

THE BEST RUN



Leaders aim **higher**

Elevating the strategic
value of Procurement
to the business

Agile Procurement
Insights Research
by SAP

in collaboration with



OXFORD
ECONOMICS

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Introduction

Agility in the face of disruption

The disruptive events of 2020 put Procurement in the spotlight like never before. Businesses must anticipate and prepare for further disruption — whether it's from COVID-19, geopolitical forces, extreme weather events, or something else. **To succeed against these odds, companies depend on business agility and resiliency.**

We wanted to see whether companies are positioned to succeed in this uncertain, highly dynamic business environment. We collaborated with Oxford Economics to check the pulse of procurement digital transformation, by surveying 1,000 procurement and supply chain executives in 23 countries and 14 industries.

Our research revealed widespread vulnerabilities in many key aspects of procurement.

1 in 3

executives still use **phone/email/spreadsheets** as their primary means of collaborating with external partners on key supply chain processes

Fewer than half

of executives have near-real-time or real-time visibility into **inventory levels** in their own facilities or in supplier facilities

About half

of direct spend executives report **late deliveries, product shortages, and quality issues** with finished goods/WIP with their direct materials suppliers

Roughly 4 in 10

procurement execs experience **digital security breaches** with contingent workers and services providers “sometimes, frequently or nearly every engagement”²

Despite these challenges, we identified a group of leaders — about 10% of executives — who stand head and shoulders above the rest. **Leaders have made greater investments in digitally transforming their procurement functions, and they are realizing stronger ROI.**

How leaders compare

Leaders take **4 key actions** that drive their success in procurement digital transformation:

1 Leaders focus for impact

2 Leaders invest in technology

3 Leaders embrace data and analytics

4 Leaders unlock the power of AI

Let's take a look at each of these actions.

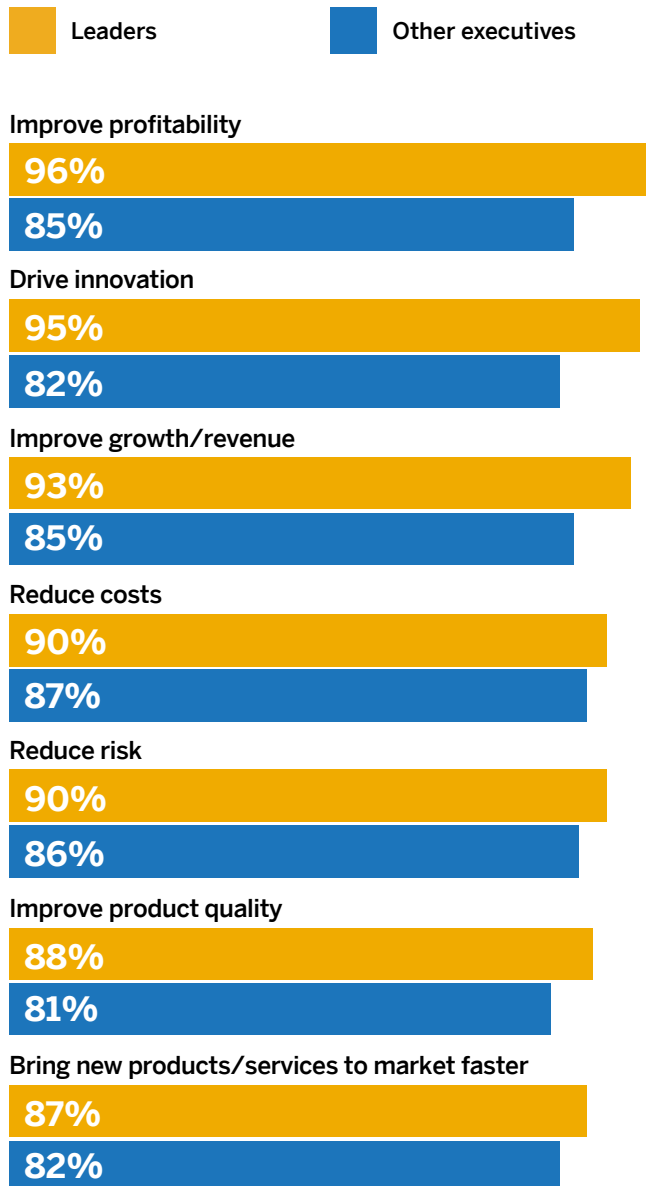
1

Leaders focus for impact

Leaders are more likely to see Procurement's impact beyond its traditional focus on reducing costs and risk.

