THE BEST RUN SAP

# Procurement-powered performance

## How digital transformation is elevating Procurement

Agile Procurement Insights Research by SAP

in collaboration with OXFORD ECONOMICS

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# Executive summary

**What got you here won't get you there.**

Many organizations struggle with managing their suppliers — the foundation of Procurement. From lackluster collaboration with suppliers, to supplier performance issues, to poor visibility, there is much room to improve. **The disruption in 2020 served only to exacerbate these challenges.**

We wanted to see whether organizations are positioned to be agile and pivot quickly in this complex, highly dynamic business environment. We collaborated with Oxford Economics to understand Procurement's influence on the organization, the current state of supplier collaboration, and the impact of technology and process digitization on the procurement function. Our robust survey encompassed 1,000 procurement and supply chain executives across 14 industries and 23 countries.

**The results are in, and they make for interesting reading. For starters:**

- **Organizations have had mixed success in process automation.**
  Nearly 4 in 10 (37%) executives say that most/all of their procurement processes are manual.
- **Organizations are not making enough use of data and analytics.**
  Only about half (54%) of executives say their procurement technologies enable them to make data-driven decisions about spend across the organization.
- **Many companies have been slow to adopt AI.**
  Only half (51%) of executives use machine learning/AI-based analytics technologies to analyze data for decision-making.

We identified a group of leaders — around 10% of executives — who outshine other respondents.

**Leaders are much more advanced in their procurement digital transformation, and their investments are paying off. They achieve much stronger business benefits and avoid many common procurement issues.**

**What's the secret to leaders' success? They:**

1. **Embrace data and analytics:** Leaders make greater use of data and analytics to inform spend decisions across the organization and influence the business. 70% of leaders (vs just 17% of others) can gain a clear view of overall spend automatically, in real time.
2. **Unlock the power of AI:** Leaders are making substantial investments in AI/machine learning. 99% of leaders (vs just 45% of other execs) use machine learning/AI-based analytics technologies to analyze data for decision-making.
3. **Drive adoption:** Leaders have greater success in driving adoption of new procurement processes and technologies. Only 16% of leaders (vs 44% of other execs) say low adoption of new procurement processes and technologies across the organization is a barrier to digital transformation of their procurement function.

**70% leaders**

**vs**

**17% others**

**can gain a clear view of overall spend automatically, in real time**

**99% leaders**

**vs**

**45% others**

**use machine learning AI-based analytics technologies to analyze data for decision-making**

Despite their impressive results, leaders aren't perfect. Read on to learn more about how they outshine others and where they need to improve.

# Change is constant.

Companies must be agile and ready for the unexpected.

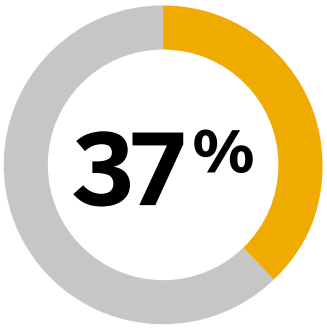
**How prepared is Procurement to navigate this dynamic business environment?**

Introduction

# The imperative for procurement digital transformation

The events of 2020 turned business as usual on its head. We have now entered a new era, which author and thought leader Peter Hinssen calls the "never normal."

**Business leaders must prepare for further disruption** — not just from the COVID-19 pandemic, but also from geopolitical forces, extreme weather events and other factors impacting organizations. Change is constant, and companies must be agile and ready for the unexpected.




**of executives say that most or all of their procurement processes are manual**

## Are procurement organizations prepared to navigate this uncertain business environment?

To answer this question and more, we conducted robust global research in collaboration with Oxford Economics. Our research sought to understand Procurement's influence on the organization, the current state of supplier collaboration, and the impact of technology and process digitization on the procurement function.

## Challenges in procurement digital transformation

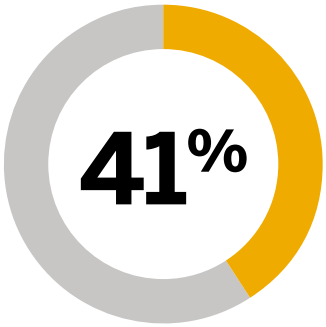
Our research revealed that organizations face several challenges on the path to procurement digital transformation.

For starters, **organizations have had mixed success in process automation.** 37% of executives say that most or all of their procurement processes are manual. This reduces operational efficiency and business resiliency.

**Organizations are not making enough use of data and analytics.** Only 54% of executives say their procurement technologies enable them to make data-driven decisions about spend across the organization. Less than half (48%) of executives say their procurement technologies enable them to perform scenario modeling and what-if analysis with near-real-time or real-time data.

**Many companies have been slow to adopt AI. Only 52% of companies have invested "significantly" (17%) or "moderately" (35%) in AI/machine learning for the procurement function.** Only 51% of executives use machine learning/AI-based analytics technologies to analyze data for decision-making.

When organizations have implemented new technologies, adoption has not always been widespread. **Four out of ten (41%) executives say low adoption of new processes and technologies within the procurement function is a barrier to digital transformation of their procurement function**.



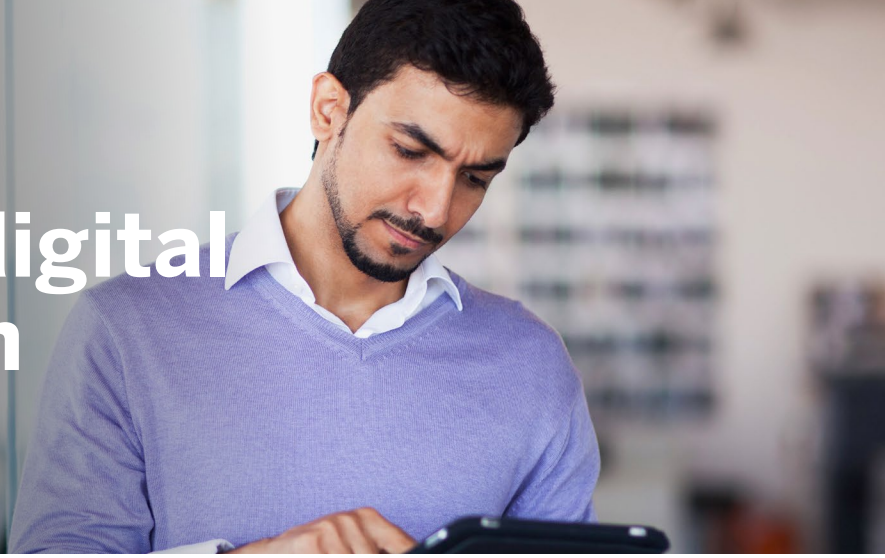

**of executives say low adoption of new processes and technologies within the procurement function is a barrier to digital transformation of their procurement function**

**If Procurement isn't fully using its own processes and technologies, how can the rest of the organization be expected to?**

Further, 42% of executives say low adoption of new processes and technologies **across the organization** is a barrier to digital transformation of their procurement function.

