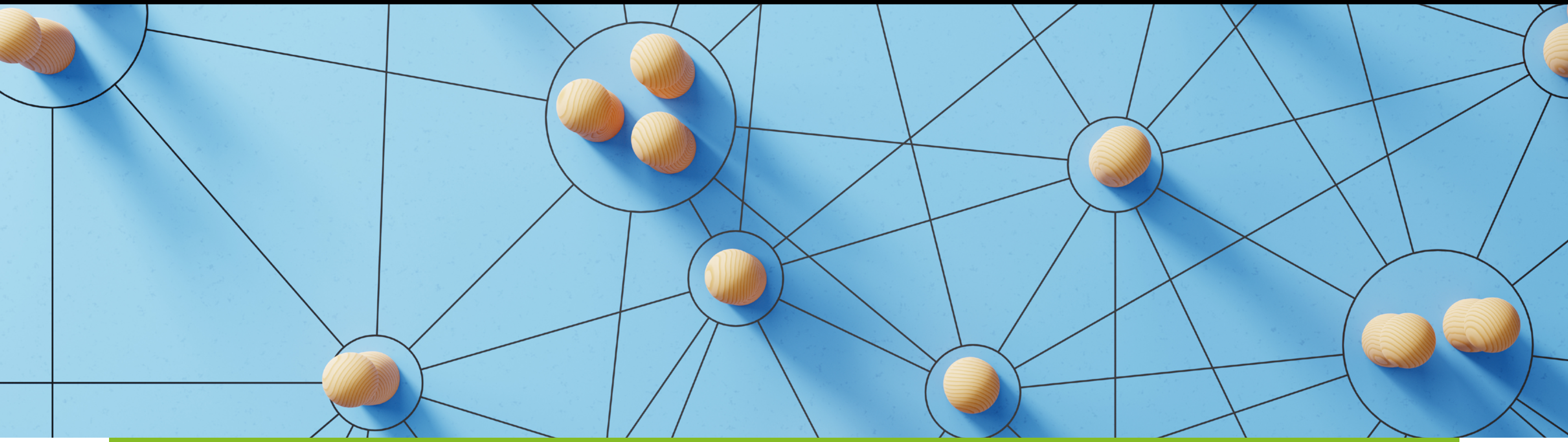


March 14, 2024

Taking inventory: Reasons for CFOs and CPOs to partner

In the past, CFOs and chief procurement officers (CPOs) could sometimes find themselves speaking at cross purposes and in different terms. Whereas finance chiefs might be squarely focused on the P&L, procurement leaders tended to tout multi-year value creation unlocked via category management and supplier risk mitigation. The resulting benefits may or may not directly translate to the bottom line.

But now it appears that CFOs and CPOs are bridging communication gaps and aligning priorities. Indeed, some procurement executives have begun collaborating more effectively with finance chiefs to confront a series of shared challenges. One prominent example: supply chain woes, which exposed the limitations of siloed decision-making. In some cases, CFOs and CPOs teamed up to invest in supply-chain continuity and resiliency, carefully monitoring company spend while managing risk.

Given their respective roles, CFOs and CPOs have an almost symbiotic relationship. CFOs need CPOs to help validate year-over-year cost reductions and manage SG&A; CPOs need CFOs to help quantify and validate the savings they identify and amplify the value that sourcing can deliver.

But, within the company, the functions are likely to be perceived differently. In some organizations, procurement has typically been seen as tactical rather than strategic in focus, a service organization or, even worse, the compliance police. But CFOs and CPOs both serve as stewards of the organization's resources and each function touches nearly every aspect of operations. Recent trends—the move to rethink supply chains in light of geopolitical uncertainty, re-shoring, post-COVID resiliency, the need to deliver on ESG commitments, and a return to cost management to bolster margins—have increased the need for an effective CFO-CPO partnership. Through that collaboration, CFOs and CPOs can drive greater influence by advocating strategic priorities, forging critical collaborations, and offering key insights.

As collaborators, the two CXOs still have plenty to take on together. In the *CFO Signals*™ 4Q 2023 survey, CFOs cited three factors that could most constrain their organizations' financial performance in the next 12 months: inflation, interest rate, and liquidity impacts (70%); macroeconomics (59%); and geopolitics (40%).[1] Areas such as ESG compliance and AI implementation will also likely require more teamwork.

In this edition of *CFO Insights*, we'll explore the challenges typically involved in CFO-CPO collaboration, how that dynamic may shift, and the unexpected potential gains from such an alliance.