Fig. 1: Leaders see Procurement as a stronger contributor to the business

Percentage of executives who say Procurement "somewhat" or "significantly" helps the organization achieve the following business goals



Leaders are more likely to say their CPO has a vision and roadmap for transforming the procurement function to provide more strategic value to the business.

Fig. 2: Leaders see their CPOs as more visionary

Percentage of executives who "agree" or "strongly agree" with the following statements

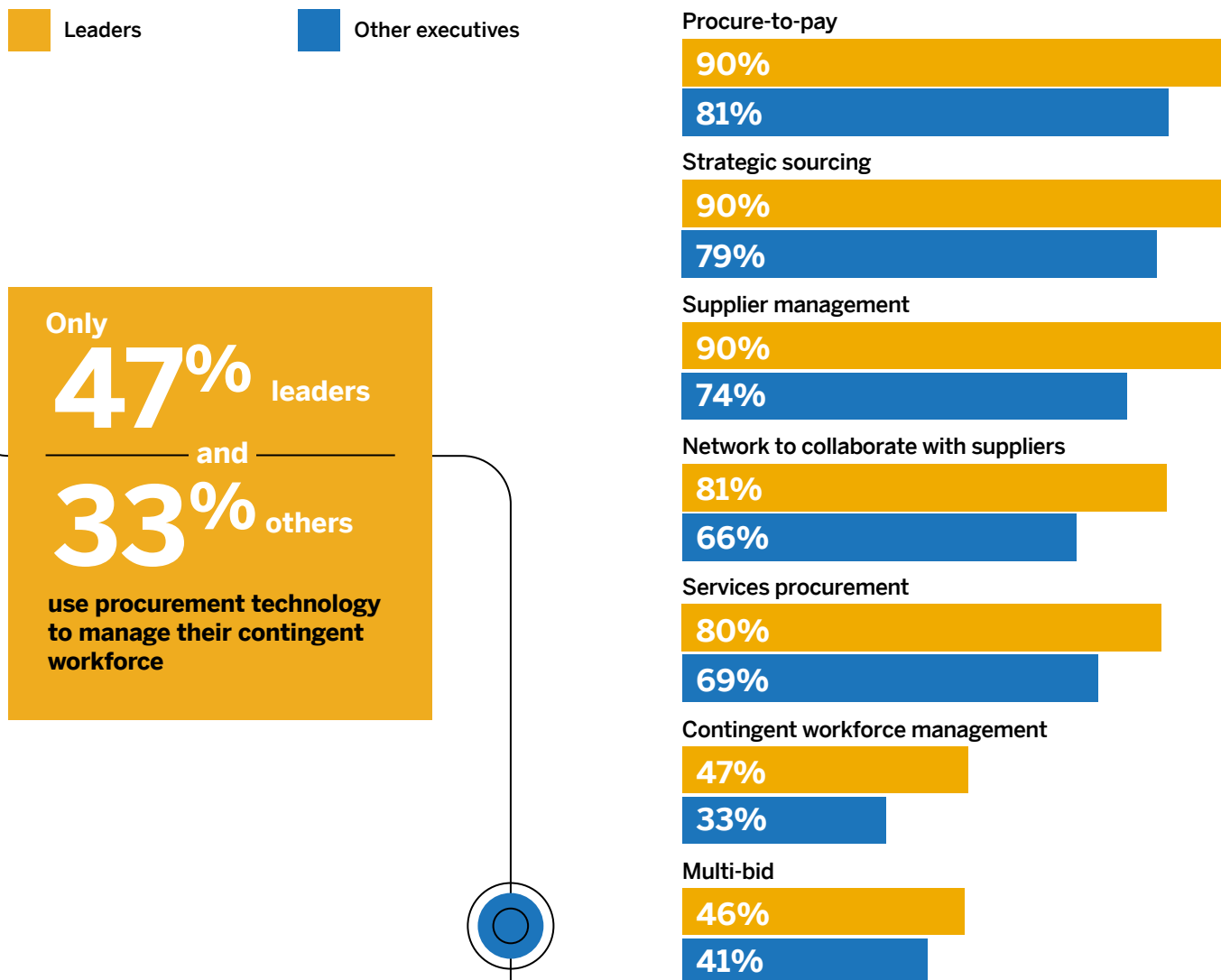


2 Leaders invest in technology

Leaders invest more in technology — particularly core procurement technology. Yet, they are still leaving some value on the table. For example, leaders and others alike have an opportunity to better manage contingent workers, a large and under-managed spend category. Further, multi-bid functionality (which automatically bids out projects to preferred suppliers) could help them get better value for money.

