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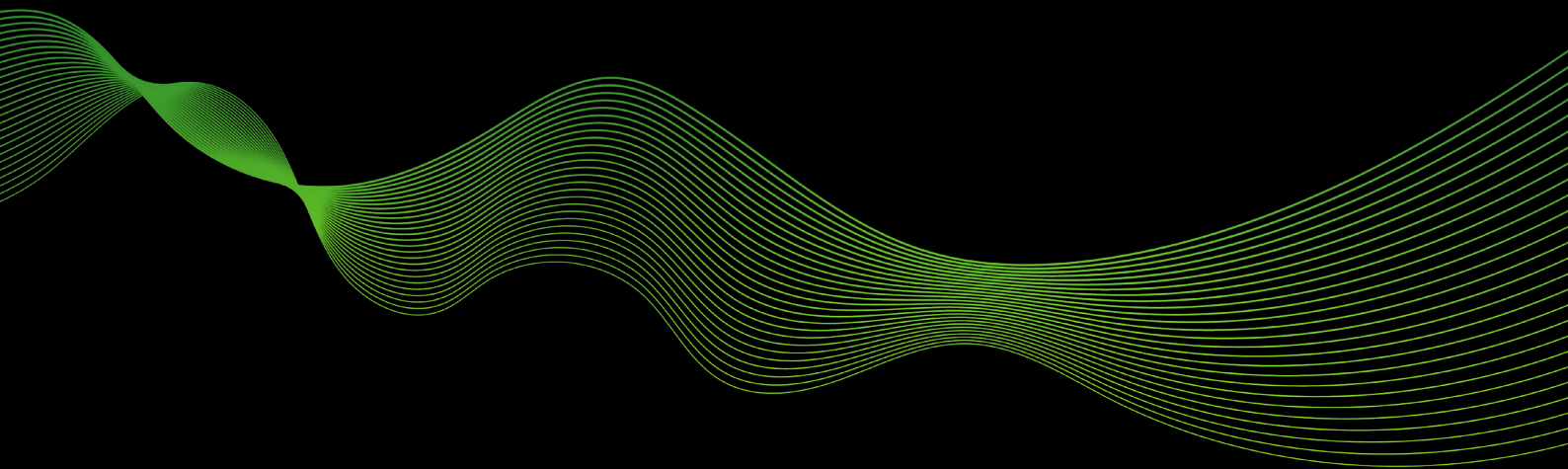


**2023 Global Chief
Procurement Officer
(CPO) Survey**

Orchestrators of Value

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Introduction

Ever heard the phrase “Be careful what you wish for”? For almost 12 years across 10 editions of the Deloitte Global CPO Survey, CPOs have talked about procurement getting a seat at the table. Following the COVID-19 pandemic and the **unprecedented levels of supply chain disruption**, as well as the **growing need for procurement to enable growth, mitigate inflation/risk, and drive significant levels of value**, that day has finally come.

Despite the significantly increased expectations placed upon the function, it’s clear that few, if any, businesses are willing to materially expand the size of their procurement function; in fact, many companies still seek to reduce the size of the function in the name of operational efficiency. This ultimately leaves CPOs with the task of doing more with less. Combine this with a continued shortage in top procurement talent and years of underinvestment/development with makes the job even more challenging¹.

As we reflect on the responses of nearly 350 senior procurement leaders from more than 40 countries, we have identified the attributes and capabilities that the most successful procurement organizations have invested in. Spoiler alert: much of the focus is on **creative operating model setup, talent management (recruitment, development, and retention) and digitization** into supply chains (and other functions), and more specifically, we have uncovered how leading procurement organizations are effectively delivering across the broader value proposition that seems to expand every year.

Thankfully the digital revolution and increasing maturity of outsourced talent models (e.g., hybrid managed services) are trending favorably and are not only offering CPOs a fighting chance but allowing them to take advantage of the circumstances.

High-performing procurement organizations that are leveraging these developments more fully and effectively are elevating and automating themselves out of tactical work to build more agile, scalable, and digitally enabled procurement operations. Organizations that are proactively engaging stakeholders and suppliers to orchestrate greater value delivery and ultimately create a competitive advantage.

This latest survey illustrates how these **top-performing procurement teams are increasingly working with business unit leaders, functional partners, and suppliers to empower their teams to become “Orchestrators of Value”** and get everyone playing off of the same “score.” This orchestration is built upon numerous capabilities (identified in the study) that help drive improved performance and value ranging from operating model reconfiguration e.g., increased leveraging of hybrid delivery models or open talent networks to far higher rates of digital enablement, and more advanced and sophisticated talent development strategies.

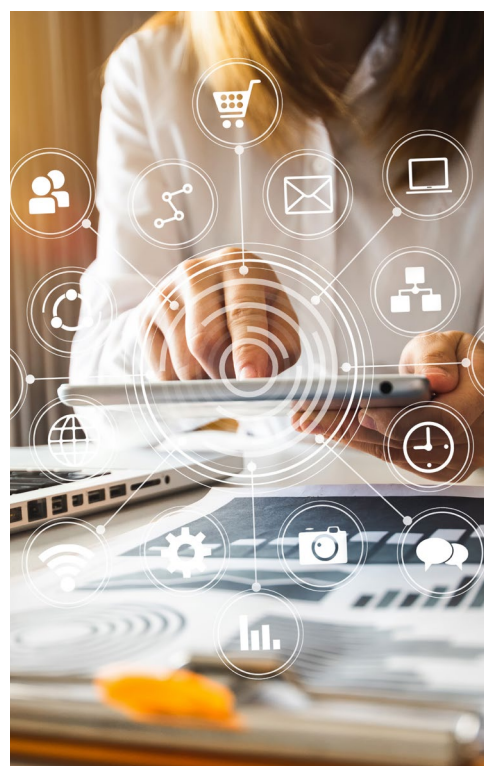
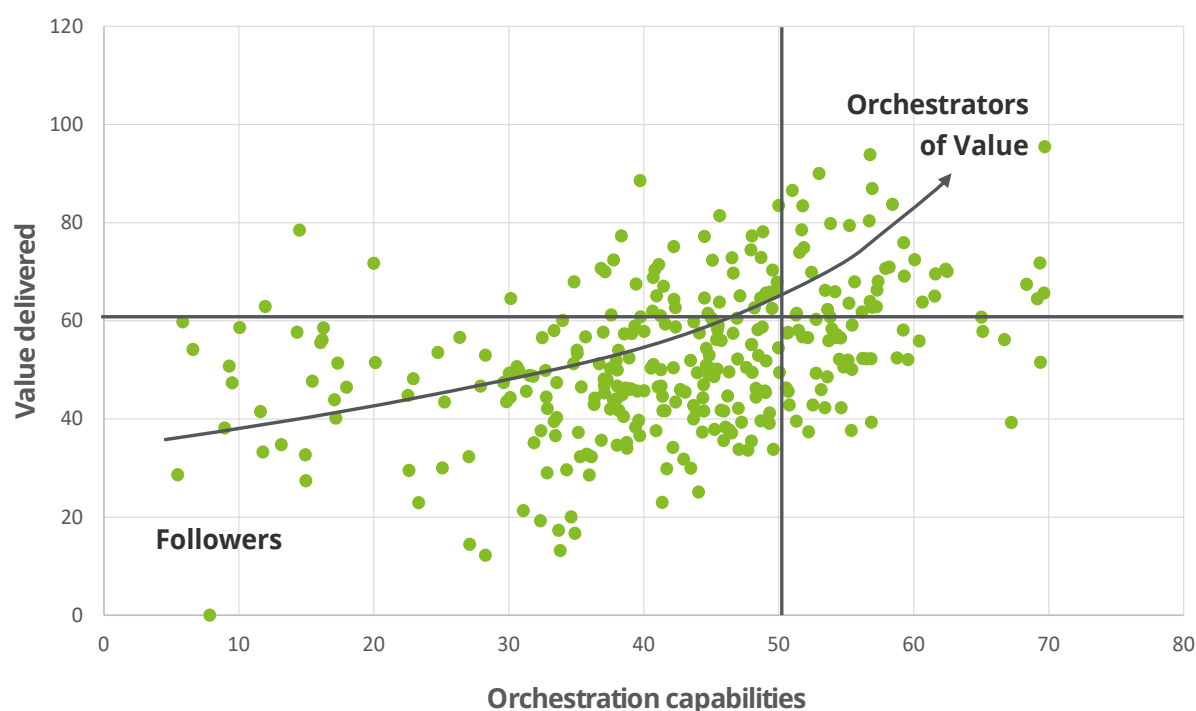


Figure 1 shows how each CPO who responded to the survey ranked against our orchestration capability measures and the associated value delivery performance attributes. We found that Orchestrators do indeed perform better, and that the statistical correlation was strong. **Top quartile Orchestrators have a 25% performance advantage over their peers.** For convenience and illustration, we designate the top-quartile orchestrators Orchestrators who deliver top-quartile performance as “Orchestrators of Value,” and we compare them to “Followers.”

Figure 1. Value delivered by Orchestrators of Value vs. Followers



Great CPOs and musical conductors alike help orchestrate a collective performance that inspires the performers and the “audience” (customers, shareholders, regulators, etc.) with goals that transcend short-term financial value gain for broader impact. **Top CPOs are learning to serve as excellent “conductors”: recruiting the best talent, maintaining alignment, and inspiring top performance by communicating a clear and consistent vision.** This positions procurement at a critical inflection point, to deliver not only on cost savings and tactical S2P execution, but also to deliver on the broader brand promise of greater overall value creation. The pandemic has helped to accelerate this journey and the momentum must now be maintained and arguably accelerated.

SURVEY METHODOLOGY

We took a focused, hypothesis-driven, quantitative view to measure orchestration and performance outcomes, assess how different organizations performed relative to one another, and test the hypothesis that orchestration enables high performance.



Value delivered (outcomes)

- **Procurement “performance to plan”**
- **Extent of stakeholder influence based on:**
 - Active role in stakeholders’ decision-making
 - Stakeholder/ “customer” satisfaction (self-reported)
 - Quality of influence (executive advocacy)
 - Procurement level of influence (based on level of actively sourced spend)
 - Labor productivity (based on spend managed per FTEs)
 - Procurement team’s contribution to ESG/CSR



Orchestrators (capabilities)



Dynamic alignment with stakeholder objectives and metrics



Flexible resourcing models (e.g., hybrid sourcing models)



Supply market intelligence to improve sensing and prediction



Improved talent and talent management processes/practices



Supply chain resilience and risk/compliance management



Utilization of agile development in IT, procurement, and the business



Predictive analytics and advanced tech to improve rapid decision-making



Monitor social and governance-related performance and emissions of supplier base



Process-oriented practices (e.g., sourcing criteria addressing supply risk)



Nature of Supplier Diversity Program

ABOUT THE SURVEY

Since 2011, the Deloitte Global Chief Procurement Officer (CPO) Survey has been providing exclusive insights into the key challenges and opportunities shaping the course of procurement. It serves as the global benchmark of sentiment about the profession. The insights, over the years, have helped board members, C-suites, procurement leaders, business partners, suppliers, and supporting technology providers in furthering their ambition, strategies, and performance.