Procurement's value proposition

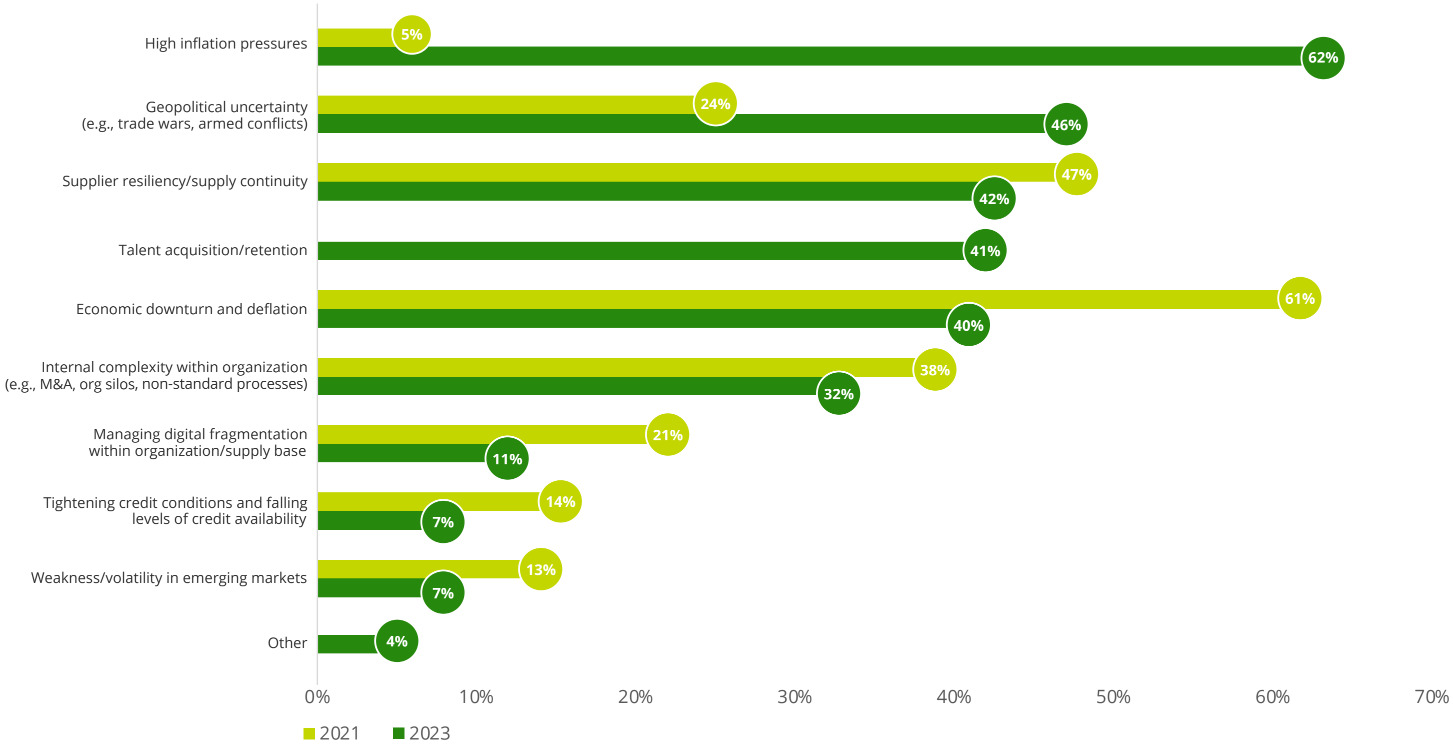
Deloitte's 2023 Global Chief Procurement Officer Survey identifies top-performing procurement teams as "Orchestrators of Value." The survey, which drew responses from 350 senior procurement leaders from more than 40 countries, deliberately uses the word orchestration, alluding to the ability of such procurement teams to work with functional partners, suppliers, and others to ensure they are all playing off the same "score."[2]

Procurement's intent to connect with the business—beyond the tactical level—isn't new. However, in the Deloitte 2023 Global Chief Procurement Officer Survey, respondents' self-perceived performance in business partnering with other functions, including finance, dropped by up to 11% since the Deloitte Global 2021 Chief Procurement Officer Survey. While that finding may reflect the effect of inflation and the sheer volume of issues the function has confronted in recent years, it's undoubtedly a worrying trend for CPOs (see Figure 1).

Against such a backdrop, some CPOs are working to measure and communicate their function's value proposition to finance. These CPOs are demonstrating how procurement supports the organization's overall strategic aims. Most importantly, they are actively working for procurement to be seen as a value-generating internal function instead of a cost center.