Fig. 3: Leaders make greater use of procurement technology

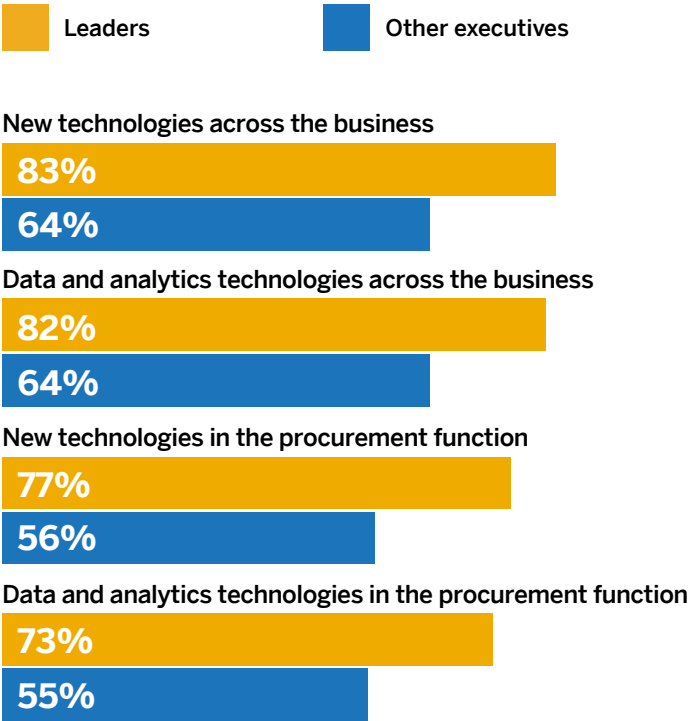
Percentage of organizations that use procurement technologies in the following areas



Leaders are more likely to say their organization has invested enough in technology for the procurement function. However, Procurement is still behind the rest of the organization in terms of technology investment.

Fig. 4: Leaders have made sufficient investments in technology for the procurement function

Percentage of executives who say their organization has made “enough investment” or “over-investment” in the following areas



77% leaders

vs

56% others

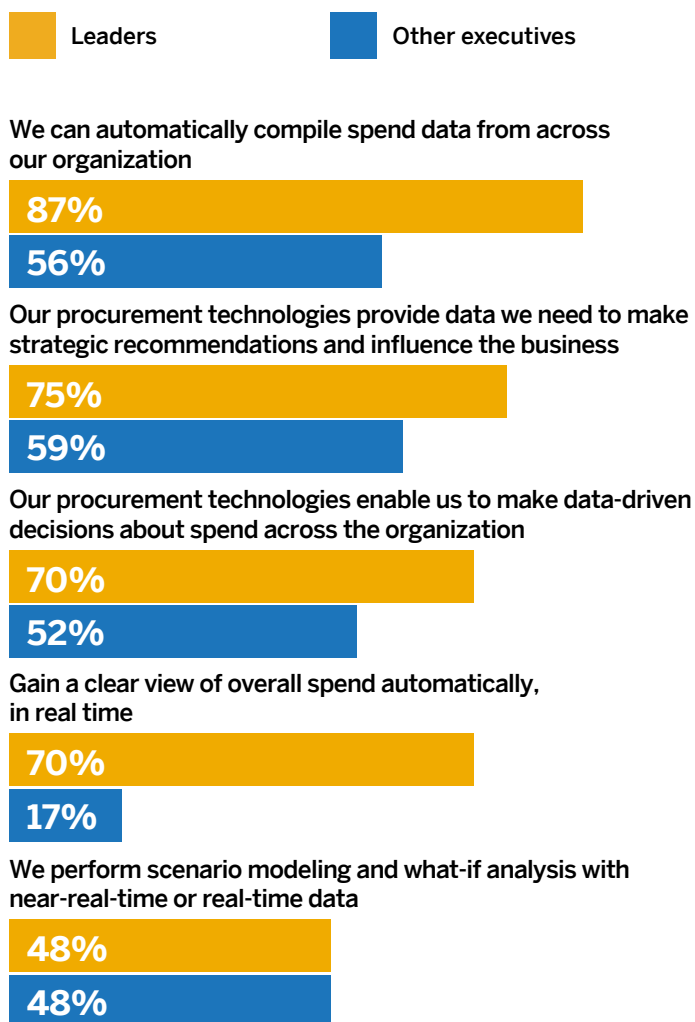
have made sufficient investments in new technologies for the procurement function