However, a group of organizations — about 10% — are rising above these challenges. **These leaders are further ahead in their procurement digital transformation and realize stronger business results.** Let's take a closer look at leaders' success and see what we can learn from them.

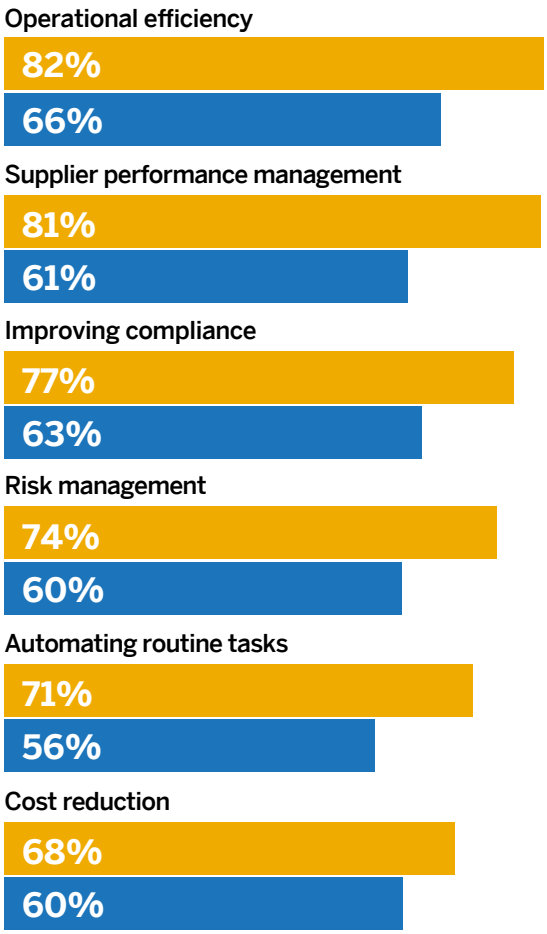
# Procurement digital transformation pays off



Leaders are achieving greater benefits from procurement digital transformation including operational efficiencies, stronger compliance and improved risk management.

### Fig. 1: Leaders achieve real ROI on their technology investments

**Percentage of executives who say digital transformation of their procurement function has generated a "moderate" or "significant" improvement in the following areas**




**71% leaders**

**vs**

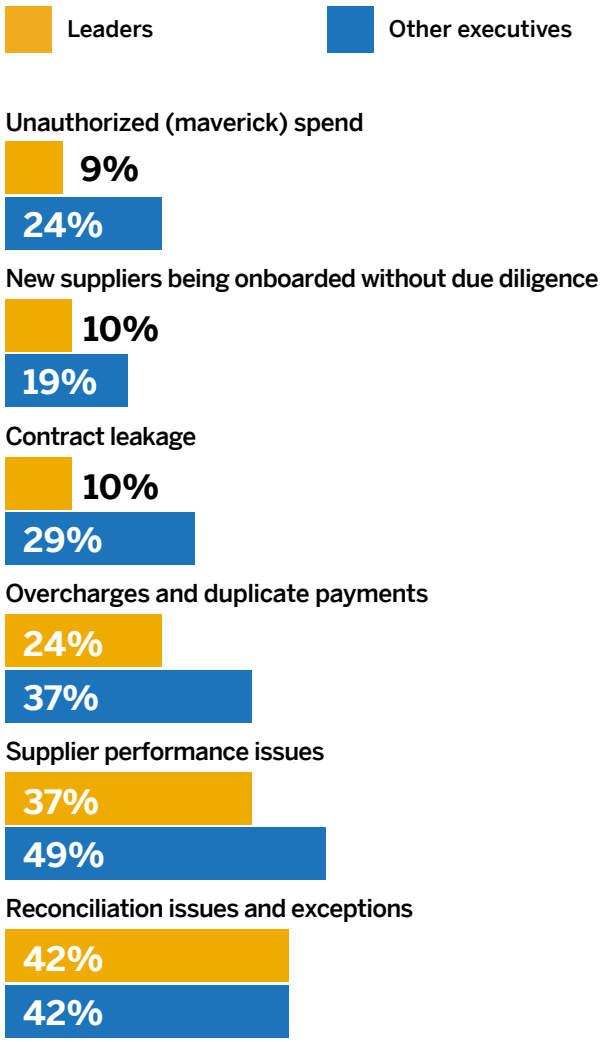
**56% others**

**say digital transformation of Procurement has improved automation of routine tasks**

What's more, leaders' investments in technology help them reduce common procurement issues, such as maverick spend and contract leakage. However, even leaders have work to do. For example, they struggle with reconciliation issues and exceptions as much as other companies.

## Fig. 2: Leaders experience fewer issues

**Percentage of executives who "sometimes" or "frequently" experience the following issues**




**9% leaders**

**vs**

**24% others**

**experience maverick spend**

**24% leaders**

**vs**

**37% others**

**experience overcharges and duplicate payments**

# Leaders' success is driven by 3 key actions

How do leaders achieve such impressive results? By taking three key actions to advance their procurement digital transformation:

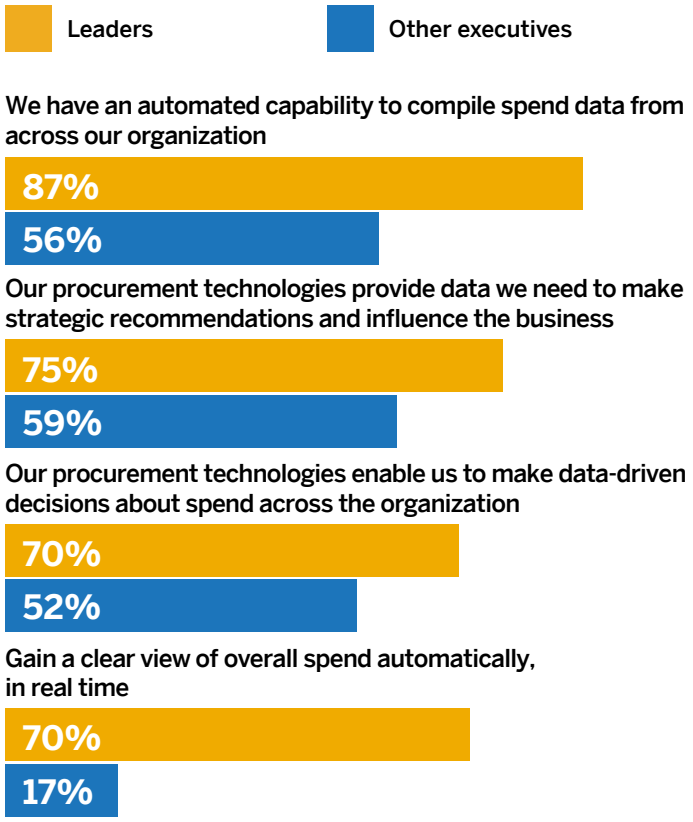
1. **Embrace data and analytics**
2. **Unlock the power of AI**
3. **Drive adoption**

