that C-suite leaders had a high degree of understanding of the procurement function.

A little bit of that might be because there is the fact that procurement wears multiple hats. The CEO might not be aware of all of the different things that procurement is responsible for. There might not be a strong enough alignment between procurement and supply chain or procurement and AP, for example, that doesn't really clearly delineate what procurement should be working on. That could be part of the challenge.

It could be the challenges in showing the value that procurement is bringing to the table. Historically, cost savings around strategic sourcing, that's an easy number to put on the board, but what about the value around managing risks and mitigating those before issues happen around supplier failures?

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What about some of the other things that you can bring to the table around cost avoidance or demand management and showcasing that value and having CEOs be bought into that as a real value driver on the bottom-line impact item?

I think there are a number of challenges that we still face. It's a communication challenge that we're going to have to continue to work on.

15:43

Philip:

Isn't it interesting? You talk about procurement versus AP. While I think that it's probably on procurement to foster that relationship, there is that perception that anything related to a supplier that goes wrong – and it's usually a supplier shouting about their invoices not being paid – is a procurement problem.

We have a lot of work to do to not necessarily deflect that because I think we are ultimately accountable for our supplier performance, but actually build those relationships with AP but also the messaging on “this is where we support, and these are perhaps some of the things that are out of our control.”

16:15

Dipan:

That's right.

We're helping to automate the self-service around electronic invoice submission, but we may not be involved with all the exceptions from a procurement angle, so a lot of the noise that might come in out of that process still might fall on procurement even though it might not be in their remit.

16:32

Philip:

Yes. How about stakeholders? Are we doing any better when we are strengthening our relationship with our more immediate stakeholders?

16:45

Len:

We didn't directly have questions around stakeholders, but as we looked at the investments planned and strategic sourcing, a lot of those came in the form of better managing demand and actually delivering the value of sourcing which comes with a very strong engagement with stakeholders and helping stakeholders to get the full value out of sourcing. We see quite a bit of that.

I think this links in with the development of roadmaps in procurement which we have some extensive insights on where those roadmaps are really linked to the needs of the stakeholders.

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17:39

Philip:

Talking about the needs of the stakeholders, as we talked about CEO relationships, CFO relationships, COO relationships, all the different members of the C-suite that we're trying to influence, Dipan, are we giving the right message to the right person in terms of the value proposition?

Or should we be thinking, "I'm talking to a CEO, so my message should be around growth, innovation, and ESG. I'm talking to a CFO, so my message should be around finance and margin." For the COO, perhaps it's around risk.

Do you think that we do a good enough job tailoring our message to the right stakeholders when we're talking about what we can do?

18:19

Dipan:

It's probably mixed. I think we tend to tell the same story of the majority of senior stakeholders and being able to differentiate a little bit can only help us.

Certainly, if you're talking to somebody in risk and compliance, it would be beneficial to talk a little bit about the extensiveness of the supplier risk management programs that you've got, how many templates you're getting, the fact that you're mitigating risk, the fact that you're staying on top of it and things are current versus the CFO who is going to be more concerned with perhaps dollars that are falling to the bottom line and really being able to differentiate between cost avoidance and cost savings types of opportunities as well as some of the other things.

There is always messaging that needs to happen. Selling a little bit of the value that procurement can bring to the table is extremely critical. I don't know that procurement historically has been that good at doing that – marketing their services. They do great work, but they might not want to go out there and brag about the great things.

19:12

Philip:

Expect to be recognized for it just by the nature of the data and your results.

19:15

Dipan:

Right. We need to step up a little bit.

19:24

Len:

I think communication is one piece of it, but more broadly, I would say it's a partnering conversation. How does procurement actually partner and engage with the stakeholders? Listening is at least as important as the message that procurement provides.

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19:45

Kelly:

We've talked about a lot of different types of internal challenges – some maybe that the four of us have a slightly different perspective on than the people that participated in the survey that are really true boots on the ground.