3 Leaders embrace data and analytics

Leaders make greater use of data and analytics to inform spend decisions across the organization and influence the business. While more than 2/3 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. 5: 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 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. 6: 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

Leaders Other executives

Lack of analytics technology

22%

47%

Lack of data analysis skills

40%

62%

Too much data – it is difficult to make sense of

43%

57%

Data is in siloed, disconnected systems

47%

55%

40% leaders

vs

62% others

say the lack of data analysis skills is a barrier to their organization’s use of data to inform decision-making

47% leaders

vs

55% others

say that data in siloed, disconnected systems is a barrier to their organization’s use of data to inform decision-making

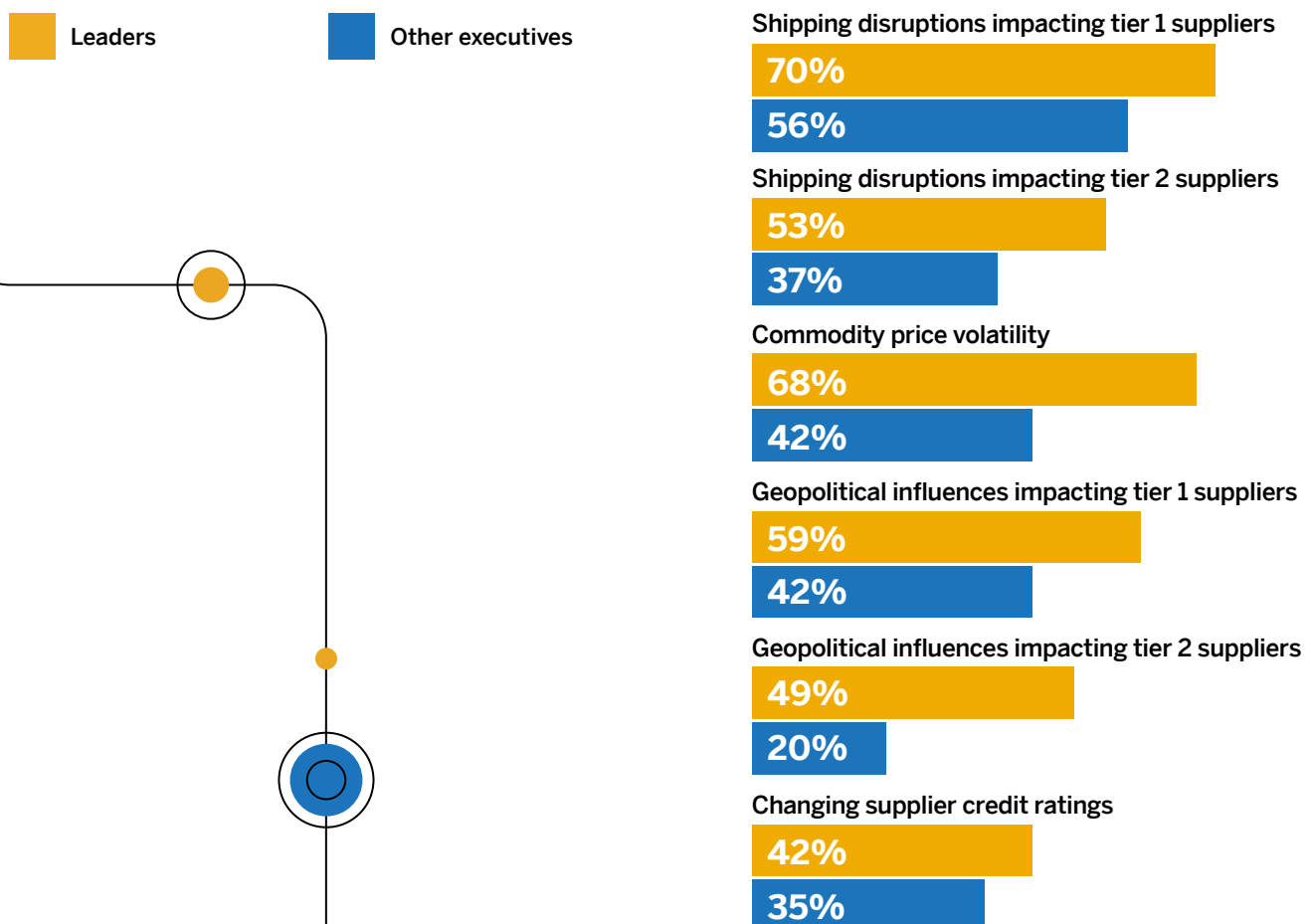
Leaders can respond faster to the unexpected, using automated recommendations based on third-party data about supplier risk such as commodity price volatility and changing supplier credit ratings.