# 1 Embrace data and anlytics

**Leaders make greater use of data and analytics to inform spend decisions across the organization and influence the business.** While more than two-thirds of executives say they have a clear view of spend across the organization, the leaders are better able to take action by making data-driven decisions based on that information.

## Fig. 3: Leaders use data to influence the business

**Percentage of executives who "agree" or "strongly agree" with the following statements about their procurement technology**




**70% leaders**

**vs**

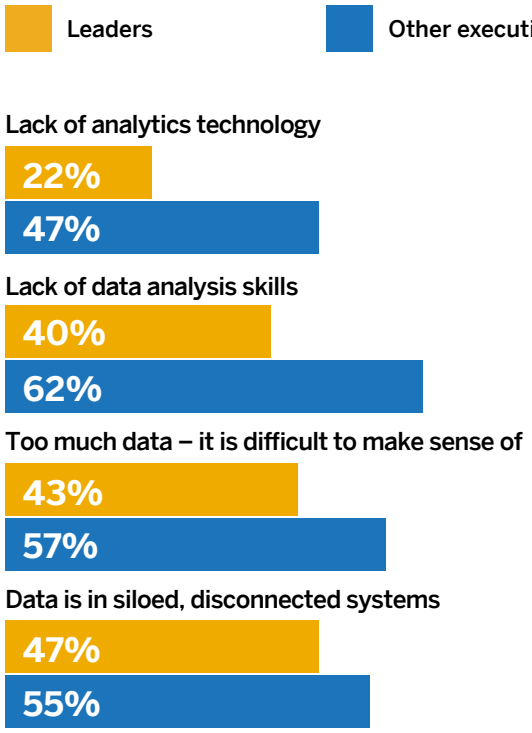
**17% others**

**can gain a clear view of overall spend (direct and indirect) automatically, in real time**

Leaders are further ahead than others in overcoming barriers to data-driven decision-making. However, they must work on sourcing data analysis skills, breaking down data siloes and integrating business systems. Moreover, many feel that they have too much data and struggle to make sense of it.

### Fig. 4: Even leaders face barriers to data-driven decision-making

**Percentage of executives who say the following issues are "moderate" or "significant" barriers to their organization's use of data to inform decision-making**

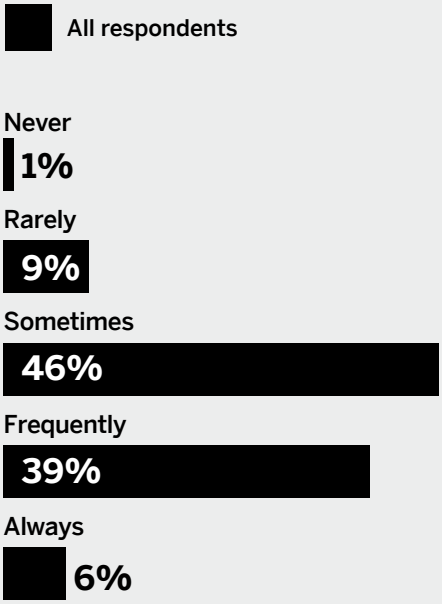



## Data-driven decision-making

Many organizations have not fully embraced data-driven decision-making. Less than half of all respondents (45%) frequently or always use data to inform decision-making, 46% sometimes, and 10% rarely or never.