In some companies, procurement's mission statement might be succinctly summed up as cost control. That pursuit might truly be the direction company leadership desires. But generally, procurement's role and impact may be limited by how CFOs and other decision-makers define its purpose. Strategy-minded CPOs can find common

Figure 1. Top issues facing procurement in the past year



Source: 2023 Global Chief Procurement Officer Survey, Deloitte Development LLC, 2023.

ground with CFOs by reinforcing how procurement can help the company outperform its competitors. This includes some obvious metrics like speed to market and efficiency. But CPOs may also want to assess the function's strengths—risk management, supplier performance, enhancement of spend on diversity within and outside the organization—to help make a more outsized contribution. What levers can procurement use to incentivize its suppliers to give the company a first look at innovations? Which processes need to be accelerated to enable the business to be first to market with a new product or service?

If procurement can help finance executives make better-informed decisions, it will continue to elevate the role of the CPO and team, which will demonstrate higher-value impact for the company. With that vision in mind, a closer CFO partnership seems beneficial.

Productive dialogue

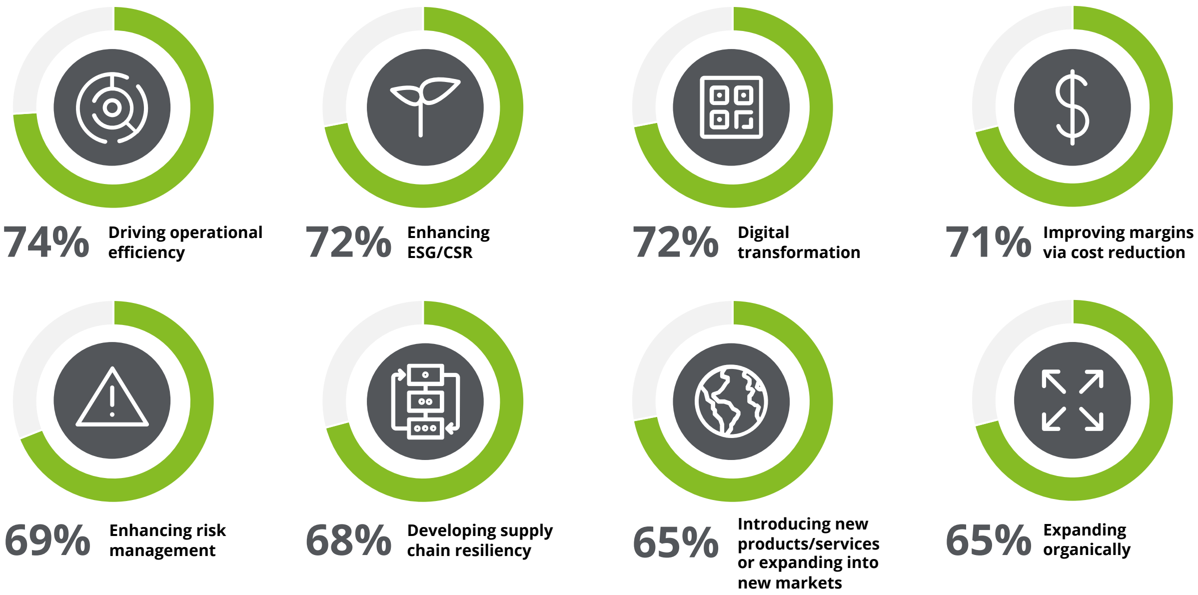
Frequently, a CFO/CPO dialogue may be focused on quantifying the value delivered from strategic sourcing. But there are many more compelling reasons for CPOs and CFOs to be in the same room. Bringing together the perspectives of finance and procurement can provide a sort of triangulation that helps CPOs and CFOs identify broader issues where they can work together. Those include:

- **How can we better mitigate risk?** As is true of other areas, including ESG, planning and budgeting, and make-or-buy decisions, more of the high-performing procurement leaders share concerns about risk mitigation with CFOs.[3] Given the current risk environment, it's no surprise that 80% of surveyed CPOs cite enhancing risk management as a business priority. Supply risk analytics are a priority among about half (51%) of respondents, a substantial increase from 35% in the Deloitte Global 2021 Chief Procurement Officer Survey. Supplier risk and compliance monitoring can be challenging because category/supplier requirements dictate the various types of risk (and the associated data sources and methods), which, in turn, drive the appropriate workflows, data collection,

analysis/prediction, playbooks, alerting, and recovery activities. Higher-performing procurement organizations already have 35% higher levels of supplier information-sharing and collaboration than those identified as "Followers" in the survey. Even so, they plan to deepen their supply intelligence into additional supplier tiers to help them better predict supply risk. Collecting, calculating, and predicting deeper supply risks can be woven into higher-level monitoring processes also fed in line to sourcing processes. Such information can also be where 75% of Orchestrators of Value use supplier risk scoring as a core part of supplier sourcing (compared with just 35% of Followers).[4] Championing the changes to enable this next level of risk-sensing will require finance and procurement to lock arms.