This is a step in the right direction, but leaders should expand their use of third-party data to further mitigate supplier risk.

Although leaders have relatively good visibility into geopolitical influences and shipping disruptions 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 reveals that most supply continuity failures are attributable to issues beyond tier 1 suppliers.¹ Greater visibility into tier 2+ suppliers may have helped organizations better manage disruption in 2020.

Fig. 7: Leaders make greater use of 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



4 Leaders 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. Moreover, 99% of leaders (vs 45% others) use machine learning/AI-based analytics technologies to analyze data for decision-making. It is worth noting that to some extent, our leader group is defined by digital maturity, as they must use a certain amount of data and automation to qualify.

Fig. 8: Leaders make greater investments in AI

Percentage of executives who say their organization has made “moderate” or “significant” investments in the following technologies for the procurement function

Leaders Other executives

AI/machine learning

91%

47%

Robotic Process Automation

89%

61%

Predictive analytics

85%

58%

Cognitive assistants (i.e., chatbots)

59%

39%

91% leaders

vs

47% others

have made “moderate” or “significant” investments in AI/machine learning for the procurement function

Better results, fewer issues



Leaders' investments in procurement digital transformation function are paying off. **They are achieving greater benefits** including operational efficiencies, stronger compliance and higher transaction accuracy.

Fig. 9: 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

Leaders Other executives

Operational efficiency

82%

66%

Supplier performance management

81%

61%

Transaction accuracy

78%

63%

Improving compliance

77%

63%

Supplier collaboration

74%

63%

Risk management

74%

60%

71% leaders

vs

56% others

say digital transformation of Procurement has improved automation of routine tasks