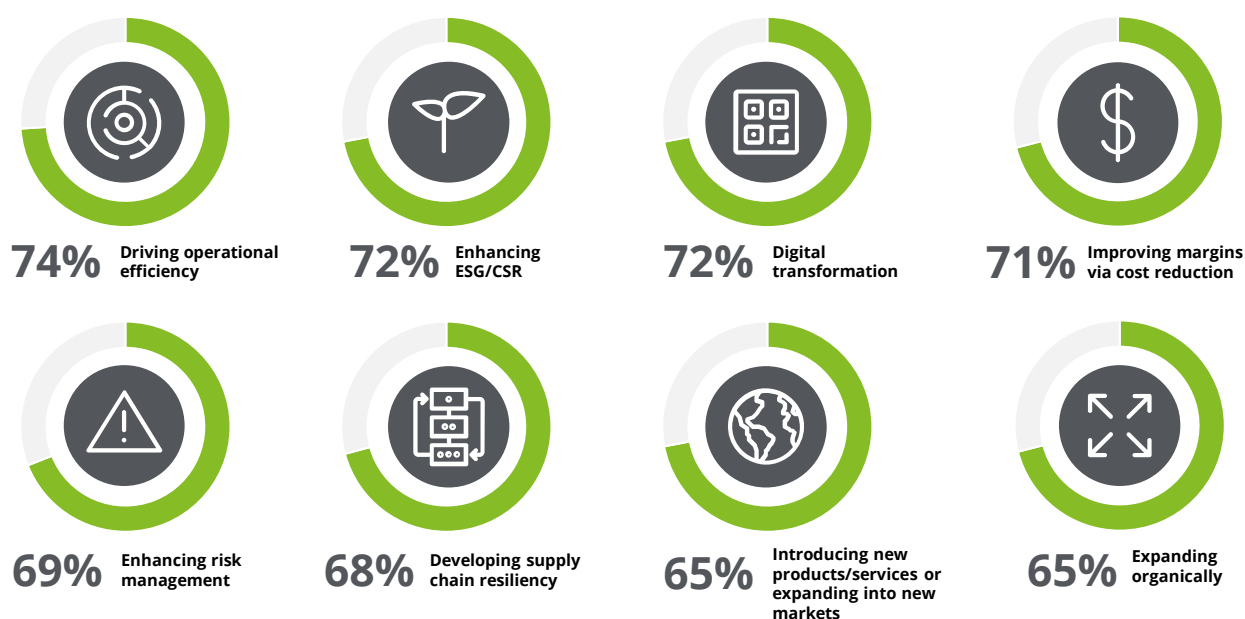
The 2023 survey was conducted in association with Odgers Berndtson and with input from procurement technology firm Spend Matters. We have received almost 350 responses to this year’s survey, representing more than 40 countries.

Generating value

While the good news is that procurement is engaging across a broader set of priorities², including the new No. 2 priority of environmental, social, and governance (ESG) (figure 2), the bad news is that performance dropped (e.g., only 69% hit or exceeded their cost-reduction targets versus 84% in the previous study). In addition, self-perceived performance in business partnering with other functions, such as finance, research and development, and operations, dropped by up to 11%. This indicates that perhaps procurement groups were spread thin addressing a broadened range of challenges, such as managing continuity of supply through the pandemic and then more recently cost pressures from inflation.

Procurement is responding to an ever-growing list of high enterprise-level priorities, with little statistical variance between the top eight priorities (roughly 9% variance only). Cost is still an important mainstay (arguably table stakes in terms of procurement's expected contribution), yet many of these important enterprise issues are not always present or easily added to the procurement scorecard. Risk and resiliency across supply chain, addressing evolving compliance requirements supporting and driving business transformation initiatives, and staving off price increases (for which the true procurement impact is often very difficult to estimate and communicate) can often be hard to quantify and measure.

Figure 2. Top enterprise priorities in 2023



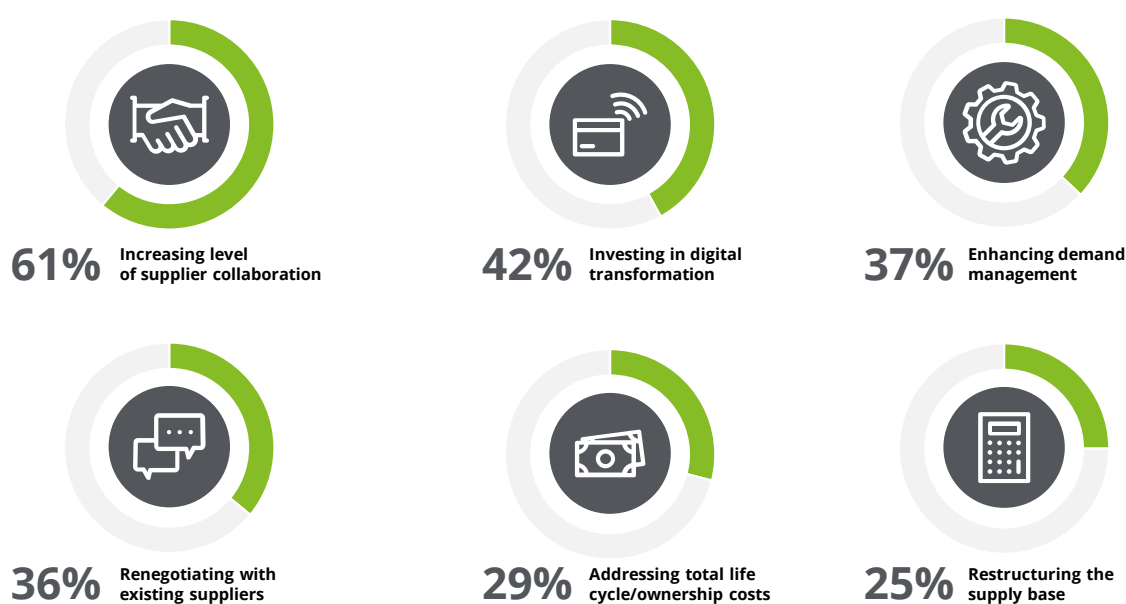
In 2021, the top four priorities were driving operational efficiency (78%), cost reduction (76%), digital transformation (76%), and innovation (73%). ESG (68%) was ranked seventh on the list.

As the breadth of procurement's "service portfolio" is broadening, its stakeholder-facing performance appears to be dropping (as is supplier performance), especially related to savings performance (see "AI in procurement" section on page 22).

Procurement certainly moved fast to react to business conditions (e.g., fighting to stave off supplier price increases or to keep supply lines flowing), but reactivity is not agility (agility is designed), just as speed is not velocity (velocity has a vector). Addressing such external forces while maintaining momentum around delivery of internally set strategic priorities and programs is the essence of this 2023 study on "orchestration."

It should be further noted that the divide between Orchestrators of Value and Followers is somewhat widening as is clearly evidenced in their relative focus. On average, Orchestrators of Value enterprises have at least five strong priority areas compared to only about three areas for Followers, many of which were focused on driving operational efficiency (71%) and digital transformation (70%). When asked about the procurement function's performance over the past 12 months, Orchestrators of Value performed much higher compared to Followers in the following areas: cost avoidance (32%), cost savings (51%), internal stakeholder management (57%), risk management (48%), supplier performance (109%), and sustainability (58%).

Figure 3. Top strategies to deliver the most value in 2023



What are CPOs focused on to deliver the value against the backdrop of these strategic business priorities? The answer focuses heavily on suppliers (figure 3). Both collaboration (No. 1) and renegotiation (No. 4) require strong category management, good data transparency, and trust (keep an eye out for Deloitte's upcoming report on trust in the supply chain) and benefit greatly from advanced analytics (which we talk more in depth about later in this report) and enabled by, in part, to the No. 2 strategy of digital transformation.

It is heartening to see that No. 3 is enhancing demand management—arguably the greatest impact you can have on cost and risk is during the definition of the demand itself done alongside internal stakeholders and even external customers. Helping shape specifications, volumes/volume commitments, and timing of purchases can be massive and arguably an area where many procurement organizations have needed to play a stronger role.



What about cost savings?

- The study showed a slight de-prioritization of enterprise margin improvement via cost reduction as a “top 3” issue compared to the last study (a 7% drop of firms citing) to the No. 4 spot in terms of overall prioritization. However, it was the most cited “strong priority” (43% of firms), similar to the 2021 study, and reflects a response to the No. 1 organizational risk by far: inflation (cited by 59% as the top risk).
- This headwind contributed to a 22% relative drop in CPOs’ “performance-to-plan” on cost savings. Only 30% achieved their targets (versus 50% from the last study), and nearly 20% had to reduce savings targets. Based on our most recent CPO conversations, especially related to some market softening, expect targets to make up for lost ground.
- However, stagflation did incentivize CPOs to maintain their performance-to-plan on cost avoidance (or performance to market), and on revenue uplift and innovation enablement (for the half of firms that measure it).
- Going forward though, improving margins is the top cited “strong priority” (43% of firms), with 40% citing operational efficiency and digital transformation as strong priorities to better enable category management and supplier collaboration for reducing total cost and increasing value.

Regardless of your organization, there can be no mistake about the core value proposition of procurement. Any CPO who thinks cost competitiveness can be parked while they ride the new wave of exciting priorities is in for a shock. It’s less a case of “or” and more a case of “in addition to” as uncertain markets lumber along in the general path of stagnation. For what remains of 2023, and likely deep into 2024, there will be a significant body of work to complete around clawing back increases seen over the past 12+ months, resetting contracts as commodity prices drop back down, and collaborating with suppliers (especially since earning a “customer of choice” status is often, or best, earned in tough times) on ramping back up to meet increasing demand as markets and the economy begin to recover. We are already seeing CFOs press hard on cost. CFOs have agreed that cost control and reduction remain top priorities in the next 12 months, and procurement leaders must remain laser focused on this oldest of procurement goals.

How to do more, and better, with less

In the previous two installments of the Deloitte CPO Survey, we measured “complexity mastery” and “agility” characteristics to see if they influenced procurement performance in the face of increasing business volatility. They, in fact, did, but there’s also been diminishing gains because of execution challenges regarding resource gaps, both capability and capacity (the No. 1 cited issue keeping CPOs awake at night, along with lack of visibility outside the function), and the difficulty of scaling the procurement operating model to stay in sync with both stakeholders and supply markets.



For a CPO to help transform value chains, enhance third-party management, and maximize enterprise value beyond basic supplier cost reduction and risk mitigation, the CPO must take a **leadership role** in collaboratively building an enterprise capability of “orchestration.”

We’ve worked on these issues firsthand with clients of differing sizes across many industries in many different countries allowing us to identify and incorporate “orchestration” characteristics in this year’s study to see how the most effective procurement teams outperform their peers. We found three main areas where Orchestrators of Value focus to successfully deliver on their commitments while at the same time addressing challenges and constraints:

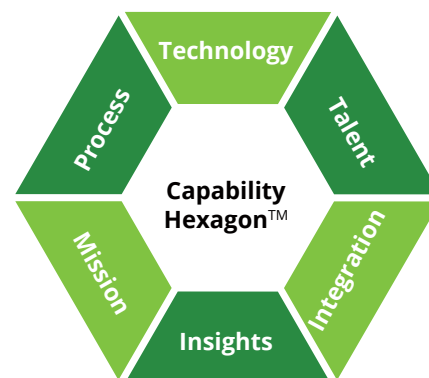
- Operating model design
- Talent strategy
- Digitization maturity



In the following sections we explore each of these areas, explain what we learned from the survey, and dive deep into what matters most to successful delivery of procurement’s true potential.

OPERATING MODEL DESIGN

The most foundational aspect of orchestration relates to “operating models.” Typically, when we use this term, we refer to the configuration of the different layers of how the function is set up:



Specifically, and for the purpose of this report, we are going to focus on organization (structural design specifically) and integration.

Organizationally, there is a continued trend toward increased centralization of key capabilities—for example, business engagement, sourcing, contracting, risk management, and data and analytics (a roughly 15% increase across them since the 2021 survey). To clarify, increased centralization does not mean single global hub; rather, it can be more nuanced. To start, we must distinguish between centralization of policy and process design versus actual centralization of day-to-day governance or locations of the team(s). Next, we determine the right degree of centralization, which is unique to each business and needs to consider factors such as existing organizational structure (outside procurement), business complexity/diversity (e.g., number and diversity of businesses), category and market complexity (need to be close to markets to effectively manage the spend), and desired enablement of key capabilities (e.g., full and aggressive deployment of robotic process automation [RPA] and other enabling technologies versus a more nuanced and targeted deployment).