But when we think about prioritizing them all – because there is a million things that procurement could fragment their attention between – Dipan, what were some of the top internal challenges that emerged when you asked the group in the survey to put some priority order to things?

20:20

Dipan:

The first one we heard was limited data and insights and outdated systems which really isn't surprising. I think we hear that as a common theme. Most organizations are saying that they need more technology, et cetera. We have done a lot of investing, but there aren't always new things that are coming out.

Second was around limited spend influence or budget and the lack of stakeholder collaboration and integration within the wider supply chain. That was an important one. Being able to get ahead into budgetary meetings to be able to influence where that spend is going to go, or at least get enough runway that you can do something and drive the most value of that spend is an interesting piece of it as the trust of procurement.

To be able to drive that value out goes up. I see that most of our clients are able to get in some of those budgetary meetings and really start early versus coming in at the last minute where they just have to negotiate a contract.

21:10

Kelly:

If we flip that around and think externally, what were the external challenges that came in at the top of procurement's list?

21:19

Dipan:

Very similar to what we talked about before – inflation being the number one driving cost increases versus cost reductions. Of course, that means customer increasing. Somebody a couple of years down the road should go back and try to renegotiate to bring costs back in line potentially and have the continuity of team members to be able to do something with that stuff.

The risk of supplier disruption and being able to manage the business is critical. It gave a lot of stress to procurement organizations over the last couple of years. Demand uncertainty being the third one.

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A lot of it was around availability and making sure that we are converting on the needs of the business so that we don't have a situation where we're not able to sell the things that we need to provide to the market.

22:00

Kelly:

Certainly, the goal is to learn from all of this and better position ourselves for success moving forward. Len, when you think about what can be learned here as well as what procurement teams are currently thinking about, to what extent are they investing in or working on roadmaps to carry them forward into the future?

22:20

Len:

That's a really good question, Kelly.

As we've talked about in the last 20 minutes or so, procurement has been in a little bit of a reactive mode just because it is in the line of fire to try to deal with all the problems that have been going on with the macroeconomic environment and so on.

It's encouraging to hear that there's a lot of work on roadmaps. We did ask a number of questions about that. What we heard from respondents is that most – about 84 percent – have roadmaps for the next one to three years.

Interestingly, a little more than half have roadmaps going out for three to five years. Obviously, when that'll help, we talked a little bit earlier on Phil's question about engagement of CXOs, engagement of stakeholders, having those roadmaps will help to align what procurement does and procurement's priorities with what's of value to those stakeholders, and it provides a platform for engaging and setting the expectations for what procurement will do.

You asked about the capability areas. Broadly, what we're seeing is an emphasis within those roadmaps on strategic procurement capabilities. Dipan talked at length about organizations really digging in and focusing on sourcing, focusing on supplier management, so we're seeing a lot of focus on those things.

We're also seeing a focus on modernization of the technology. As Dipan said, this was a little bit surprising given that we know that a lot of that work has been going on for a while.

Quite a lot of progress in roadmaps.

24:16

Kelly:

It's interesting because you think about it maybe in terms of confidence horizon. You divide it out – one to three, then three to five. It's interesting because, historically, maybe

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you'd combine those two into a relatively short to mid-term whereas now we're thinking, "Gosh, three to five years, we're really stretching the imagination to see anything that far out."

Was there anything interesting that you noticed when you look at if there are differences between the priorities for the one to three and the priorities in the three to five? Does anything change? Or is it all relatively near-term enough that things advance but stay consistent in terms of focus?

25:00

Len:

A few interesting things that may be surprising.

In the one- to three-year timeframe, this is really what organizations are already starting to invest in or already starting to execute against. We are seeing what Phil described as bread-and-butter activities.

Organizations are really focusing on supplier relationship management, really focusing on sourcing and value generation, and are continuing to focus on procurement operations.

What's interesting in that one- to three-year time horizon is, despite all the buzz and high expectations of ESG, we really don't see ESG making it to the top of the list. The implication is that current investments are not prioritizing that.