### Fig. 5: Not enough companies use data in decision-making

**How often executives say their procurement function uses data to inform decision-making**

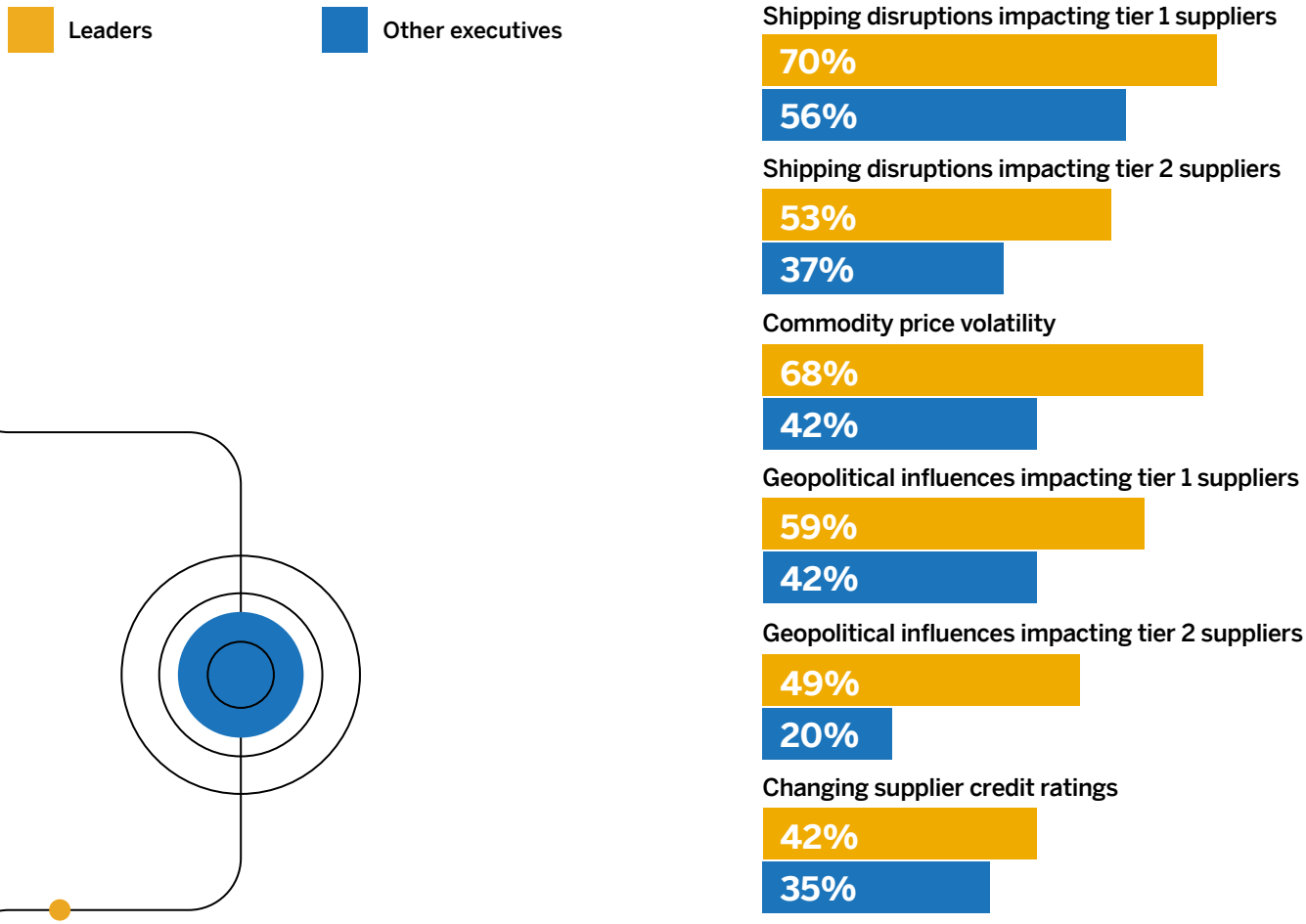


Leaders are more likely to automatically interpret and make recommendations based on third-party data about supplier risk, such as commodity price volatility and changing supplier credit ratings. This is a step in the right direction, but **leaders should continue expanding their use of third-party data to further mitigate supplier risk.**

Although leaders have relatively good visibility into shipping disruptions and geopolitical forces impacting tier 1 suppliers, their visibility into risks affecting tier 2 suppliers is much lower. That's a serious concern, because you can't manage what you can't see. Further, the Deloitte 2020 CPO Flash Survey found that most supply continuity failures are attributable to issues beyond tier 1 suppliers.[1]

## Fig. 6: Using third-party data to mitigate supplier risk

**Percentage of procurement functions that automatically intake, interpret, and make recommendations based on the following types of third-party data**

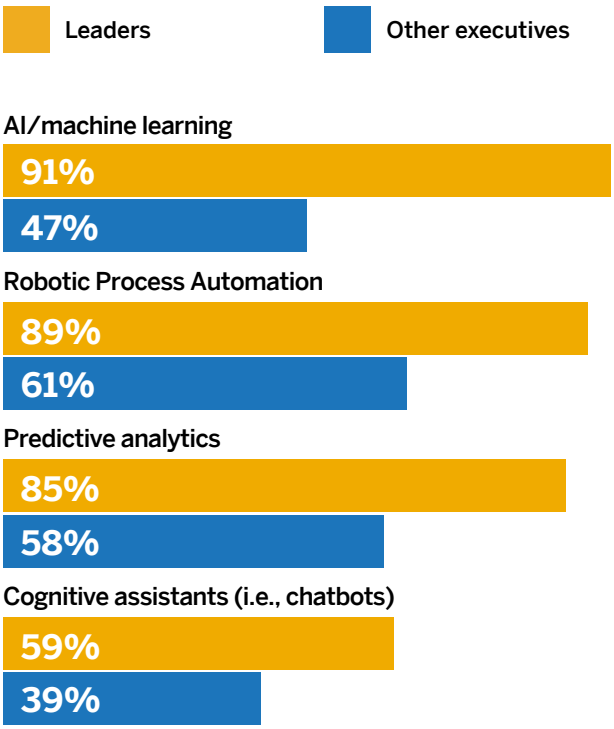


# 2 Unlock the power of AI

Leaders are making substantial investments in AI/machine learning, robotic process automation (RPA), predictive analytics, and cognitive assistants. These technologies can help companies gain rapid insights to inform decision-making, and automate processes to boost speed and agility.

## Fig. 7: Leaders make greater investments in AI

**Percentage of organizations that have made "moderate" or "significant" investments in the following technologies for the procurement function:**




**99% leaders**

**vs**

**45% others**

**use machine learning/AI-based analytics technologies to analyze data for decision-making**

**22% leaders**

**vs**

**52% others**

**manually analyze data for decision-making (e.g., using spreadsheets)**

# 3 Drive adoption

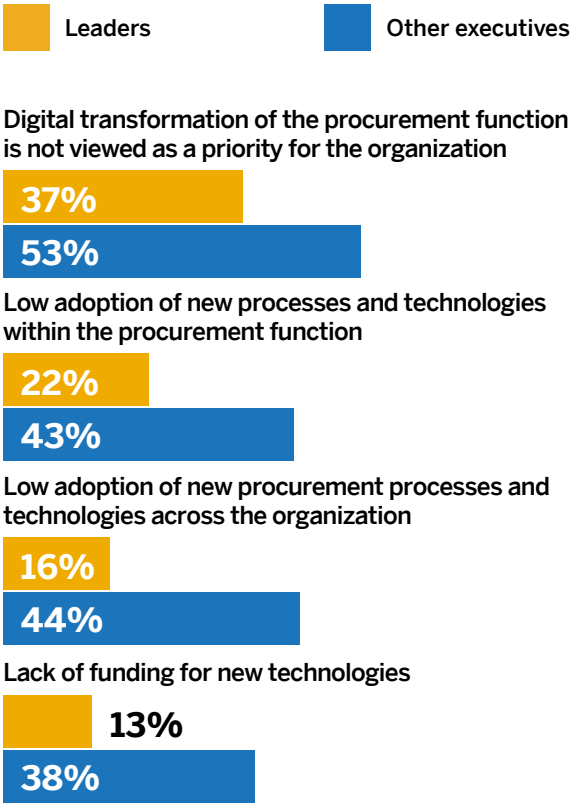
**Leaders have greater success in driving adoption of new procurement processes and technologies both within the procurement function and across the organization.** Perhaps they are more adept at the change management side of procurement digital transformation.

**Leaders also have less trouble getting funding for new technologies.** In fact, non-leaders are 3x more likely than leaders to say lack of funding for new technologies is a barrier to digital transformation of the procurement function.

**The biggest barrier facing all organizations is that digital transformation of the procurement function is not viewed as a business priority. That needs to change**, particularly since our research shows that investments in procurement digital transformation pay off.