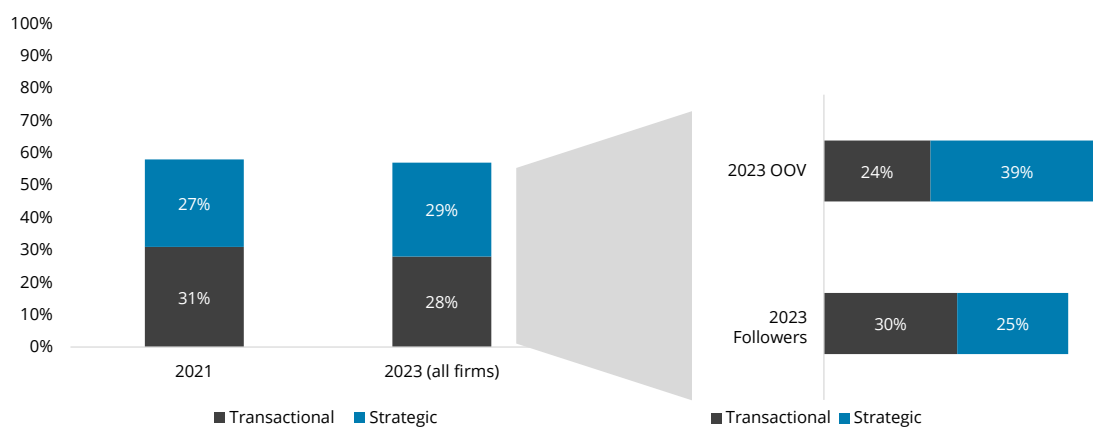
Another explicit design strategy is standardization. It is important to note that standardization of policies, processes, systems, and data is again, by far, the top strategy to manage potential workload volatility and enable greater agility (increasing further since 2021). Orchestrators of Value apply this strategy 20% more often than Followers and peers, and they apply more flexible automation tools and methods roughly twice as often as peers, as well as having 60% greater adoption of hybrid management service models (and nearly two times more traditional outsourcing/BPO deployment). A large prerequisite to this is the increased centralization of policy and process design. Not to be confused with centralization of governance itself (as noted above), rules can be determined centrally to allow the businesses and teams to operate more independently, thereby enabling agility within a structured set of parameters/freedom within a framework, with escalation/involvement from more centralized groups only where that makes sense and truly adds value.

Even the best procurement organizations with top-notch strategies and operating models still struggle with funding, acquiring, and leveraging the best talent (and technologies to a lesser extent) to meet their dynamic and sophisticated needs. Yet, orchestration is doable and must be explicitly designed into the procurement operating model, starting with early alignment and engagement of key business stakeholders (this is where integration comes in). The ability to effectively engage the business (peer functions and corporate leadership), build and leverage these trusted relationships to set common goals, and align on the support needed to deliver them can be the deciding factor in addressing funding and getting the greenlight to begin the transformation. We see Orchestrators of Value do this more effectively, and as a result, they are more often involved in the decision-making process regarding broader business priorities. They are more able to share and demonstrate the impact procurement can have on these top business priorities.

Firms citing procurement as always or often involved			
Business area	Orchestrators of Value	Followers	Decision
ESG	100%	78%	Managing external ESG
Risk	95%	63%	Third-party risk management
Make vs. buy	83%	64%	Product/service sourcing
Outsourcing/offshoring	95%	60%	Process sourcing
Planning and budgeting	93%	66%	Supply to support spend

To achieve this, Orchestrators of Value continually work to pull themselves out of transactional processes (and operational ones too) to focus more on the strategic (figure 4). Reducing focus on the transactional, which is arguably still too high, gives them more time to spend on strategic activities like business engagement or supplier collaboration as well as on transforming and digitizing the function and developing and applying a set of focused orchestration capabilities that include “mass personalization” of stakeholder experiences (e.g., based on the nature of spend/suppliers and stakeholders for the process or context).

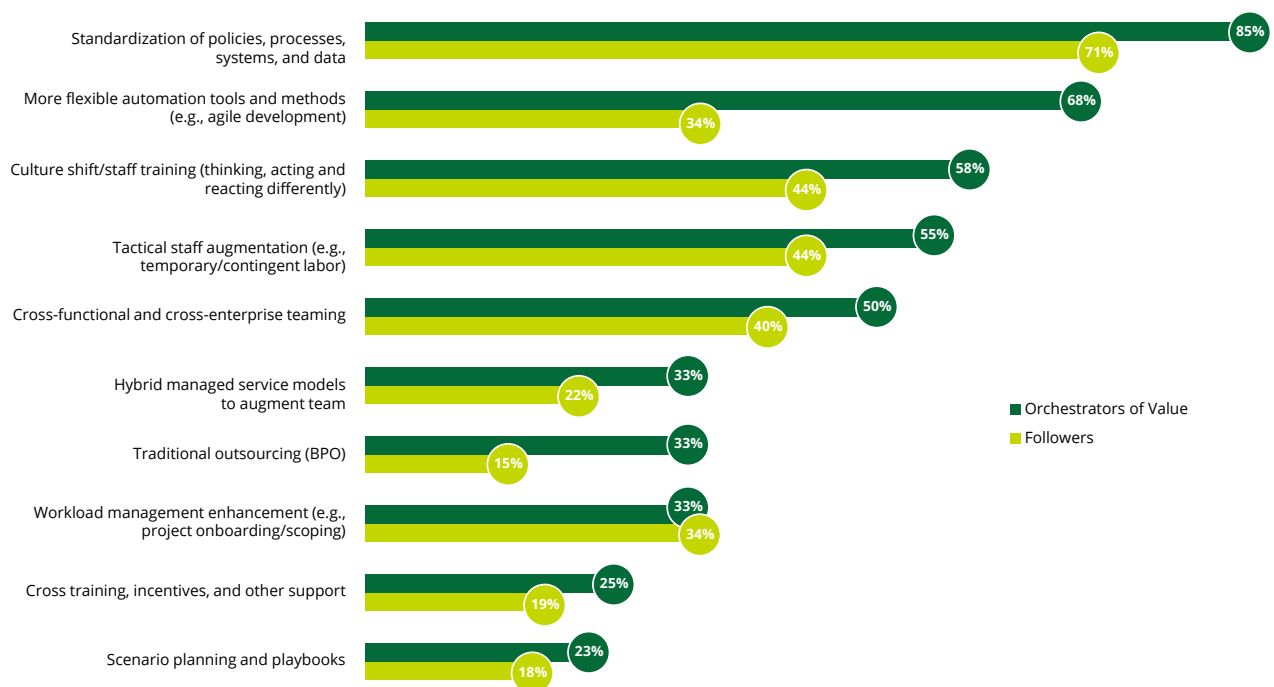
Figure 4. Allocation of time: Strategic vs. transactional ('operational' not shown)



They achieve this in the following ways (figure 5):

- **Standardizing processes/policies (and systems and data) AND using flexible automation tools** (e.g., low-code/no-code and self-service) **and methods** (e.g., Agile approaches for iterative design/build/realize).
- **Creating purposeful/thoughtful teams** focused on efficiently and effectively executing common tasks in shared services or centers of excellence (CoEs) (e.g., business engagement, sourcing, contracting, risk management, and analytics) and composed of specialists (internal and external).
- **Using outside intelligence to help inform the highest-priority opportunities** to target (e.g., the No. 1 managed service CPOs plan for falls under the Insights—data and analytics operating model).
- **Formally planning/coordinating** their efforts on prioritizing **focused transformation** that enables the greatest value, defending the high ground, and better navigating the challenges of having to chase the latest shiny object in the business.

Figure 5. Strategies to manage workload

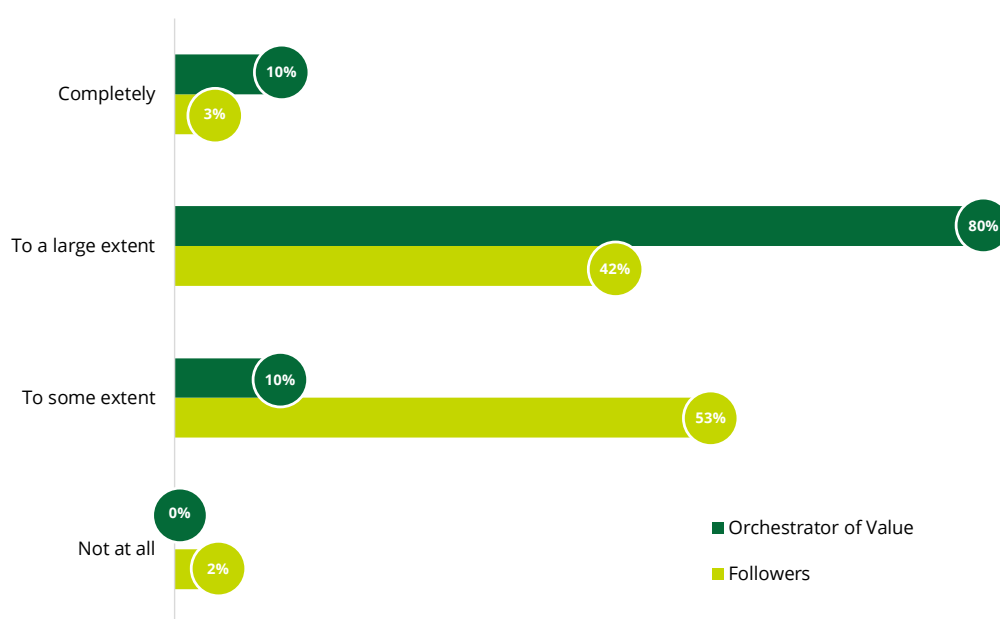




TALENT STRATEGY

Talent acquisition and retention is the most cited internal risk (four times higher than digital fragmentation). More than 70% of CPOs in our study had difficulty attracting talent over the past 12 months (only 4% of firms said that it's less difficult to find that talent). Interestingly, the tightened labor market in general has proven to be concerning across the enterprise with top CEOs naming talent as the biggest challenge faced in the Winter 2023 Fortune/ Deloitte CEO Survey³. Addressing the scarcity of talent supply through traditional talent acquisition channels (e.g., hiring full-time staff) is a top strategy for nearly all firms. Procurement talent is one, if not *the*, key differentiator for CPOs—90% of Orchestrators of Value believe that their teams fully or largely have the skills and capabilities necessary to deliver their procurement strategy, with less than half of Followers in agreement (figure 6).