What we see as you look out further to the next set of investments and the next generation of capabilities is sustainable supply chain jumps to the top and actually replaces procurement operations as one of the top three priorities.

We still continue to see a focus on strategic sourcing and value generation and supplier management. Those are so important they always remain bread and butter for procurement.

26:25

Kelly:

Yes, that's really interesting.

You made the comment about ESG and then sustainability specifically.

Do you think it's because it's quite naturally easier to think about the vision or the mission than it is to actually operationalize that and start taking action? Or is it just that all of these other internal and external priorities have a way of inserting themselves so that we're not quite getting around to it being a top priority yet?

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26:51

Len: Yes, that's an interesting question.

Dipan, you may have a perspective on this as well, but my take is it is more of the latter where procurement is still dealing with a backlog of improvements and building capabilities and delivering value in these other areas driven by the macroeconomic environment and the supply market dynamics.

What we heard about ESG that was interesting is that about 84 percent of companies actually see that their procurement priorities and decisions are fully aligned with ESG already today. They do appear to be making progress in that regard, but really making it a more systemic shift does appear to be further out.

27:40

Kelly: Dipan, did you want to add anything to Len's comments on that?

27:42

Dipan: Yes, one thing I was going to add to the initial question around where we see three to five years, it was pretty clear that – while in the near term getting more self-service and operational procurement situated, et cetera – organizations wanted to move away from some of those tactical activities and do more of the strategic activities.

When they predicted three to five years out what they would spend the majority of their time on within their organizations, it was a lot more around category management, strategic sourcing – things that are more strategic in nature versus the exception management, transactional processing, perhaps things that are not really belonging in the procurement organization which got shoved there.

It's cleaning up a little bit, allowing automation from the tools and technologies that they're putting in to help them optimize, and then having the time to spend on other things. That was a pretty clear shift when you looked out a couple of years from now as to where they wanted to go.

28:32

Kelly: Phil, let me hand it to you.

28:34

Philip: Yes, another question about the roadmaps. This is more about how you build a roadmap.

Len, I'll ask this to you first, but feel free to jump in, Dipan. In terms of the development of a roadmap, how do you see the involvement of the C-suite, the key stakeholders, the folks that were ultimately here as a procurement organization to serve versus doing the

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bubble we I think I as a practitioner can certainly be accused of being guilty of early in my career?

We put together these roadmaps that are not necessarily baked in the reality of what the organization that we worked for actually needs.

29:15

Len: It's a really good question.

In general, a roadmap is a way that organizations can really prioritize and define their investments and capability building and so on, but it's also for procurement the mechanism to really align with the broader organization and leadership on the vision, the expectations, the role that procurement will play, the outcomes that the business will get from procurement.

Clearly, based on some of the statistics that Dipan named in terms of the alignment with the C-suite, procurement has not done enough of that. The opportunity is to do more – to really go out and shape the role of the procurement, shape the expectations that the C-suite has of procurement, define what procurement can do, and link that to the other investments and capabilities and organizational model that procurement has.

That's what a good procurement roadmap should do in addition to listing out the initiatives and investments.

30:29

Philip: Dipan, anything to add?

30:30

Dipan: Yes, I think that's right.

We tend to start out looking at the maturity of the organization across the key functional areas of procurement. Where are you today? Where do you want to go? What are the initiatives that are going to help you to get there?

Absolutely aligning with your CFO, CEO that says, "This is what we're going to do on a three-year journey. These are the types of investments we're going to need at a couple of these places. These are the metrics that they're going to drive. These are savings that we're going to get from a program like this,"

Actually having a business case that defines exactly what you're going to get is going to make it easier, so the next budgetary cycle is not trying to sell into it year after year. We see a lot of our clients that are trying to do that only at budgetary times and find it very

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difficult to get the money because something always tends to leapfrog some of the things that procurement wants to do. The more proactive you can get, the more value you can show, the more detailed that business case is, the more likely procurement is going to be able to get a piece of that budget to do the things they need to do.