## Fig. 8: Barriers to procurement digital transformation

**Percentage of executives who say the following issues are "moderate" or "significant" barriers to digital transformation of their procurement function**




**13% leaders**

**vs**

**38% others**

**say lack of funding for new technologies is a barrier to digital transformation of their procurement function**

## The great divide in process automation

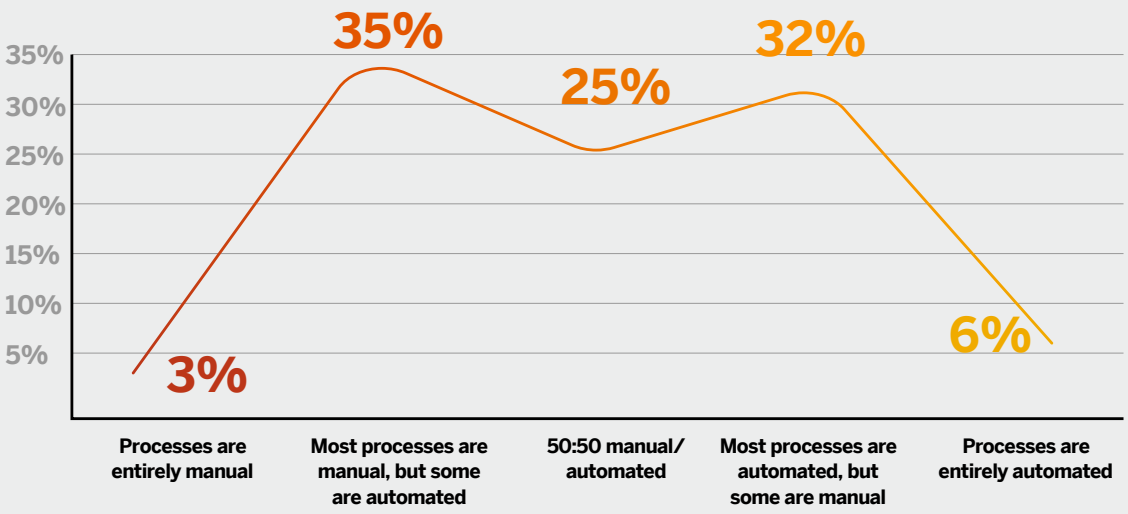
Our research found that success is mixed when it comes to process automation. Four in ten executives in our survey say most or all of their processes are automated. However, the same number say that most or all of their processes are manual. These results suggest that there is a digital divide, and laggards will need to catch up.

## Manual processes remain a significant barrier to improving operational efficiency and business agility.

Organizations that automate processes can free up their procurement talent to focus on delivering strategic initiatives, collaborating with the business, embedding data and analytics in their decision-making, and addressing barriers to digital transformation.

### Fig. 9: Mixed results in process automation

**The extent to which companies have automated their procurement processes (all respondents)**



# Even leaders need to improve

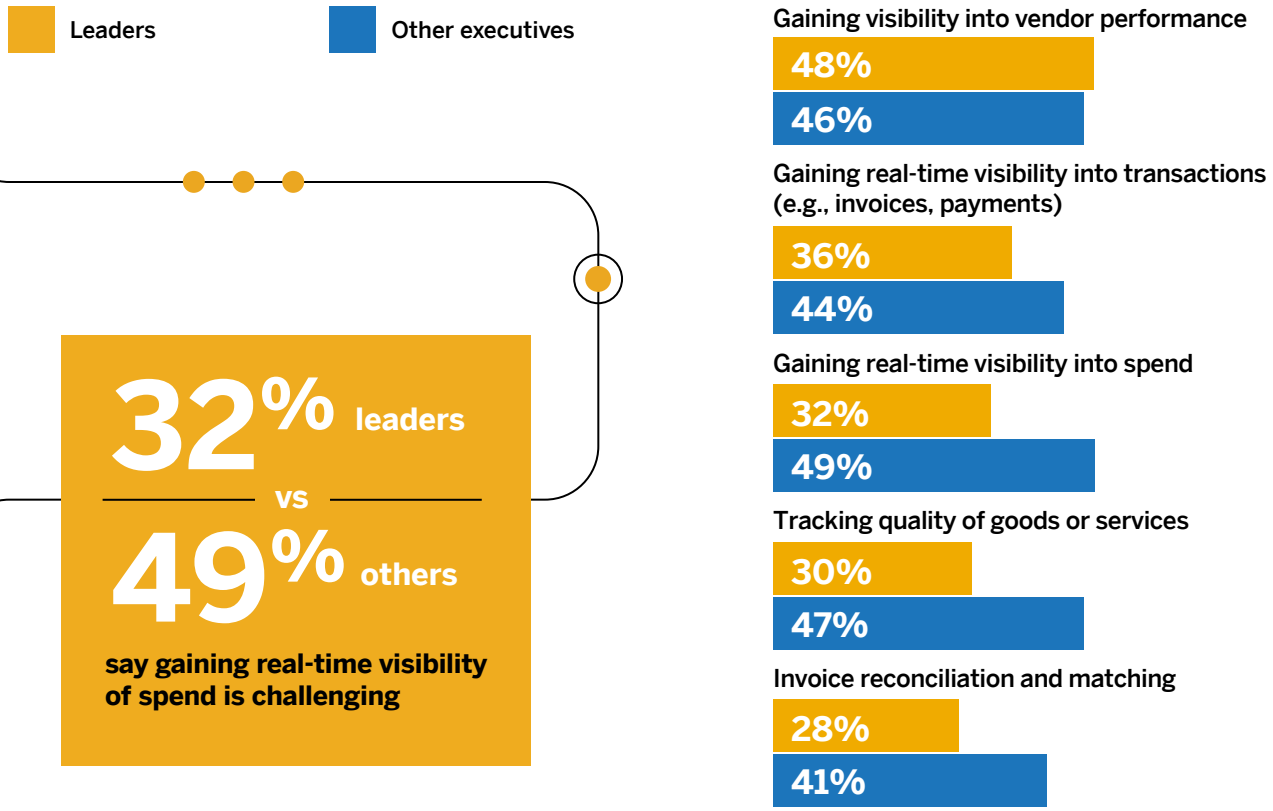
Although the leaders outperform others in many areas, they aren't perfect. Let's take a look at where they must improve.