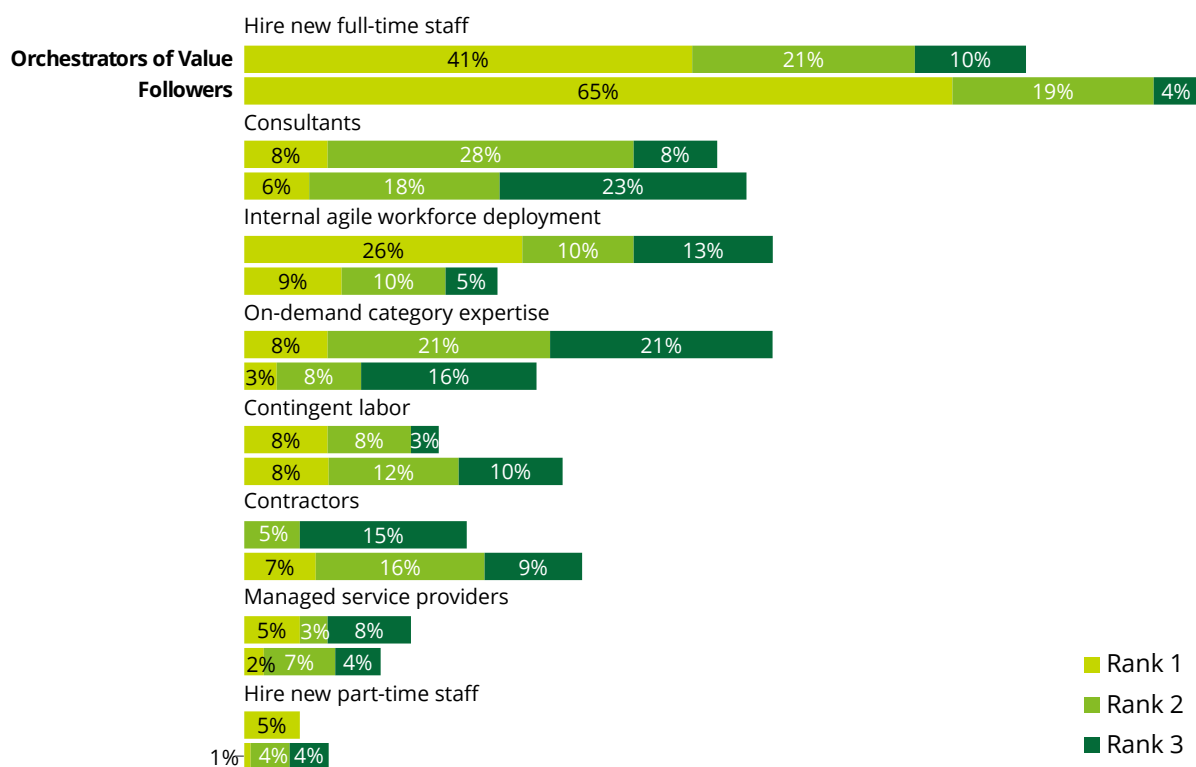
Figure 6. Procurement leaders who believe their teams have the skills and capabilities to deliver their strategy



The real question is why is that the case? What do Orchestrators of Value know that others don't, and what are they doing differently when it comes to talent?

Orchestrators of Value source capabilities more widely. They look to access a greater pool of talent and expertise in the first instance, not only by leveraging traditional talent models (think core hiring and contractors—interestingly at similar levels to others) but also by turning to outsourcing⁴, hybrid managed services, and other types of open talent models to get what they need at twice the rate that Followers do. Not only does this help them close capability gaps, but it can come with the added advantage of optimizing for demand fluctuations, quality, and cost. Establishing this takes more upfront design work, but it ultimately gives them an instant advantage in the war on talent (figure 7)⁵. As fewer organizations engage in work-based solutions, those that can effectively manage work-based and talent-based approaches are better positioned to gain a real competitive advantage⁶.

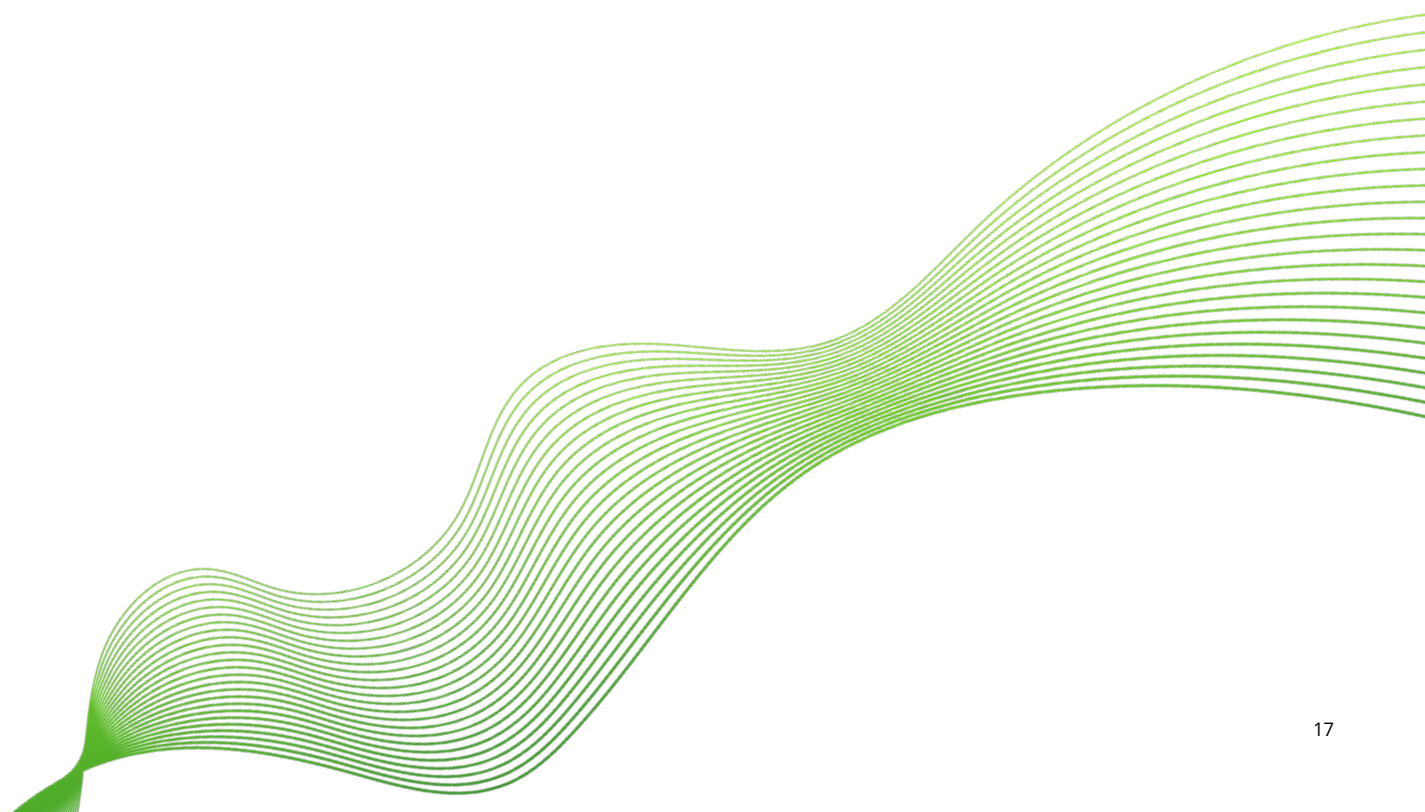
Figure 7. How CPOs are accessing and deploying talent to deliver their strategy



Even if you currently have the talent that you think you need, your next challenge is retaining it. Employee burnout, although not new (in terms of being openly discussed at least), is becoming better understood, and many organizations are now implementing long-term solutions to overcome the challenges of burnout and retain top employees⁷. If the COVID-19 pandemic showed us anything, it shined a light on the need to accelerate rethinking what work is, where we do it, and how we do it, with a particular focus on finding a balance between work and home life that works for wider, arguably more diverse workforce needs than has traditionally been considered⁸.

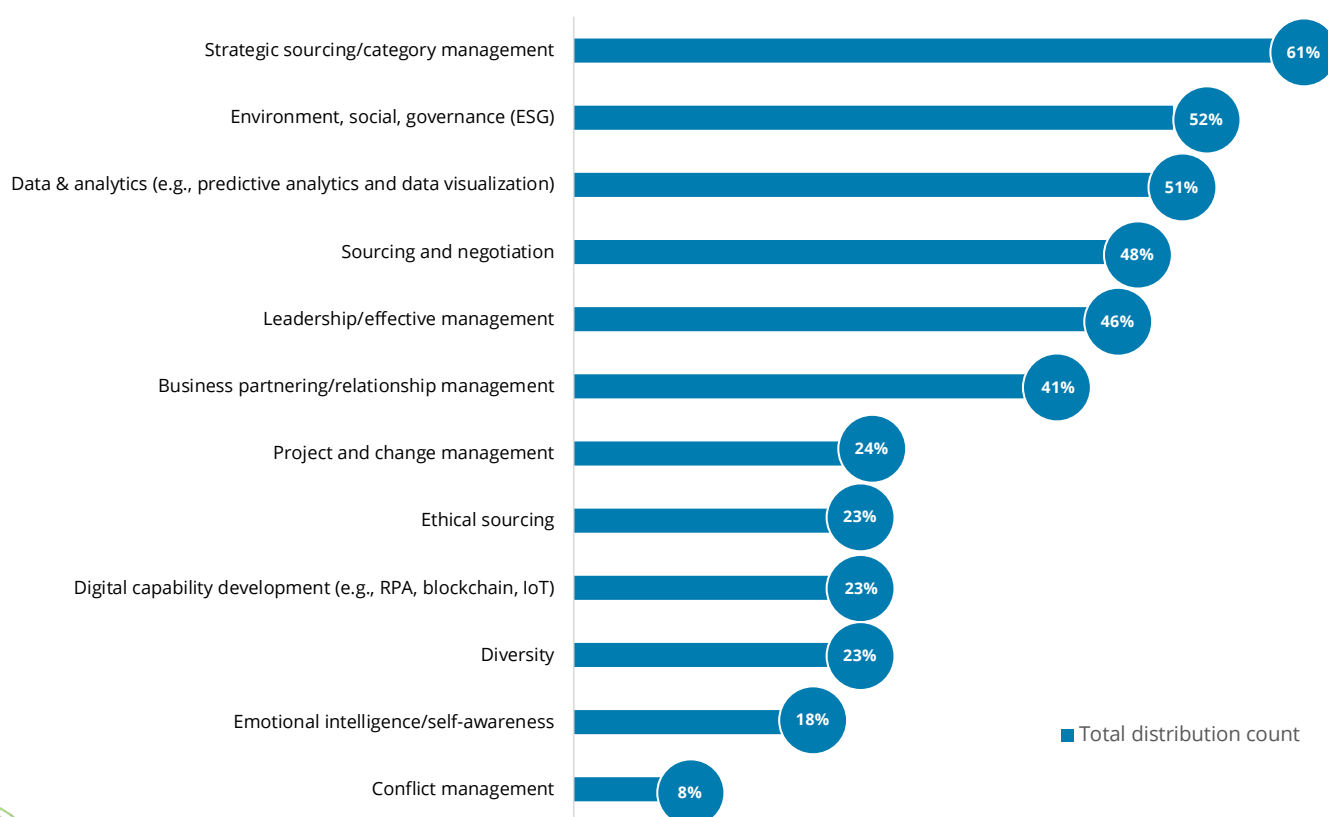
Top businesses are developing new methods to address worker motivation and productivity among the different work models⁹. These businesses coordinate management across functions, engage both internal and external talent, enable managers to succeed with thoughtful work allocation, and align their workforce approach with their business strategy¹⁰. Beyond “doing more with less (or in less time),” employees are coming out of a pandemic into a stressful recessionary environment of continued risk, persistent demand for cost optimization, and an overall migration back to increased levels of on-premise office work (interestingly, two-thirds of surveyed CPOs are planning to transition back to office-based work at least two to three days a week over the next 12–24 months). With many resources having moved during the pandemic or having reset their own expectations about what work they want to do, where, and how, this is potentially creating a recipe for employee fatigue, disengagement, and turnover. It is also likely a key reason why “resiliency” retains its No. 2 spot as a critical staff characteristic (behind “integrity” as the perennial No. 1). Going forward, CPOs will need to remain flexible and listen carefully to their employees’ evolving needs.

While resilience helps weather the storm, it’s not an aspirational characteristic like “passion” or “curiosity” (the next two desired traits). Firms hire for such attitudes and then train for the aptitude in “the business of procurement.” That transformation requires soft skills (leadership, business partnering, change management, etc.), digital skills (data/analytics—the largest skill gap cited by 42% of CPOs in 2023 versus 35% in 2021), and baseline knowledge and interest in emerging areas like ESG and corporate social responsibility (CSR) that are inspiring enterprise transformation. Developing and transforming an organization toward a skills-based approach would allow organizations to plan their workforce for the skills they need¹¹.