31:23

Philip:

Do you find that procurement typically needs to start small, get the small wins, get advocates, and build on the investment? Or do you see opportunities to go and make a pitch for a full transformation that still may have milestones but that at least allocate budget throughout?

31:49

Dipan:

There is a technology implementation that helps you mature your sourcing, contracting, P2P processes as well as analytics, et cetera. But perhaps you attack a number of categories that previously were too complicated to go after or the spend has increased to a level where it now really makes sense to go after them or the proliferation around suppliers has become so high that now we can go in and actually try some new levers.

Let's use those to fund some of the other things that we want to do. That allows it to be a little bit more net even. We found that CFOs and CEOs were a little bit more receptive to that conversation versus "we just need this kind of technology."

32:25

Philip:

We talked about technology and some of the different areas that procurement teams are focused on in terms of technology when they are building their roadmaps and looking more upstream than downstream.

I am interested, Dipan, how are these roadmaps being built so they can be responsive given the pace of change there is around technology? It seems on a daily basis there are new products that are integrating generative AI that come along the way that we haven't even thought about when we did roadmaps a year ago. Do those provide an opportunity? I don't want to say fear, but the unknown – we're not really sure what to do about that and where it all fits yet.

33:06

Dipan:

You should look at it regularly to take advantage of things that might be coming out like generative AI and new research that might be out. There has been a lot of movement on benchmarking around sourcing prices over the last couple of years and there are some really great firms that can do deep benchmarking that previously we didn't have access to. Taking advantage of some of that stuff in your category management planning and strategic planning could be very beneficial. It can help you drive dollars up.

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Taking a look regularly to see how you redo some of the roadmap items makes perfect sense, but sticking to a broad vision that allows you to mature the organization methodically over time is good. What you don't want to do is every year completely change your priorities so that people don't believe you've got a line of sight into where you are actually going.

33:53

Philip: Yes, it's the "shiny new toy" syndrome.

33:57

Dipan: That doesn't work.

33:59

Len: To build on what Dipan was saying, I think that the key point for a roadmap is to get procurement out of that reactive mode.

Procurement always has to be dynamic and aligned with the needs of the CXOs and stakeholders which means keeping an eye on the market and looking for sources of value, but it has to be based on a broad framework of what procurement is going to do for the organization and what are the capabilities that are necessary.

That should be what the building blocks in the roadmap are based on.

34:33

Philip: Yes, I guess you become reactive again if you change it every so often.

34:38

Len: Yes, there's a balance.

34:40

Philip: It defeats the purpose.

Dipan, I want to follow up on that question. We have this emerging technology. We are having organizations who are doing more investments in technology. Is that changing the allocation of procurement's time and focus because we are now integrating technology more into the procurement process?

35:02

Dipan: That's the goal – to allow technology to do some of the effort.

Historically, a year ago, it took you three weeks to produce a spend analysis file, but over time, with the integration of the technologies coming into one place, having a

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standardized taxonomy. You're able to do that every week or every month. Or best real time.

Then, all of a sudden, it starts to take away from that. Now, you can begin to look at the insights. You can use subsets of that report to send to budget owners to say, "Here is the spend that you have had so far." They might not have that visibility, or they might not be able to easily access it.

Now, procurement can start to become a little bit more proactive in engaging the stakeholders and show the value that they can bring to the table.

Yes, of course, we would want that technology to drive down transactional processing to save more time for the strategic activities. The research indicated that that's where folks are trying to go.

35:56

Philip:

Do you see that technology enabling self-sourcing or self-directed sourcing?

Some of what procurement does today we actually no longer need to do. That's not a bad thing because there are now guardrails around how stakeholders can buy to free up the time to then focus on what's more strategic.