## Close the technology gap

Even leaders face challenges that technology could help them address. This means they are still **leaving value on the table.**

### Fig. 10: Leaders aren't reaping the full value of their technology

**Percentage of executives who say the following aspects of managing procurement across their organization are "somewhat" or "very" challenging**




**32% leaders**

**vs**

**49% others**

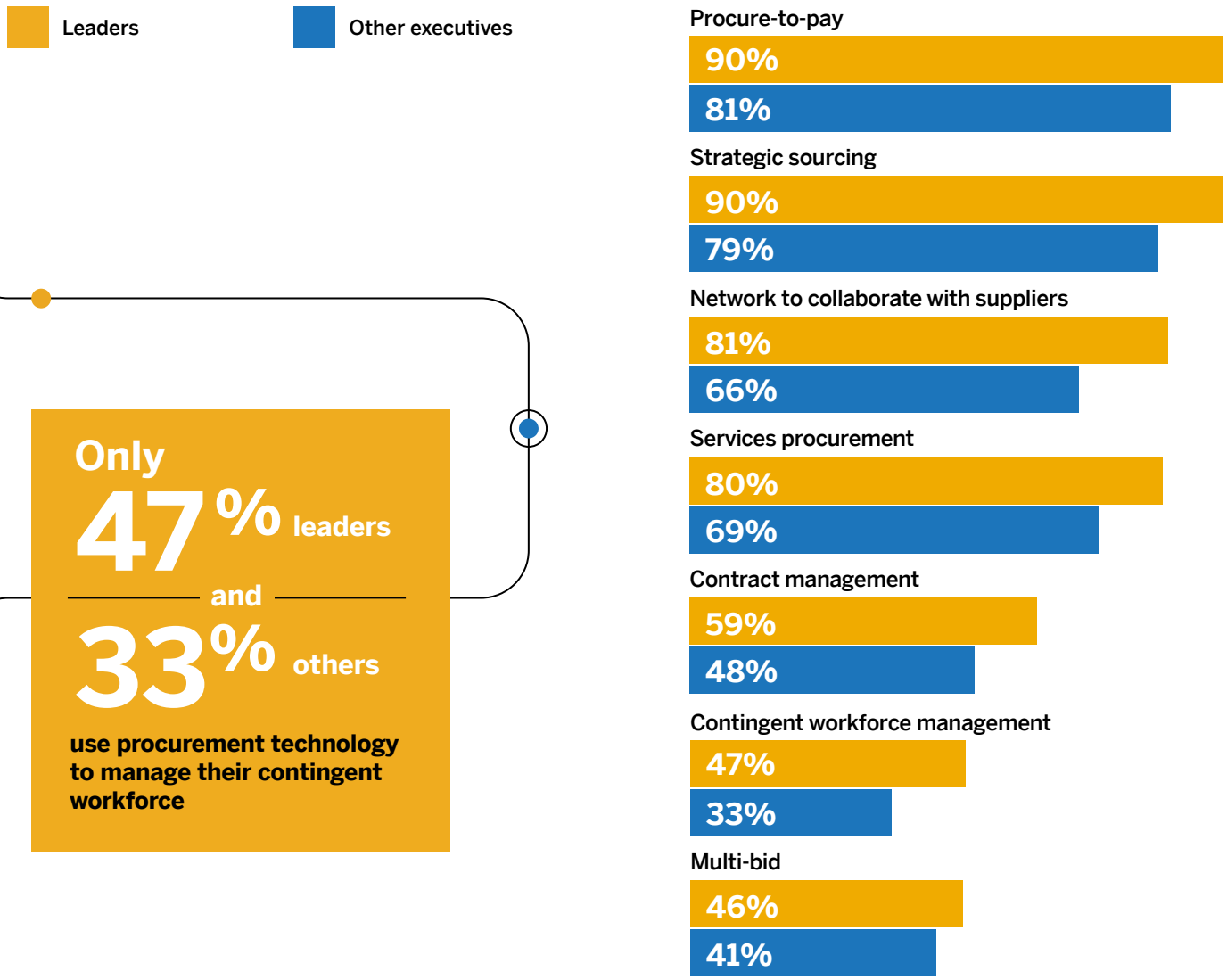
**say gaining real-time visibility of spend is challenging**

To unlock the true potential of their technology, **leaders must increase adoption, and take advantage of all the rich functionality they have available.**

What's more, **they should close gaps in their technology investments — particularly when it comes to core procurement technology**, which should be table stakes. Leaders and others alike can use multi-bid functionality (which automatically bids out projects to preferred suppliers) to strengthen their hand in negotiations and help them get better value for money.

## Fig. 11: Gaps in procurement technology

**Percentage of organizations that use procurement technologies in the following areas**




**Only 47% leaders and 33% others use procurement technology to manage their contingent workforce**

## Gain control of contingent labor and services spend

External labor accounts for 42% of workforce spend.[2] The external workforce — contingent workers and services providers — operates at the core of the enterprise and helps companies meet business goals. Yet, Procurement does not see this significant spend category as a priority. Even leaders can reduce risk and improve ROI by gaining visibility of this important resource, and managing it effectively.