- **How can we join forces to meet ESG regulations?** In Deloitte's 2023 Global Chief Procurement Officer Survey, CPOs ranked responding to new ESG requirements as their second-highest enterprise priority, just behind “driving operational efficiency” (see Figure 2). However, 40% of CPOs stated that their procurement organizations don’t define or measure their own set of relevant ESG factors, although 60% do measure their suppliers on sustainability on some level.[5] Many procurement leaders have been tasked with driving adherence to carbon footprint-reduction goals through the supplier base. Through supplier diversity, CPOs help organizations meet their DEI goals.[6] Third-party ESG data may be needed to calculate some greenhouse gas emissions, including those generated by goods and services producers. That could raise some questions about how companies get that information from suppliers and how reliable the data is (see “Environmental impact: How finance leaders can add value to sustainability efforts,” *CFO Insights*, June 8, 2023). Despite these expectations, producing ESG data and affecting the organization's environmental footprint are challenges that require action across almost all functions. CFOs and CPOs (not to mention supply chain leaders) should align on realizing, tracking, and delivering results in partnership with each other.

Figure 2. Top enterprise priorities in 2023: A tightly packed ranking



Source: 2023 Global Chief Procurement Officer Survey, Deloitte Development LLC, 2023.

- **Is the operating model fit for purpose?** CPOs will likely want to explore their existing operating model and whether it is driving the desired outcomes. The Deloitte 2023 Global Chief Procurement Officer Survey identified a trend toward increased centralization of key capabilities such as business engagement, sourcing, contracting, risk management, and data and analytics. The appropriate degree of centralization (an issue many CFOs have encountered) is unique to each business. Procurement executives may want to weigh factors such as existing organizational structures outside of procurement, the complexity of the business itself, category and market complexity, and desired technological enablement of key capabilities.[7]
- **What's our strategy for investing in GenAI?** Like almost every other function, there's likely a push in procurement to identify use cases for generative AI (GenAI). As part of the tech stack, AI tools can flag areas where a CPO might find savings or locate where supply chains face excessive risk. AI can also help procurement spot trends and patterns, enabling more informed decisions ranging from supplier selection to contract negotiation. What's more, AI can proactively identify and mitigate potential risks through real-time updates about suppliers, purchase orders, inventory, contract terms, and volume discounts. Ultimately, the technology can help with the speed and accuracy of decision-making. Working with CFOs, CPOs can make a clear business case for investing in AI.

Group support

Many of procurement and finance's priorities already coincide. Moving forward, that overlap may increase.

CPOs may also get more involved sooner with M&A deals, advising CFOs on synergies a deal could produce from supply base and buying-power consolidation. CFOs may prove willing to ramp up investing in upskilling employees or in recruiting workers who are passionate about, say, sustainable sourcing.

Nevertheless, CFOs and CPOs should still meet regularly to align on what constitutes savings and monitor initiatives. Communication, after all, can play a key role in bridging the language gaps between them.

End notes

1. "CFO Signals™ 4Q 2023," US CFO Program, Deloitte LLP, January 2024.
2. "2023 Global Chief Procurement Officer Survey," Deloitte Development LLC, 2023.
3. Ibid.
4. Ibid.
5. Ibid.
6. Ibid.
7. Ibid.

Contacts

Jennifer Zampino Brown
Principal, Supply Chain Network Offering Leader
Deloitte Consulting LLP
jennibrown@deloitte.com

Joe Chmielewski
Managing Director, Supply Chain Procurement Offering Leader
Deloitte Consulting LLP
jchmielewski@deloitte.com

Ryan Flynn
Principal, Digital Procurement Leader
Deloitte Consulting LLP
rpflynn@deloitte.com

Jamie Weidner
Managing Director, Finance & Performance
Deloitte Consulting LLP
jweidner@deloitte.com

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Deloitte CFO Insights are developed by Patricia Brown, Managing Director and Global Research Director, CFO Program; Josh Hyatt, Editor, CFO Insights, CFO Program; and John Goff, Senior Manager, CFO Program, all Deloitte LLP.