36:14

Dipan:

One of the things Len and I are excited about is the use of generative AI in supplier performance. It has been a huge challenge area for procurement organizations to understand what performance is for suppliers because there are so many contracts and so many different areas that they are performing and it's difficult to get some of that information.

If we could start to make use of generative AI to understand how X supplier did across the 12 contracts that they had within the months of A to Z, all of a sudden, it's very valuable and you can get some of that insight because right now it would take us a long time to be able to go and do that.

But with the use of surveys and SLAs that are being more automatically measured, contract management tools that are comparing purchase price variances, et cetera, all of a sudden, you can have a little bit more of a report.

There are some things like that that I think people are looking out for, and there is a lot of excitement around generative AI. Still nascent, of course, but there are some pretty interesting things that we're doing.

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37:07

Philip:

You start to imagine the art of the possible when you apply it to certain use cases.

Even on the sell side, you apply it to certain use cases in terms of querying CRM. Customer relationship management databases will apply that to the SRM side. Suddenly, you are asking questions about all this data that's relatively structured or will take you 20 clicks to create a report that you don't really know how to even query the data against.

Being able to converse with that data in that way provides tremendous opportunity.

37:35

Len:

Absolutely.

We are extremely bullish on the coming changes from generative AI. Obviously, generative AI is not going to operate on its own as a standalone tool. It's coming on top of orchestration layers and low-code, no-code, and regular AI machine learning.

What we have done – and this is partly fueled by some of the insights from this survey, and partly from work with our clients – is we have identified somewhere in the order of 60 use cases in procurement that really spans the gamut of all the functions of procurement of where the key applications of generative AI are. We are very excited about that. Certainly, that is born out of the data that we saw in this survey.

38:30

Philip:

Go ahead, Dipan.

38:32

Dipan:

Back to your emerging question, we saw predictive analytics being pretty high on the list, but also things like digital payment and RPA are still very interesting. We saw a little bit of a drop off around blockchain – only 7 percent identified that as something that they are looking at as an emerging trend. I think it's a little bit less exciting.

38:52

Philip:

I think generative AI has steamrolled blockchain as an interesting emerging technology. Perhaps because of the use cases. Of course, there are very specific use cases that blockchain has been impactful for, but not necessarily at large whereas everybody can see the opportunity for generative AI across a much broader use case.

One last question before I come to you, Kelly. Len, is strategic sourcing still an effective vehicle for procurement in terms of the whole range of the value proposition that we're trying to build?

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39:27

Len:

The answer is yes.

This was actually a really interesting finding.

Obviously, strategic sourcing has been around for a long time. As I mentioned before, we did see that organizations are reporting pretty healthy savings levels. Despite all the flops, all the turmoil in the economy, the inflation, and other things, we are seeing about 4.6 percent cost reduction levels reported which means that sourcing is working.

We also saw that, as we asked about the maturity of the different capabilities that procurement has, sourcing and value generation was named among the top three. It's working and organizations feel that they are doing it well.

Interestingly, as we talked about the roadmaps, it's also one of the top three in the roadmap going forward – for both the one- to three-year and the three- to five-year. It speaks to the fact that organizations continue to value it and see it as core to the mission of procurement.

One thing that's an interesting shift is, historically, organizations have really thought about sourcing as more of making sure to take the spend to market, compete the spend, negotiate, and so on.

What we are seeing is that there is more of a shift. Dipan mentioned a few of these points – that organizations are focusing going forward in sourcing to driving budget impact – not just get a good price but make sure that the price is actually realized.

Also, realizing the value beyond savings. Not all functions and not all lines of business are looking at savings as their top priority. This gets back to aligning procurement's goals and objectives with the stakeholders.

Marketing is not talking about savings. Marketing is looking at marketing effectiveness. Obviously, focusing on demand management which is not a price measure but really thinking about what the stakeholders need and how to make sure that is rationalized.