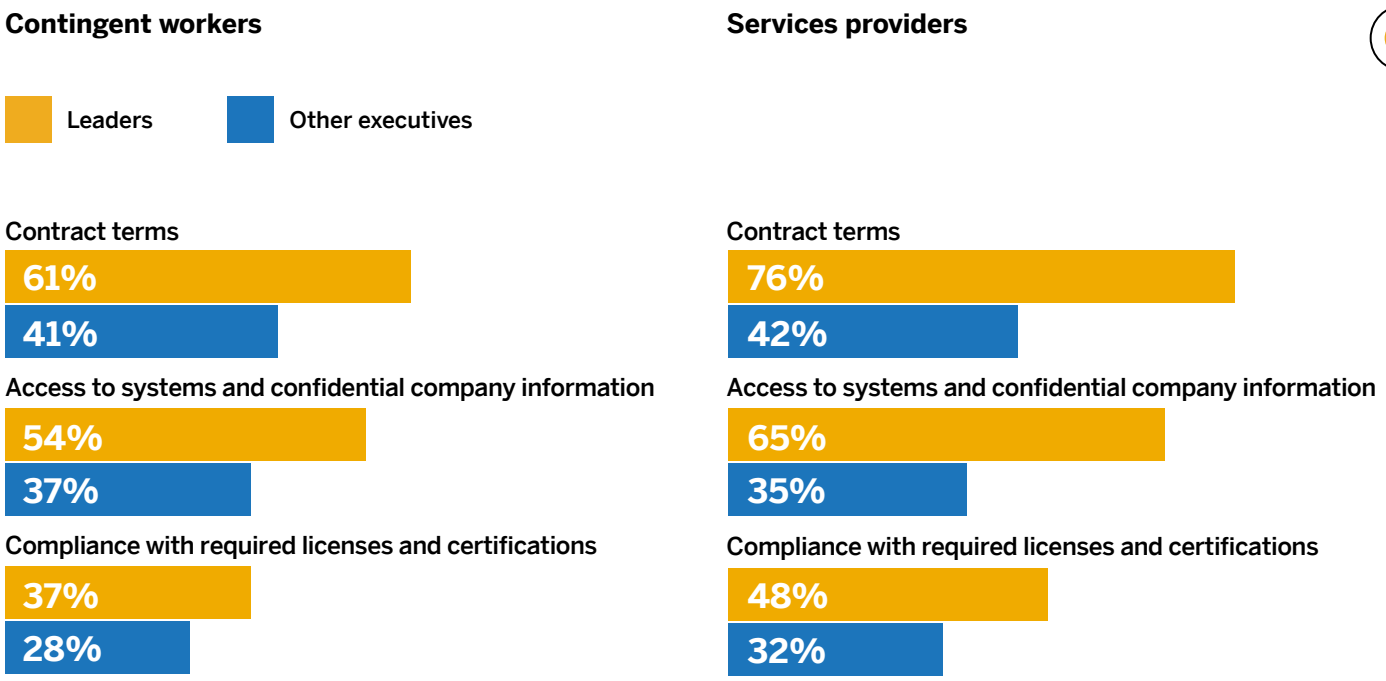
**External labor accounts for**

**42%**

**of workforce spend[2]**

### Fig. 12: Lack of visibility of the external workforce[2]

**Percentage of executives who are "highly informed" about their:**




Many organizations are using traditional procure-to-pay solutions to manage contingent workers' and services providers' contracts and POs. Yet, these solutions don't help organizations manage security, compliance, quality of work and other important aspects of these engagements. Sophisticated, purpose-built vendor management systems (VMS) can do all this and more.

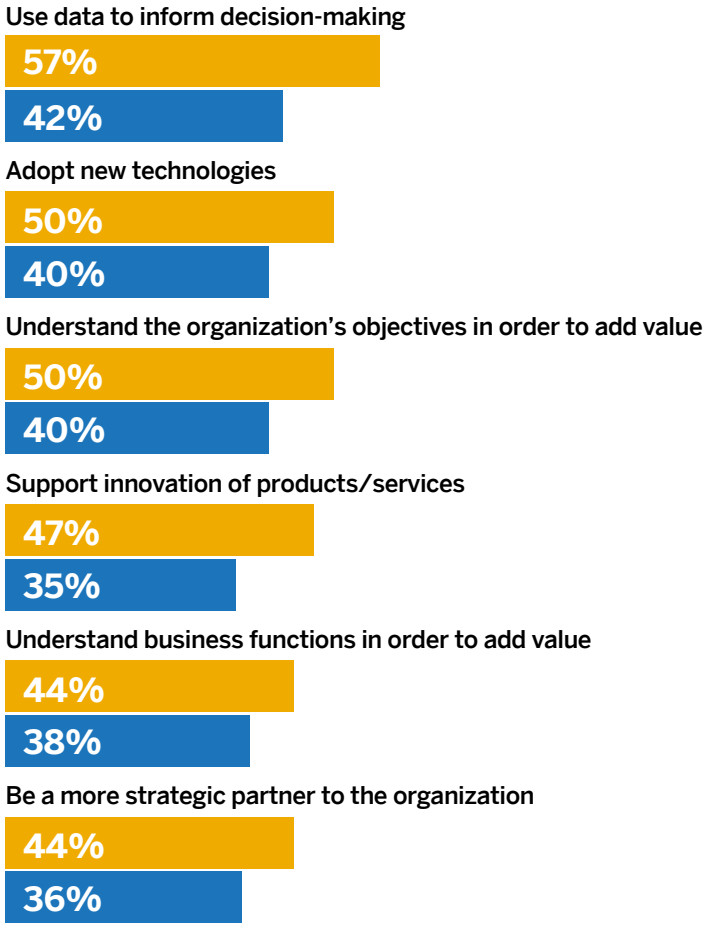
To learn how to **drive better business results from your external workforce and reduce risk**, read our research report: Agility isn't always on the payroll: Gain full visibility of your external workforce to help you drive better business outcomes.

## Address skills shortages

Our research reveals that leaders and others alike lack the skills and capabilities they need to realize their business goals. Skills shortages are also slowing progress in procurement digital transformation.

### Fig. 13: Significant shortfalls in key skills

**Percentage of executives who say they have most or all of the skills/capabilities they need to accomplish the following goals**




**34% leaders and 56% others say the lack of specialized talent is a barrier to digital transformation of the procurement function**

The Deloitte Global CPO Survey 2019 suggests that **Procurement needs different skills to play a more strategic role within the organization:** "Only 46% of CPOs felt that their teams could sufficiently deliver on the procurement strategy, a decline from 49% in the 2018 CPO study. Much of the gap is likely due to the more complex skill sets and competencies required by procurement organizations to deliver on a broadened value proposition that certainly includes digital-related capabilities."[3]

Conclusion

# Accelerate digital transformation in the face of disruption

**Yesterday's procurement function cannot meet today's business needs.** In the last few years, Procurement has focused on supplier rationalization, bundling to get the best pricing, and building lean, just-in-time supply chains. That won't cut it anymore. **Procurement must pivot towards agility, resiliency and risk reduction.** Ian Bremmer, President and Founder, Eurasia Group and GZERO Media, says that more organizations must shift their focus from just-in-time supply chains to "just-in-case" supply chains.

Leaders are much further ahead on the path to procurement digital transformation. They significantly outperform others in their investment and adoption of procurement technology, automation and AI. **Leaders' results show the value that procurement digital transformation can deliver — both in driving stronger business outcomes and avoiding common procurement issues.** However, many organizations still have a long way to go — and major barriers to overcome — on the path to digitally transforming Procurement.

**Executives should recognize that disruption isn't an excuse to postpone digital transformation projects — it's a reason to accelerate them.**

Many companies have sped up their digital investments given the disruptions in 2020. According to a new McKinsey Global Survey, **companies have accelerated the digitization of their customer and supply-chain interactions and of their internal operations by three to four years. And the share of digital or digitally enabled products in their portfolios has accelerated by a shocking seven years.**[4] These achievements would have been unthinkable under normal circumstances, but COVID-19 made them a necessity.

**Procurement functions that accelerate their digitization plans will be better positioned to steer their organizations through disruption, protect their businesses and drive future success.** Lean, automated processes will help them react fast to the unexpected. Greater use of data, analytics and AI can help them make better-informed decisions and achieve stronger results. **And, they can adopt even more strategic roles within their organizations.**

# Steps to successful procurement digital transformation

Based on our research findings, we've come up with six steps you can take to help ensure your transformation initiatives are successful:

1. **Assess the digital maturity of your procurement function.** Are there manual processes that should be automated? Do your solutions have functionality that you're not using? Look for low-hanging fruit to get early wins in your transformation project.