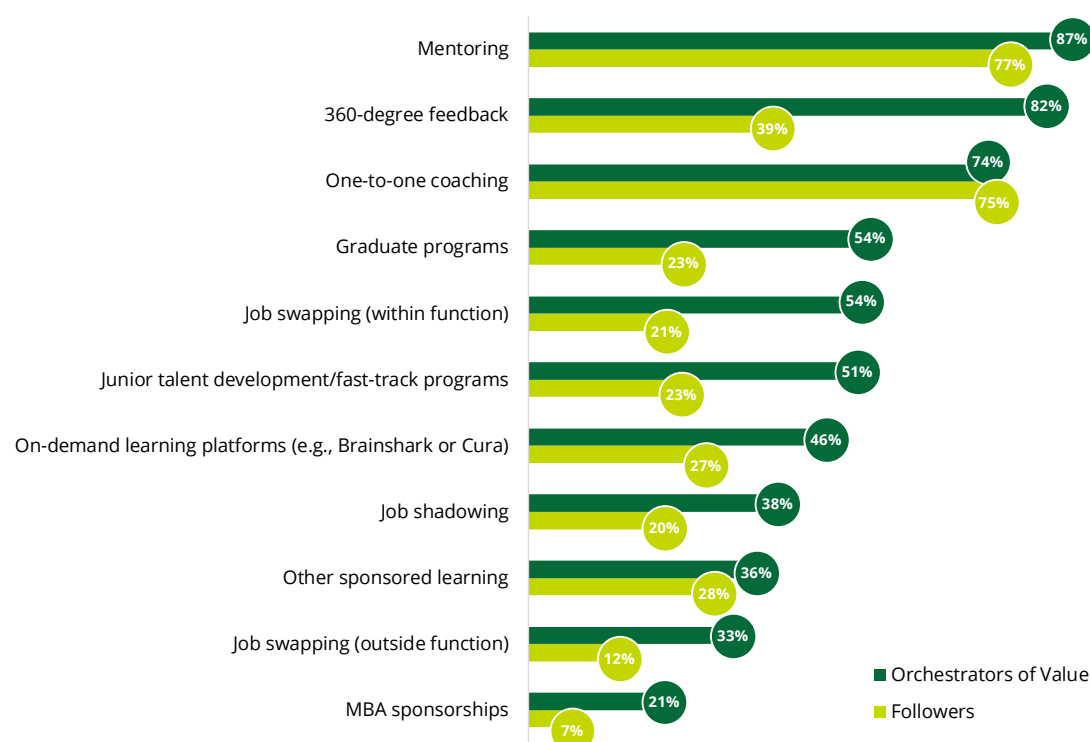
The good news is that most CPOs are planning to spend more of their budgets on training (figure 8). Although the digital skill gap is often front of mind these days, the primary focus of training is core sourcing and category management (62%) with digital-related training in data and analytics capabilities like advanced analytics (50%) and more advanced digital skills—for example, RPA and Internet of Things—(23%) playing supporting roles. Organizations with a skills-based approach are 107% more likely to place talent effectively, are 98% more likely to retain high performers, and have a reputation as a great place to grow and develop².

Figure 8. Talent development investment areas for 2023



The biggest takeaway on the talent side is the stark contrast between Orchestrators of Value and Followers when it comes to the talent development strategies they employ (figure 9). Knowing that talent is often hard to acquire, Orchestrators develop far more sophisticated talent programs that consider a much wider range of talent development techniques. Far from relying on mentoring and one-to-one coaching alone, they are twice as likely to employ a broader talent strategy inclusive of things such as 360-degree feedback, graduate programs, and job swapping. It's hardly surprising they find it easier to attract and retain the top talent!

Figure 9. Talent development approaches



DIGITIZATION MATURITY

Digital transformation is the third most cited enterprise issue driving procurement priorities, and although procurement doesn't typically influence the enterprise digital strategy itself, Orchestrators of Value are three times more likely to be involved than their peers. Regardless of the procurement function's direct influence on the enterprise digital strategy itself, Orchestrators are heavily affected by their own need to digitize procurement in fulfillment of the broader enterprise goals.

Nearly all CPOs understand the power of digitization, which is why digital transformation is the second most cited procurement strategy (behind supplier collaboration) and why 55% of Orchestrators of Value cite it as a "top 3" strategy (compared to just 36% of Followers). In fact, when asked how CPOs would spend additional budget, Followers said their first choice would be hiring more FTEs, but the Orchestrators, having already more fully implemented automation (with more than half having deployed or currently scaling RPA and other next-gen technologies), said they'd invest in analytics first and external intelligence second. FTE hiring and improving data quality tied for third place.

A strategy is critical, but core digitization and digital transformation are ultimately measured by execution—which is still a work in progress. Many CPOs we speak with either cite confusion and paralysis about where and how to get started, or worse still, they have tried and failed to yield the benefits of the promised land that digitization offers.

The performance (deployment vs. value delivered)

Which technologies are getting deployed, and more importantly, what's delivering the most value? Analytics and RPA are still at the top (figure 10), with analytics transcending descriptive business intelligence tools (e.g., for visualizations and dashboards) toward artificial intelligence/machine learning (AI/ML)-based predictive/prescriptive analytics. Orchestrators are applying these two technologies at roughly three times the rate of followers (and having fully deployed AI solutions at sixteen times times the rate of followers and RPA at ten times the rate of followers). The application rate is nearly five times higher when looking at intelligent contract extraction, which unpacks documents (e.g., contracts and invoices) into usable data.

Figure 10. Level of deployment of next-gen technologies vs. impact score



When looking into the biggest barriers to successful digitization, a lack of funding or budget is considered the second biggest digital barrier (data quality is still considered top, with poor integration dropping to third). Perhaps most worrying of all is that technology funding (measured as a percentage of total procurement budget) dropped from 13.2% in the 2021 study to 10.9% in 2023. The role that strong, capable procurement professionals can play in accurately defining the value proposition that technology is intended to solve for (fourth barrier) and the capability/capacity of the broader procurement team (eighth barrier) to understand and engage in these digitization programs in a meaningful way are key factors (perhaps much more so than is reflected in our results). Defining technology's value proposition, when done well, can help tackle the budget issues through stronger, more compelling business cases.

From better analytics to better decisions and outcomes

Analytics are core to procurement, but they ultimately serve to deliver better decisions and business outcomes. For example, spend discipline and value creation are critical in a downturn, hence 84% of CPOs cite spend/savings analytics as impactful. But given the current risk environment, 80% of CPOs cite enhancing risk management as a business priority, and supply risk analytics shot up to 51% (from 35% in 2021).

Although spend analysis is foundational, more sophisticated analytics are needed to model risk and total cost; when paired with more advanced supply network intelligence they can discover, predict, plan, capture, and protect supply value. This is where Orchestrators have developed more sophisticated analytics:

- Find the value (e.g., cost modeling, analytics-driven supply market intelligence, and predictive analytics)
- Capture the value (e.g., digitally measure compliance in real time against contracts and policy)
- Protect the value (e.g., supply risk analytics and compliance/fraud monitoring)



AI in procurement

Procurement has come a long way over the past decade, but developments in AI and the speed at which it is advancing are going to disrupt our lives in ways we cannot fathom yet. The way procurement is performed will not look the same 10 years from now; from basic process streamlining to driverless organization enablement, AI will help us make better, more data-driven decisions.

AI can take many forms, from pattern recognition to cognitive analytics to natural language processing, and we could write an entire report on each. For now, though, we are highlighting just a few examples to spark the imagination:

- | | |
|--|--------------------------------------|
| 1. Enhanced demand forecasting | 5. Invoice data extraction |
| 2. Global sourcing insights | 6. Contract authoring and management |
| 3. Spend classification and enrichment | 7. Risk sensing |
| 4. Automated ordering | 8. Automated compliance monitoring |

Perhaps none of the above will be more impactful in the near term than advanced analytics. By ingesting and analyzing vast amounts of data, AI tools can help procurement professionals identify trends and patterns that are otherwise impossible to tease out, thereby enabling more informed decisions from supplier selection to contract negotiation. With the help of AI, procurement professionals can proactively identify and mitigate potential risks through real-time updates about suppliers, purchase orders, inventory, weather forecasts, contract terms, and volume discounts. AI can also automate workflows in processes such as order processing, invoicing, and contract management. This can improve responsiveness for stakeholders, improve processing quality and accuracy, and free up the procurement team for more strategic stakeholder and supplier relationship management activities. AI has the potential to make procurement faster, more efficient, and more data driven.



Technology architecture

In terms of the S2P application strategy, there is no single optimal application architecture because generally there is a mix of an ERP “backbone” and some form of best-of-breed applications that can be suites and/or point applications. That said, Orchestrators of Value will tend to favor best-of-breed suites over ERP suites and best-of-breed applications unified by centralized integration utilizing APIs. Orchestrators, however, don’t just deploy these apps and technologies at roughly twice the levels of their peers by magic; they bring together strategies, technologies, and transformation support. In terms of strategy and transformation, the most important enablers of digital procurement transformation are a clear digital strategy framed holistically beyond just process automation, standardization of processes and data (i.e., don’t just automate current complexities), and adequate support and resources, such as dedicated teams, IT support, and investment in change management.

KEY USE CASES

To make “orchestration” more concrete, consider the following processes and use cases:

1

Active/strategic stakeholder engagement beyond tactical “intake management”

Although a simplified CRM-like user experience for requisitioners and budget owners is important, Orchestrators of Value are not sitting back and waiting for late-stage requests. They’re engaging stakeholders across numerous channels early and deeply to anticipate, predict, and shape demand (e.g., spend planning during financial and integrated business planning) and then intelligently guide users and/or autonomously execute the process. The future is about leveraging flexible operating models and resources to push increasingly more responsibilities, guidance, and supporting AI enablement (e.g., smart chatbots) to their stakeholders but also using outside-in intelligence to actively fine-tune the processes. According to the Winter 2023 Fortune/ Deloitte CEO Survey, CEOs also view AI technology effectively as a platform for advanced predictive analytics¹³. Technology is pivotal here to digitize this upfront personalized business interaction, workflow management, automated triaging and dispositioning, process guidance (e.g., via internal/external specialized teams/CoEs), and straight-through autonomous process orchestration for different types of work: end-user “shopping,” quick sourcing, strategic sourcing, risk identification, contract requests (e.g., SOWs from an MSA), contractor onboarding, supplier audits, new employee setups, etc.

2

Ruthless automation of P2P and supply chain execution

It's imperative to continue the ruthless automation of P2P and supply chain execution supporting an autonomous “driverless organization” (e.g., a driverless car). Procurement simply can’t scale and focus on strategic activities while mired in transactional processes. This is likely why Orchestrators of Value want to reduce the 24% allocation of their time spent on transactional tasks down to 11%. They will do this with intelligent process mining/design and adoption (fully deployed or scaling) of RPA technology (including API-based integration) at three times the rate of their peers and through broader next-gen technologies to achieve more than 80% higher adoption in e-procurement and almost 70% in invoice-to-pay. They’re attacking all aspects of this area: stakeholder self-service, supplier adoption, data quality, AI/ML-based functionality (e.g., intelligent invoice capture/validation), and emerging areas such as low-code and others.

3

Category management as the core engine to scaling processes

Category management as the core engine to scaling processes that actively and digitally design and execute processes from category strategy into sourcing, contract/commercial management, supplier management, risk/compliance management, and P2P processes (and systems and governance) where the execution actually occurs. Category managers can no longer just develop or purchase sourcing strategies and put them in a binder or presentation. They need to model and materialize them into various processes and systems that stakeholders can understand, own, and comply with. Ultimately, they need to deliver commercially and more broadly enable the business to interact with suppliers and extract the value they need (e.g., speed to market, process efficiency, responsiveness, innovation, quality). Next-gen category management professionals will be value hunters: dynamic, tenacious, resilient, sophisticated at connecting the dots, creative, persuasive, and endlessly curious. They will be supported by analytics experts (data scientists) and deep category and market experts (on demand), as well as digitally enabled with the latest knowledge bases and capabilities.