42:03

Philip:

Yes, that goes into thinking of it. Procurement's role is across the entire cycle – the make versus buy through to performance management – as opposed to sourcing in its purest sense of "I have a need, I will go to market, I will go and sign a contract, then I will hand it off." Being involved from end to end of the process as opposed to it being event-driven.

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If you can point any fingers at sourcing in the past, it is when we think of it as being we have got to churn our RFPs and then you go on to the next one and go on to the next one without really following through to the end.

42:39

Len: Exactly.

This speaks to less of a transactional model and more strategic and business engaged.

42:47

Kelly: Yes.

Now, we have talked about a lot of shifts, changes, trends, roadmaps, and long-term planning, but one of the areas of shift where there has been a lot of change that we haven't had an opportunity to talk about yet is talent.

Dipan, I don't think there have ever been so many ways to access skills and category expertise and knowledge, especially with changes and common workforce dynamics. Was there anything of interest in the research that you uncovered around procurement's use of third-party services or outsourcing – either what they are getting in these different capacities or how they are fitting into procurement's value delivery as a whole?

43:30

Dipan: Yes, we didn't see a huge move or shift over to managed services.

The top three areas that are being utilized today or being considered were really in the third-party risk management space which there is a lot of volume of work that has to happen around managing the mitigation plans and getting back out to suppliers and keeping records current.

It totally makes sense that using a third party would help you there – the procure-to-pay aspect of it, the more transactional component of it.

Then, certainly, outsourcing advisory if you are actually looking to outsource a part of the organization, engaging any external consultants to help you with that because you probably don't have a lot of that expertise in-house.

It wasn't one of the areas that we saw as a number of respondents talking about that this is what they were going to go do. It's on 27 percent of one- to three-year roadmaps, and a little bit more at 37 percent on three to five. But it will probably remain localized in some of those areas that I mentioned. I don't think it will be everything.

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44:30

Kelly:

One of the other things that we have touched upon a little bit that I wanted to focus on for a minute is this idea of ESG. It's interesting because we all agree – yes, ESG – but depending on where a company is, depending on what industry they are in, depending on which individual you are talking to, you could say ESG and they instantly go, “Right! Environment!” or “Right! Diversity and social issues!” or in some very few cases, people think about governance.

We have gotten into the habit of – rather than just talking about ESG – trying to dig in. When your company talks about ESG, does that mean Scope 3 emissions? Does that mean supplier diversity? Does it mean modern slavery?

What are you hearing either broadly about ESG or about some of these projects that are sitting underneath that broad umbrella?”

45:25

Dipan:

Len mentioned this earlier. ESG is on the top of everybody's minds across the organization. Given some of the priorities in the environment right now, while there are other things that we need to worry about as a procurement organization, it is certainly looming back there.

While it might not be at the top of the list of priorities right this second, everybody is thinking about it. They are engaging their organizations to make sure they are following where the ESG agenda is going.

But what we are seeing in three to five years, the biggest thing that folks are worried about are social impacts; environmental responsibility and sustainability; and diversity, equity, and inclusion.

In the ESG bucket, those are the three that were most commonly cited as areas of focus for organizations. Those could change. Three to five years is a little way out, but those seem about right based on what we're hearing from our clients.

46:12

Kelly:

Some amount of it is going to be driven by regulation. If you are in financial services, you are looking at this very differently. If you are worried about being publicly listed, your Scope 3 emissions are a concern.

Len, is there anything that you wanted to add on that subject? I know we did touch on it earlier, but looking at the different lengths of time and where specifically companies are positioning themselves today, to be successful on that slightly longer-term perspective?

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46:40

Len: Clearly, part of it is to make sure that the choices that you make in sourcing, your choices that you make in supplier selection, and the design of your supply chains aren't taking you away from your ESG goals.

That is where we saw a very positive response that organizations largely feel that what they are doing today is already considering some of those ESG priorities and that in fact procurement is well-aligned with ESG.

As Dipan said, I think it will evolve over time in terms of which specific areas draw the most focus and investment, but broadly we see organizations moving in a measured way while they build and address some of the other value generation and more bread-and-butter capabilities.