2. **Build a business case for change, and engage senior leadership to support the initiative.** Demonstrate the potential outcomes that procurement digital transformation will deliver to the organization. Executive sponsorship and prioritization will help to ensure success.

3. **Identify obstacles to change**, and develop a strategy to overcome them.

4. **Work out which skills you will need**, and plan how you're going to access them.

5. **Focus on change management and adoption.** Engage stakeholders — including your procurement team, IT and buyers across the organization — early on to generate excitement and a positive feeling around the transformation project. If take-up of new processes and technology is slow, talk to people to find out why.

6. **Celebrate the wins — big and small — to maintain momentum.** Know what success looks like by deciding which metrics you're going to measure.

# Research methodology

## What makes a leader?

Around 10% of executives in our survey outshine the others. To identify these leaders, we analyzed executives' responses in four areas:

- Process automation
- Data-driven decision-making
- Use of technology to influence the business
- Challenges in managing procurement

Our segmentation was based on responses to the following four questions from the survey. Leaders had to meet all four of these criteria:

1. **To what extent have you automated procurement processes in your organization?**

   Leaders say "most processes are automated" or "processes are entirely automated."

2. **How often does your procurement function use data to inform decision-making?**

   Leaders "always" or "frequently" use data to inform decision-making.

3. **To what extent do you agree with the following statements about your procurement technology?**

   Leaders "agree" or "strongly agree" that their procurement technologies enable them to make data-driven decisions about spend across the organization, and/or that their procurement technologies provide data they need to make strategic recommendations and influence the business.

4. **How challenging are the following aspects of managing procurement across your organization?**

   Leaders say "minimally challenging" or "not a challenge" for at least six of the following options:

   1. Reducing unauthorized (maverick) spend
   2. Gaining real-time visibility into transactions (e.g., invoices, payments)
   3. Gaining real-time visibility into spend
   4. Consolidating spend to realize volume discounts
   5. Managing tail spend
   6. Invoice reconciliation and matching
   7. Gaining visibility into vendor performance
   8. Tracking quality of goods or services
   9. Need to use multiple vendors' technologies throughout the procurement process
   10. Using different systems for different kinds of spend (e.g., direct, indirect, services, contingent workers)
   11. No or poor integration between procurement technologies

## About the research

SAP, in collaboration with Oxford Economics, conducted robust global research to understand Procurement's influence on the organization, the current state of supplier collaboration, and the impact of technology and process digitization in the procurement function. We wanted to find out whether companies that embrace technology and closer supplier collaboration are more agile and can respond more effectively to disruption. In June 2020, we surveyed 1,000 procurement and supply chain executives responsible for direct spend, indirect spend, and management of contingent labor and services providers. The data points about the external workforce are from the 389 executives who manage contingent workers and/or services providers.

**Geographical reach**

Respondents come from 23 countries in four regions:

- Asia Pacific: Australia, India, Japan, Singapore
- Europe: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom
- Latin America: Brazil, Colombia, Mexico
- North America: Canada, United States

**Industry reach**

Respondents represent a broad range of B2B and B2C industries: automotive (manufacturers and tier 1 suppliers), banking, chemicals, consumer products, heavy industrial/manufacturing, high tech, insurance, life sciences/pharmaceuticals, oil and gas, professional services, public sector (federal, state), retail, telecommunications, and utilities.

**Company size**

A range of company sizes are represented in the survey (figures indicate annual revenue):

- 10% $500 m–$999 m
- 35% $1 bn–$4.9 bn
- 40% $5 bn–$19.9 bn
- 15% $20 bn or more

**Executive profile**

Respondents are:

- 33% C-level
- 33% VP/Direct reports to the C-level
- 34% Directors

Functions represented are:

- 80% Procurement
- 20% Supply chain

## Kickstart your procurement digital transformation

We have distilled the **Agile Procurement Insights Research** findings into five reports — including this one.

**Read the other research reports:**

*Make your business more resilient: Getting closer to see further:* Procurement can embrace advanced analytics to predict and manage supplier risk

*Boost ROI and reduce risk from your contingent labor and services spend:* Agility isn't always on the payroll: Gain full visibility of your external workforce to help you drive better business outcomes

*Learn the 3 ways you can better manage your direct spend:* Close collaboration that goes beyond transactions: direct spend leaders engage with essential suppliers to improve performance

*Find out what leaders do that sets them apart:* Leaders aim higher: Elevating the strategic value of Procurement to the business

**For more information about the research, please visit: Agile Procurement Insights Research**

## External workforce research

In collaboration with Oxford Economics, we conducted robust global research to understand organizations' use and management of the external workforce. Two reports were published: Services Procurement Insights: The Big Reveal and Contingent Workforce Insights: Expertise in Full Force. The data points marked [2] are from the 578 procurement respondents who participated in this research. Oxford Economics also conducted qualitative interviews with executives in the field.

**Geographical reach**

Respondents come from 21 countries in five regions:

- Asia Pacific: Australia, Japan
- Europe: Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, United Kingdom
- Middle East: Israel, Saudi Arabia, United Arab Emirates
- Latin America: Brazil, Mexico
- North America: Canada, United States

**Industry reach**

Respondents represent a broad range of B2B and B2C sectors: aerospace and defense, automotive suppliers, automotive manufacturers, banking, capital markets, chemicals, construction & engineering, consumer goods, healthcare, high tech, industrial manufacturing, insurance, life sciences, logistics, media & entertainment, oil & gas downstream, oil & gas upstream, professional services, public service, rail, retail, telecom, travel & transportation, and utilities & waste.

**Company size**

A range of company sizes are represented in the survey (figures indicate annual revenue):

- 10% $500 m–$1 bn
- 35% $1 bn–$5 bn
- 40% $5 bn–$20 bn
- 15% over $20 bn

**Executive profile**

Respondents are:

- 33% C-levels
- 34% Direct reports to the C-level
- 33% Directors

[1] https://www2.deloitte.com/us/en/pages/operations/articles/procurement-strategy-2020-cpo-flash-survey.html

[2] https://www.fieldglass.com/resources/research/contingent-workforce-insights-2019/download and https://www.fieldglass.com/resources/research/services-procurement-insights-2019 (see page 25)

[3] https://www2.deloitte.com/be/en/pages/strategy-operations/articles/global-cpo-survey.html

[4] https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever

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