4

AI-enabled supplier management and enablement layer

This is the No. 1 procurement strategy to unlock value in 2023 and beyond! It includes support for supplier information/transparency management, supplier performance (e.g., delivery, quality, cost), supplier risk/compliance (e.g., for ESG requirements and regulations, including data protection), supplier collaboration (including supplier innovation, design collaboration, supply chain planning collaboration), and other supplier-facing “omnichannel” engagement and automation (e.g., projects, workflows, personalized dashboards, alerts, self-service) that are analogous to modern CRM practices and platforms. And it needs to connect with sourcing, contracts, category management, and various enterprise-level third-party vendor management processes. This area is clearly challenging and will be very active, with 80% to 85% of all companies surveyed planning to enhance their supplier relationship management (SRM) capabilities in an area likely poised to be as foundational as strategic sourcing.

5

Supply chain risk management for more granular intelligence to orchestrate supplier risk and compliance workflows

Supplier risk and compliance monitoring is extremely challenging to orchestrate because of risk types (and associated data sources and methods) that are driven by category/supplier requirements, which, in turn, drive workflows, data collection, analysis/prediction, playbooks, alerting, and recovery activities. Orchestrators of Value already have 35% higher levels of supplier information sharing and collaboration and 58% higher enablement of multi-tier supply chain visibility compared to Followers. This gives them 43% higher visibility at the tier-1 supplier level (76% versus 53%) and 130% higher visibility at tier 2 (40% versus 17%). Even so, they are planning to deepen their supply intelligence into the supply tiers to help them better predict supply risk, even though 65% of Orchestrators claim they can already do so to a large extent (versus 14% of Followers). Collecting, calculating, and predicting deeper supply risk insights can be woven into higher-level monitoring and reporting processes but also fed in line to sourcing processes where 75% of Orchestrators of Value use supplier risk scoring as a core part of supplier sourcing (versus only 35% of Followers). This same process of external data-driven workflows also exists in the regulatory compliance realms (e.g., ESG) based on supplier types and the regulations that are targeted for compliance. Bringing this together is the quintessential use case for orchestration.

6

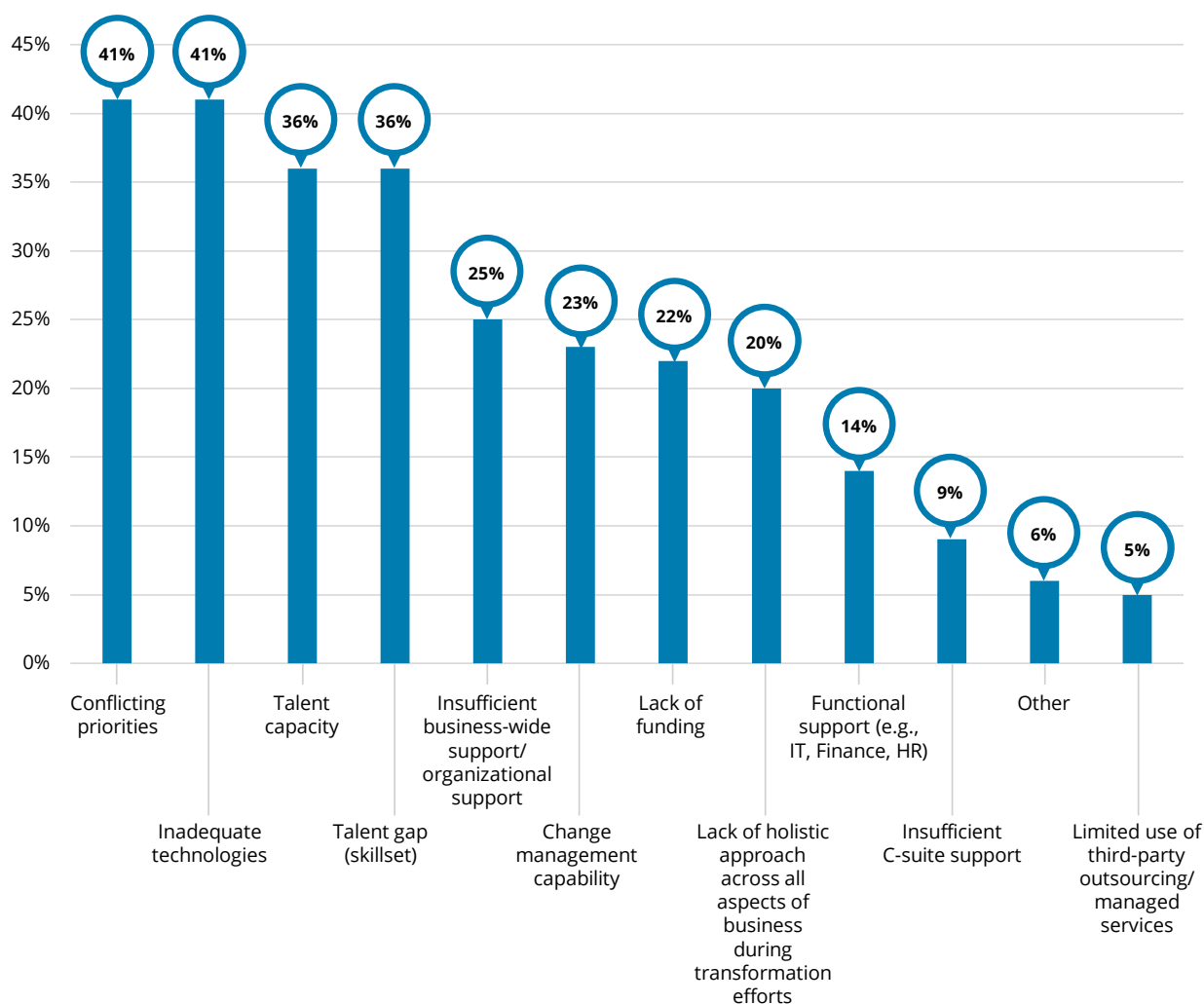
Data-driven performance management and transformation

Data-driven performance management and transformation processes and tools that employ advanced analytics (and underlying data pipelines and tools) to continuously feed an expanding set of opportunity analytics that surface value/risk opportunities (including automated benchmarking), prioritize opportunities (outside of procurement only), formalize projects (and refine priorities), set KPIs/targets, plan resources, and orchestrate the implementation and tracking/adjustment of results. This capability applies predictive and prescriptive analytics using AI/ML to act on outside-in intelligence (e.g., from market intelligence data sources, supply chain risk control towers, suppliers, and/or niche content/service providers) and internal systems. This market-informed, closed-loop performance management system not only integrates with corporate enterprise performance management processes and systems but also supports CoE groups that actively support and enhance this strategic competency.

MAKING IT HAPPEN: PROCUREMENT TRANSFORMATION

When considering each of the core factors that enable a leading procurement function (Orchestrator of Value) in terms of operating model configuration, investment in talent, and a more aggressive approach to digitization, you cannot fail to address the need to lead the transformation itself. Change is never easy, and there are many barriers to improvement whether they be conflicting priorities (No. 1) and inadequate technology (No. 2), talent capacity and capability (Nos. 3 and 4), or insufficient support, lack of funding, poor organization alignment, or general lack of change management capability. There are clearly many areas for CPOs to focus on getting right (figure 11).

Figure 11. Biggest barriers to improvement (select top 3)



Achieving successful change requires a holistic approach to transformation program design and execution wherein all key operating model layers are considered. Use of “adoption measures” helps to understand likely adoption success. We typically focus on four “requirements” of change adoption (compelling vision, broad engagement, clear impacts, and reinforced expectations; figure 12). Measures, tied to specific tangible and necessary outcomes for the change to be successfully realized, are used to assess the extent to which change is being actively managed. When these requirements are met, transformations have far greater degrees of success.

Figure 12. Change adoption measures

		Adoption metrics 			
Change metrics	 Compelling vision	Clear program objectives	Compelling business case	Attractive future-state outcomes	Clear long-term road map
	 Broad engagement	Transparent and inclusive program team	Regular involvement of key stakeholders	Sufficient flow of program information	Two-way feedback channels in place
	 Clear impacts	Changes to the organization defined/understood	Changes to technology understood	Changes to individual roles understood	New skill requirements understood
	 Reinforced expectations	Visible support by executive team	Clear path to individual program compliance	Expectations reinforced by local leaders	Performance management implications for non-compliance

Ultimately CPOs need to own their own destiny and that of their teams. They need to set ambitious but obtainable goals, work across the aisle with leaders and teams in peer functions (i.e., seek allies), and carefully curate and manage expectations of leadership. If ripping off the bandage is less appealing, transformation can be done in stages, and a modular approach to addressing underlying issues can be taken with less risk, although it will obviously take longer. What is clear, though, is that the time to keep your head down and wait for the storm to pass is long gone.

Protecting value

The external market landscape continues to evolve rapidly. It seems like only yesterday we were trapped in our homes by the global COVID-19 pandemic, yet since then, it's hard to imagine all the events that have taken place and had an impact on the global economy. Supply chain more broadly has never been a more talked about subject, and as a colleague recently joked, "Even my parents are starting to understand what I do."

CPOs have definitively indicated that risk is here to stay, as evidenced by the greater than 70% in our survey who indicated that procurement-related risk/supply chain disruption has increased in the past 12 months on top of an already elevated baseline. Overall procurement and supply-related risks have continued to increase. To understand that trend, in the 2023 study, 43% of CPOs cited overall procurement risk had *increased significantly* as compared to 20% in the 2021 study.

Procurement clearly plays a big role in helping address the top risks and issues faced by most businesses; perhaps arguably it is best trained for addressing and mitigating inflationary pressures (No. 1 cited risk in 2023, and the top disrupter for CEOs in 2023)¹⁴. Recessionary fears and increased demand by customers and regulators (especially related to ESG and the International Organization for Standardization) also prevail—areas that many are still working out how to support and drive impact against. Unpacking all this reveals substantial adverse supply risk issues:

Cost/spend risk (inflation) (91%) and supply shortages (81%) were the top two issues that had high or moderate impact over the past 12 months, as cited by firms (figure 13). Expedited freight costs and inventory imbalances (like stockouts or too much inventory) also had a moderate or high impact, cited by 60% and 43% of firms respectively.

Inflation risk is expected to continue and has surged to a "top 3" risk over the next 14 months¹⁵, with more than half of CPOs citing this in the 2023 survey (figure 14), up from just 4% in 2021, and it's complex and multilayered. Inflation is far from just a price increase issue; it also impacts the cost of working capital and even draws into focus suppliers' banking choices. Of surveyed CPOs, 37% cite geopolitical concerns and 35% economic downturn (both of which harm buyers and sellers alike). These concerns, in turn, contribute to 35% of CPOs citing worries over supplier resiliency/supply continuity. Given the high-interest-rate environment, we expect an increase in supplier bankruptcies in the near future (cited by 18% of CPOs as having a moderate or high impact).

Only 25% of firms said that they could identify and predict supply disruptions in a timely manner "to a large extent" (63% "to some extent"), which is essentially unchanged since 2021. This may, in part, be because the focus has been more on overall resilience versus working to understand specific potential causes and their related impacts. This more general focus on assurance of supply is a positive step but may leave some exposure to more systemic challenges ahead (e.g., impacts of AI). Regardless, it shows there is clearly still more work to do here for everyone.

Supplier-related compliance was also cited as having a moderate or high impact (40% related to contract compliance failures and 25% for broader supplier noncompliance).

Considering all the above, it seems logical that risk should be core to supplier selection, or at least that's what you might expect. However, where 83% of Orchestrators consider risk as "core," only 30% of Followers agree. More than half (53%) of Followers thought it was only "somewhat important." The good news is that 83% of CPOs we surveyed are planning to enhance foundational capabilities such as supplier performance/relationship management, with 51% focusing on supply market intelligence. Only 28% are performing multi-tier supply chain illumination, evident by the fact that only about 2% of firms stated they had "high visibility" beyond tier one.

Beyond managing and mitigating near-term or more known market risks and issues is identifying and estimating what might happen in the future: scenario planning. Many CPOs (as well as C-suites and boards) are asking how another potential international conflict might affect them¹⁶. How much of their supply chain is tied to the region? What materials might be affected? What strategies might they deploy? CPOs need to be ready and engaged in active risks and issues now, but they also may want to think proactively through future scenarios. Ask yourself now, how well are you positioned?