47:41

Kelly: Sure.

Phil, we talked about the shiny new toy phenomenon. It almost seems like ESG programs are naturally taking a more sustainable course – not sustainable in the sense of environment but sustainable in the sense of long run.

If we can maybe go less big bang but embed them more in systems, process, and decision-making frameworks, maybe we'll get to that three- to five-year window and say, "We're already doing it. It's not that we were putting it off this whole time. It's that it was just being folded in as opposed to being managed as a separate initiative."

48:16

Len: Yes, that's absolutely our interpretation.

Organizations are conscious of it. It's a priority, but they aren't looking to get there tomorrow. It's going to be a build over time.

48:28

Philip: Go ahead, Dipan.

48:31

Dipan: One of the examples that you mentioned, Kelly, as organizations are building out supplier information management systems, capturing the diversity elements that allow you to categorize suppliers while you are putting in place applications that help you down the road to manage your overall portfolio, within categories you can now see the diversity, et cetera.

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Putting in place those building blocks will allow you to build to it. Over time, it becomes part of the regular score-carding.

48:58

Philip:

We talked about the perception of the C-suite earlier. This may be anecdotally as opposed to in the data, but do you feel that organizationally procurement is seen as a part of the business that can help manage, protect, and be involved to play an active role in sustainability, diversity, and inclusion initiatives? Or whether that's something that procurement is putting their hand up and saying, "I can help. This is somewhere we can make a difference," and that's not necessarily received consistently across all the different companies that we work with?

49:41

Len:

That is a very good question.

Certainly, a lot of the capabilities and results and impacts of ESG are going to be influenced by what procurement does. Certainly, we see procurement at the center of that. Procurement is influencing – and in many cases driving – how ESG plays out with the supply base and supply market. Procurement is absolutely central to this.

In my clients where procurement is stepping up and focusing on ESG heavily, they are influencing the C-suite in terms of what is our ESG strategy, what should we commit to, and how will we get there. There really is no other function that is going to do that for procurement. It cannot be a grassroots set of actions among all requisitioners or each individual function that uses suppliers.

50:52

Dipan:

And it evolved.

A couple of years ago, I think it was more of the C-suite coming up with the ESG priorities and procurement not being necessarily involved and going, "How is this going to be possible? What are we going to do here?"

Then, the alignment started happening with the functional areas. I think they recognized how important it was going to be to have the appropriate measures created in procurement. Now, they own a lot more of that agenda than they did initially. It started top down; went down and grew.

51:21

Philip:

One more follow-up question. Dipan, I'm going to ask this to you. Then, I've got a final question that I'll ask both of you to wrap things up.

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We talked about talent models and outsourcing third-party service providers. Are you seeing any big shifts in the procurement operating model – the delivery model – and how organizations think about how they are going to staff their procurement team? Or is it pretty much business as usual where there's a well-established and defined best practice and everyone is building towards that?

51:53

Dipan:

Some of the functional areas remain fairly similar to what we've seen in the past. With the introduction of many new technologies that are primarily cloud technologies, maintaining them post go-live where you're seeing more and more of a move towards managed services for the management of upgrades, enhancements, taking of upgrades to make sure you're increasing your functionality, there are new capabilities that are being introduced, but a lot of organizations don't actually take advantage of those, and you're losing the value of the license fees that you're paying if you're not actually maturing along with the application.

We are seeing a little bit more managed services in that space, but some of the functional areas like category management and strategic sourcing continue to remain very important.

You are also seeing the introduction of new roles like content management. How do you keep the online catalogs and that kind of content up to date? Because the moment people start going into your procurement platform and don't see pictures, reviews, content, and details, they don't like that shopping environment and they are more likely to deflect from that.

There is an introduction of new things like that.

53:03

Philip:

I know that we're coming up on time. I have one last question. We have covered a lot of ground. Len, I'm going to ask this to you first. But then, Dipan, I will ask the same question to you.