Potential risks can also arise within the firm:

- **The loss of critical talent was the top internal issue**, with 47% of CPOs citing it as a high or moderate impact (and 41% projecting that it will be among the top four risks over the next 12 months, within one percentage point of third-ranked supplier resiliency/supply continuity).
- Internal complexity (e.g., organizational silos or non-standard processes) was cited by more than 32% of CPOs as a "top 3" issue, which is high compared to all the external risks, and highlights the possibility of internal value destruction, but also the risk of being distracted by the small stuff while larger risks loom unattended.

Figure 13. Top issue impacts in the past 12 months

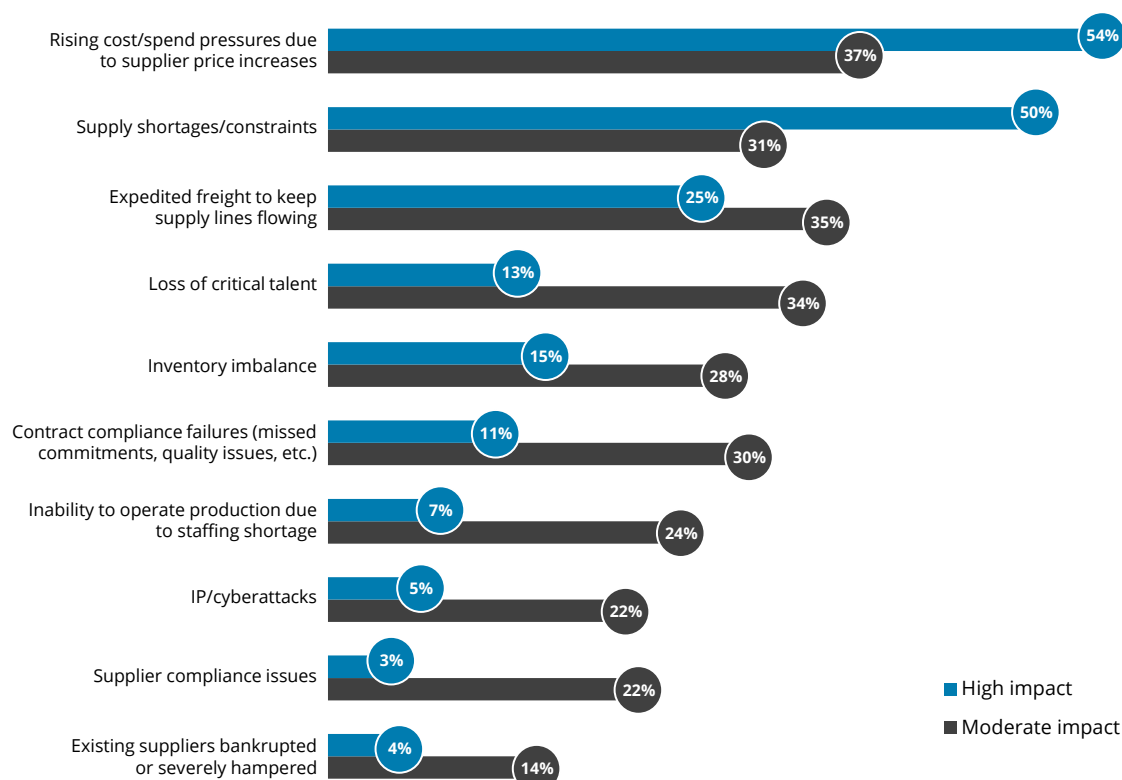
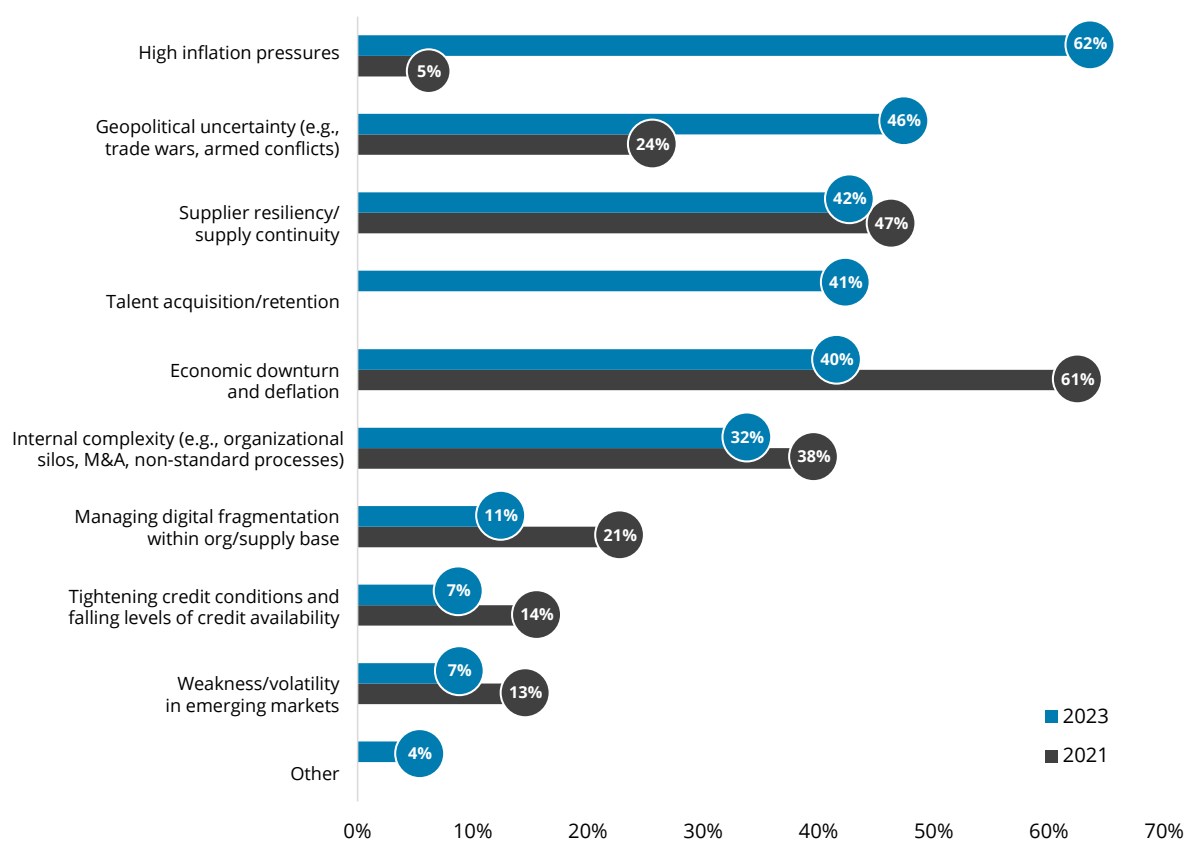
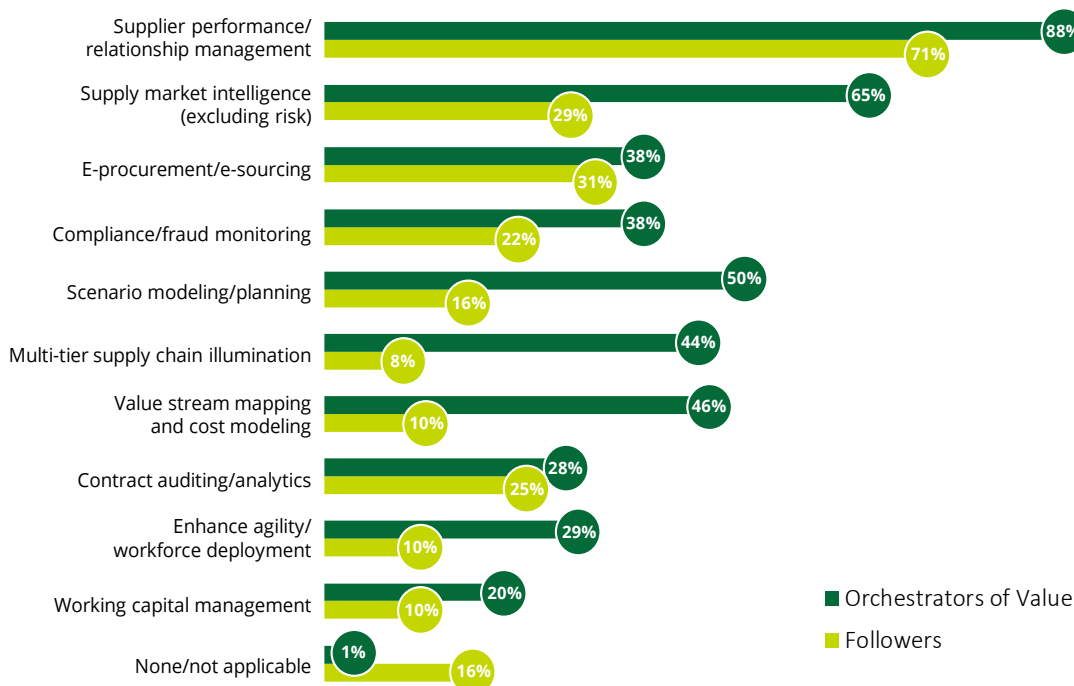


Figure 14. Top risk scenarios presenting the greatest risk



In terms of building longer-term resiliency, we see Orchestrators of Value as being far more proactive. They plan to enhance several key resiliency capabilities at far higher rates than Followers:

Figure 15. Supplier resiliency building investment focus



These capabilities give Orchestrators a competitive advantage to build transparency, prepare for what might occur, and develop the agility to pivot far more quickly and effectively as circumstances evolve.

Beyond supply risk, other enterprise risk and compliance requirements (i.e., GRC) must be governed and managed; the compliance aspect of supply management is clearly front of mind for CPOs related to supporting environmental and social requirements vis-à-vis ESG regulatory support. The world is getting more heated, volatile, complex, bifurcated, regulated, and supply constrained (and expensive).

The great news is that many procurement organizations are rushing to help address these issues—not only to help mitigate supply risks and fight inflation risk, but also to respond to new requirements such as ESG, now the second-leading enterprise priority to address, just behind operational efficiency, with more than 80% of CPOs citing these two priorities. ESG is the top area where procurement plays an active influential role in decision-making (85% of firms), with corporate risk management and FP&A next (roughly 70%)¹⁷. Given the role suppliers play across these topics, it's hardly surprising that supplier collaboration is the top value-enabling strategy for CPOs, and those not prioritizing focus there may want to revisit how they can further enhance that capability and think proactively about how to shape demand to further minimize the risk profile (third priority) by revisiting their overall global sourcing strategy to influence product design choices and qualify alternate materials and suppliers.

Environmental, social, and governance (ESG)

ESG support is a critical C-suite issue for CPOs to support and one they should arguably be using to their advantage. It includes renewing ways to engage and collaborate with suppliers to balance cost, resiliency, ESG, and other factors. ESG is focused on planet and people, while cost savings are focused clearly on financial profit. When done well, this investment in a supplier base can help reshape the economics of a category and improve the long-term resilience, as well as cost basis, for whatever is being bought. Yes, there are short-term trade-offs, but they're in service to a longer-term cost goal.

As financial regulatory frameworks and standards are emerging to help quantify environment-related science-based metrics and targets, regulatory pressures in the United States and globally are forcing companies to look at ESG from a variety of lenses. Upcoming SEC rulings, existing EU regulations on emissions, and regulations on upstream value chain human rights must be addressed. Procurement's role in delivering value here can mean something as narrow as baseline compliance to the regulations, but it can also mean many other things, including identifying more carbon-efficient suppliers; improving supplier base resilience by understanding tier-n supply chain and the "hidden" risks to surety of supply; and creating industry consortia to drive innovation and bend the long-term cost curve for components and products. It is far from a simple compliance exercise nor is it something that is inherently at odds with cost—that is, if you view sustainability as "always more expensive," then your organization may be too narrowly focused on short-term value instead of long-term value.