We want to leave people who are listening and watching with a focus on what they can do next. Given all this research and the insights that you've got access to, what is something that stands out as a piece of advice or an action that a listener can take today?

53:32

Len:

We talked a lot about roadmaps. Clearly, that is something that is valuable in order to get out of a reactive mode and to start to influence the C-suite around the role that

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procurement will have going forward. That's an important action to take to really shape what procurement is going to do for the next one to three or three to five years.

Obviously, based on our findings, system investments are going to be key. It really shouldn't be an ad hoc or whack-a-mole approach. It should be "what is our modernized system environment that's going to give us all these capabilities?"

As part of that, we also talked about generative AI which will have a role going forward in pretty much every aspect of procurement and where that is going to fit.

54:30

Philip:

Thanks. Dipan?

54:33

Dipan:

In the short term, what we saw was optimism is purely muted around budgets and ability to grow your teams. But in the three- to five-year timeframe, that again goes up. There's an opportunity to invest in the roadmap – as you mentioned, Len – and understand where you are going to go as you get back into a more normal cycle.

Only 25 percent of the companies reported their stakeholders see them positively. There's a huge area to go up. We are seeing that people are projecting into the 56 or 57 percent in the 12- to 18-month range.

Self-service and being able to provide the things that you need to do remains extremely important. I think it's going to be important to showcase to your stakeholders that you've got something above and beyond what you could do.

In terms of functional areas, risk management stood out. A lot of organizations didn't feel like they had the proper capabilities to manage the risks and monitor them over the long term. Getting a little bit more of a handle around that is going to be extremely important.

CLM was interesting.

We didn't dive into that as a huge topic, but the capability there is available fairly broadly. A lot of organizations haven't taken advantage of it and have not adopted these. You have got this imbalance where you have got technology that's far exceeding the capabilities of an organization which were a little bit lower. That automatically means at some point that organizations are going to really dive into that.



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While a lot of them through the question and answer said, “We are waiting for a clause automation and automated negotiations, et cetera,” there is a lot of master data management that needs to happen before you can get to automation.

We believe that building the CLM capabilities and really putting a focus on that is going to be a big area for us as we get into this. It’s going to be a key area as well.

Risk management, supplier management, and contract management are key areas.

56:21

Philip:

Some of those rely on other parts of the business.

When you think about CLM, for example, yes, we could put a CLM in isolation for procurement, but the reality is that legal are probably going to want something, and sales are going to want something for the other side.

You don’t necessarily want to put one platform in on one side of the house and then have another platform on the other. Because technology is changing fast, there is almost this fear sometimes of investing in technology which will be outdated before it’s implemented.

56:49

Dipan:

One of the stats that we got is 41 percent of respondents said that they don’t have a centralized document repository around contract management. That’s an astounding number given it’s a basic technology to at least put your contracts into one spot – let alone the clause management and some of the other things that come around it. That technology is freely available. I think organizations might be underestimating what it could do for them.

We saw this at the beginning of COVID. We got a number of calls from frantic clients. “Everybody is not on site. We can’t get hold of our contracts. How do we digitize them as quickly as possible? How do we mine them to understand when our due dates are coming up and expiration of clauses and can we get out of some of these contracts?” Not having it was a huge challenge.

57:31

Philip:

Let’s wrap things up. I know that we could probably talk for a lot longer with a bunch of more questions, but it’s been fascinating to get the value of both your experience and the insights from the research that you have done so far.

As you said at the beginning, the research will be out at the end of the year. We will make sure that everybody who registered for the event today will get a copy of that research



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when it's ready. We'll put it underneath the notes on artofprocurement.com with how to get that once it's available.

One last time, I want to thank everybody for joining us today, for being part of the conversation, for listening in.

Len and Dipan, thank you for sharing your knowledge and expertise with us!

Kelly, thanks for helping facilitate!