Adopting a value focus is well suited to procurement's approach of using enterprise strategies to help spur supply-side transformation initiatives—in this case, surrounding supplier collaboration (63% of firms cited collaboration with the supplier base on ESG initiatives) and spend categories such as direct materials, transportation, energy/utilities, facilities, real estate, travel, fleet. CPOs must be proactive. All commercial firms measure financial profit, but 40% of CPOs stated their procurement organizations don't define or measure their own set of relevant ESG factors, even though 60% do measure suppliers on sustainability at some level. CPOs should always over-communicate to their CSOs and board members as such, given that only [46% of CSOs](#) require suppliers to meet specific ESG criteria¹⁸.

Knowing what and how to measure is a great start. From an emissions standpoint, that's the purpose of the GHG Protocol, which provides very specific guidance and guardrails on how to measure CO₂e and are the de facto "standards" for emissions. More broadly, there are measurements of ESG footprint from many ratings agencies, such as MSCI, EcoVadis, and many others, and you can often find subsector/product-specific organizations that will certify things like deforestation-free palm oil, sustainable fishery practices, and many more.

In terms of the "social" aspect of ESG, one key focus has been supplier diversity, equity, and inclusion (DEI) beyond the purely internal focus and looking at diversity within and across the supplier base (e.g., women or minority-owned businesses), which is a big reason why regulatory and geopolitical compliance is the top CPO-cited area to which procurement is contributing in the broader ESG topic. Also, important to note here is that regulations around DEI and supplier diversity are different across nations (e.g., how the United States defines a "diverse supplier" is different from how it is defined in Europe, and some countries do not define this concept at all). The difference in these regulations is one of the drivers of why supplier diversity is a US-centric regulatory focus (and/or customer-mandated) area. This is clearly evidenced in the fact that only 14% of CPOs surveyed in the Americas have yet to define what diversity means to them (and their procurement organizations), but this figure is 40% for surveyed European firms. Conversely, nearly a third of US firms (31%) don't participate in any ESG-related reporting initiatives (versus 17% of European firms).

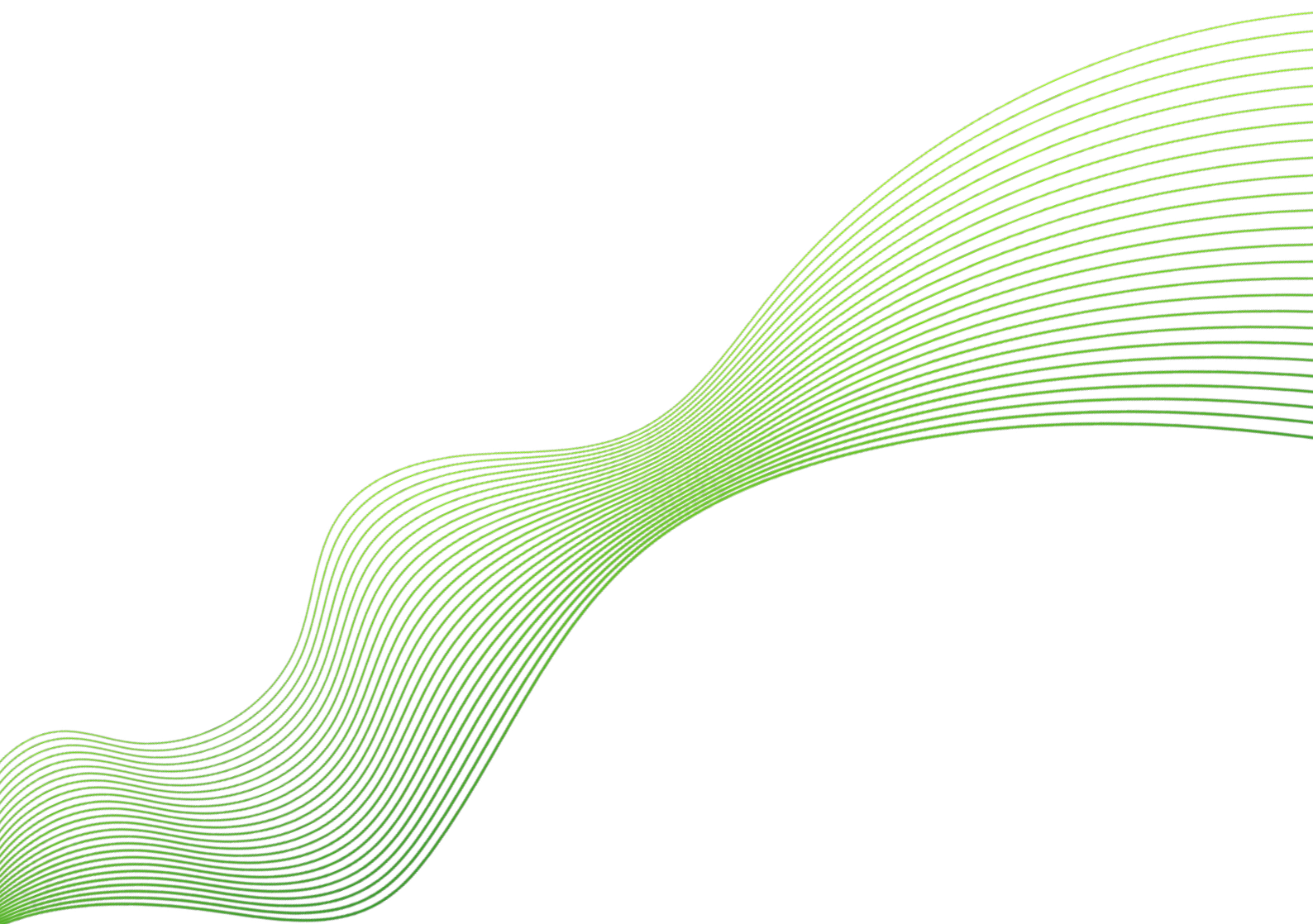


Cross-functional ESG touchpoints for CPOs to align with peers and the C-suite using Deloitte research and insights

- ESG insights CFOs are reading: 33% of CFOs don't have sustainability metrics, but 71% aspire to "translate sustainability into monetary terms."¹⁹
- ESG insights CSOs are reading: 46% of 2,000 polled firms are "requiring suppliers and business partners to meet specific sustainability criteria."²⁰
- ESG insights regarding talent:
 - A Deloitte study found that two in three millennials would quit their job if they don't find fulfillment or if they sense that their current job has no ambition beyond profit²¹.
 - According to [The Deloitte Global 2022 Gen Z & Millennial Survey](#), more than 36% of these workers have rejected a job or assignment because it didn't align with their values. Nearly half say they've put pressure on their employer to act on climate.²²
 - A full 62% of chief experience officers told Deloitte they were just as focused on positively giving back as on increasing profits²³.

The big procurement focus seems to be on sustainability related to reducing emissions and waste: 62% of CPOs are targeting climate mitigation, but 72% are attacking waste reduction and material circularity that can help reduce costs and respond to market demand. The top reporting initiatives being pursued are as follows: [GRI](#) (41%), [SBTi](#) (41%), [CDP](#) (35%), [GHG Protocol](#) (23%), and others. 73% of firms with net-zero commitments target Scopes 1 and 2, with 44% also targeting Scope 3 GHG emissions.

It's early days in terms of estimating, tracking, and reducing GHG emissions, as well as broader ESG support in general related to some long-range goals. However, organizations are increasingly committed to ESG, including financial commitments where nearly 28% of Orchestrators of Value say they're willing to spend more than 3% of their budgets on ESG over the next 12–24 months. Meanwhile, only 7% of Followers are willing to spend more than 3% of budgets on ESG over the same period. From discussions we have been having, these projected budgets suggest much of funding is on areas such as assessments, developing visibility and reporting platforms, creating supplier investment funds and consortia, and incorporating ESG into core people, process, and consulting/transformation support.



Looking forward

Looking forward, we anticipate the global business environment will continue to be volatile, uncertain, complex, and ambiguous. Development of operating models, investment in and access to the necessary talent, and enablement of digital capabilities to aid decision-making and execution will likely differentiate those who win from everyone else. We anticipate the performance and capability gaps will grow between procurement organizations that can proactively manage this current inflection point and make the necessary investment in transformation and those that don't. To help you think through where you are and what you might do next, we have developed a list of questions to help facilitate your thinking:

- 1 How are you working to standardize the work (processes and systems)?
- 2 What are your talent needs and gaps, what specialism are you missing, and how might you increase your leverage on hybrid talent models to access critical skills and capacity on demand?
- 3 How might an operating model transformation to increase centralization of transactional work and key CoE-based capabilities (e.g., analytics) benefit you?
- 4 How are you investing in your in-house talent development programs and expanding the use of a broader range of talent development strategies?
- 5 Have you enabled CLM integration across the S2C life cycle, and if so, how might that benefit you from the perspectives of speed, efficiency, quality, compliance, and risk management?
- 6 What are your SRM plans (hint: think CRM), and how might you build greater trust and benefit from sharing information with key suppliers and platform-based workflow management tools?
- 7 How do you manage workload intake and triaging (when and how), considering fit-for-purpose workflow solutions, single entry point, and user personas to inform design?
- 8 Do you have a strong data strategy (tied to a value you are targeting), and are you leveraging this to inform your technology road map or vice versa?
- 9 How can you enhance analytics and AI/ML enablement to enhance workforce efficiency and effectiveness? Consider defining two to three strong digital use cases (start small, act fast, think big).
- 10 What is your ESG program today? Do you have the transparency you need, and is it ambitious enough?



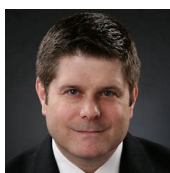
Addressing these questions won't be easy, especially in change-weary organizations. However, pushing through the transformation barriers requires ever-increasing levels of complex orchestration, and the result is a return-on-investment focus that sings to business leadership and helps put you in a position to have a fighting chance at meeting the individual expectations of leaders and peer functions (including third-party partners). Furthermore, it involves positioning procurement as a leader in the organization to *collectively* orchestrate and improve value delivery with a more intentionally designed fit-for-purpose operating model.

We have seen and heard from hundreds of CPOs about the great achievements of the past 12 months (centered on transformation, better understanding their organizations, and enhancing supplier engagement), especially noteworthy given the context and challenges that they and their teams have faced. They are acutely aware the journey ahead will not be easy and are kept up at night by the need to address resource issues, enhance visibility into markets and operations, and generally monitor and prepare for a myriad of potential world events. CPOs, though, are generally a hardy stock; with glasses half full, they are, more often than not, excited by the opportunity that volatility can bring and are energized by the prospect of meaningfully contributing to the ESG agenda, expanding procurement's sphere of influence, and driving change for the better. There has clearly never been a better time to be a procurement professional, and what we all choose to do next will likely shape the future of the profession for many years to come!

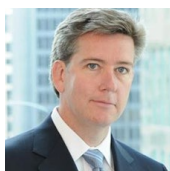
Authors:

**Aaron Addicoat**

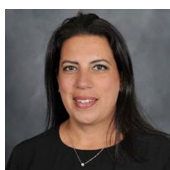
Senior Manager
Deloitte Consulting LLP
aaaddicoat@deloitte.com

**Ryan Flynn**

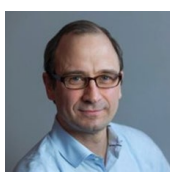
Principal
Supply Chain & Network Operations
Deloitte Consulting LLP
rpflynn@deloitte.com

**Jim Kilpatrick**

Partner
Supply Chain & Network Operations
Deloitte Canada
jimkilpatrick@deloitte.ca

**Jen Brown**

Principal
Supply Chain & Network Operations
Deloitte Consulting LLP
jennibrown@deloitte.com

**Pierre Mitchell**

Spend Matters
pierre@spendmatters.com

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