68% leaders

vs

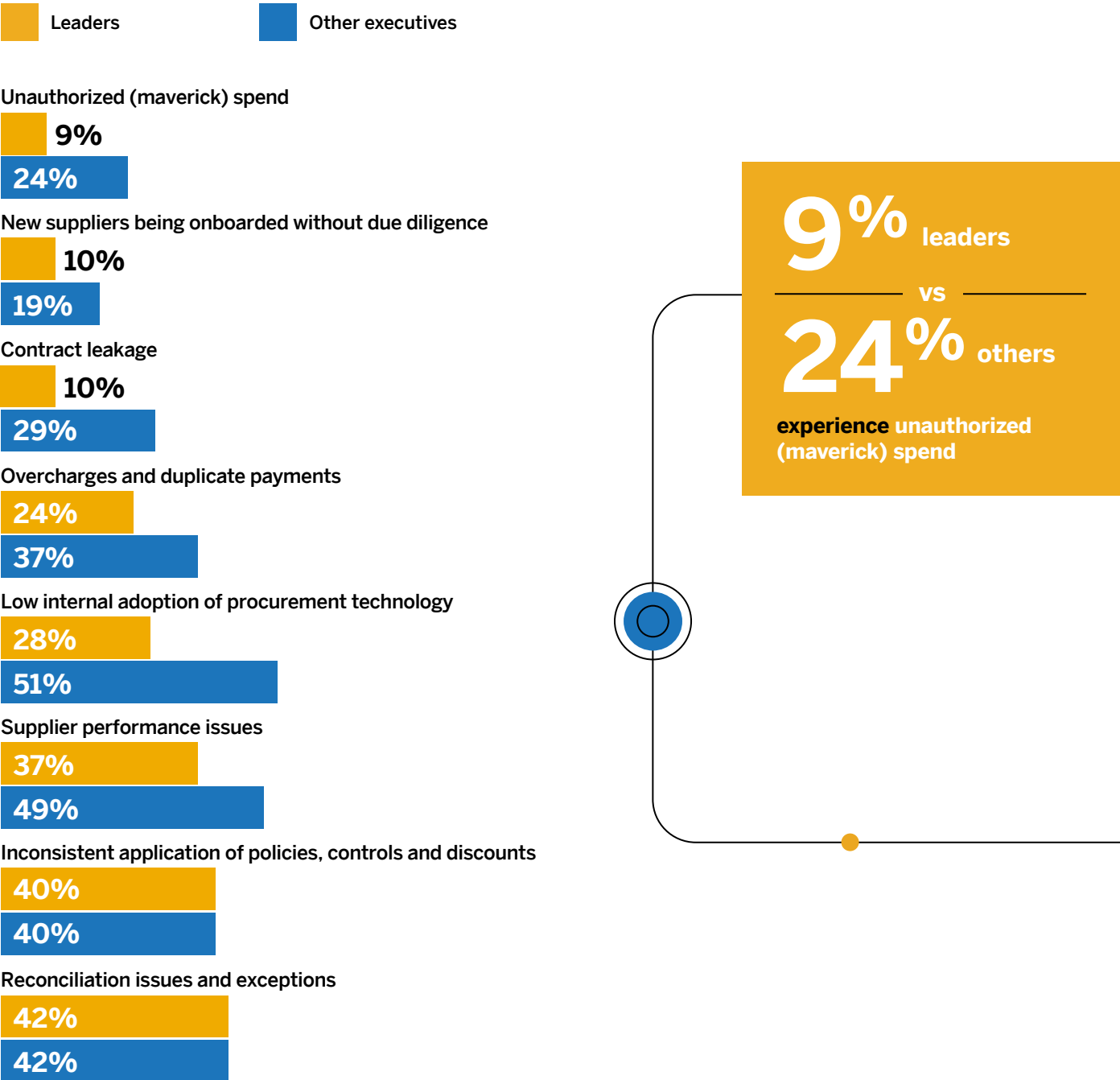
60% others

say digital transformation of Procurement has reduced costs

Leaders have successfully reduced common procurement issues, such as maverick spend, contract leakage and onboarding suppliers without due diligence. However, even leaders have work to do. They are just as prone to reconciliation issues and exceptions, and inconsistent application of policies, controls and discounts.

Fig. 10: Leaders experience fewer issues

Percentage of executives who “sometimes” or “frequently” experience the following issues



Leaving money on the table

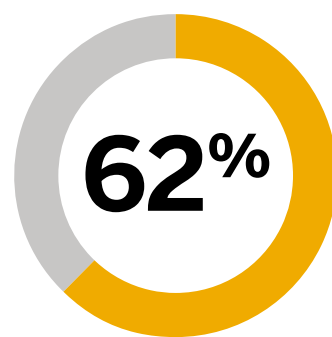
Although leaders invest more in technology, AI and analytics, and achieve better results, they are still leaving money on the table.

Under-managing the external workforce — a huge spend category

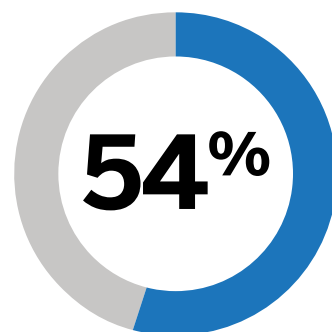
External labor accounts for 42% of workforce spend.² The external workforce (contingent workers and services providers) is a huge spend category that's poised to grow. The McKinsey Global Business Executives Survey reveals that **approximately 70% of executives anticipate they will hire more on-site temporary workers and freelancers in the next two years, compared with pre-COVID levels.**³ The Deloitte Global CPO Survey 2019 suggests that Procurement is turning to the external workforce to plug skills gaps and overcome challenges in finding talent.⁴

The external workforce operates at the core of the enterprise and helps companies meet business goals including managing costs (73%), operating at full capacity/meeting market demands (73%), boosting organizational agility (64%) and reducing risk (64%).² It also fuels business resiliency:

- 62% of executives say the external workforce provides extra capacity to help manage peaks in demand.*
- 54% of executives say the external workforce helps their business recover from downturns.



of executives say the external workforce provides extra capacity to help manage peaks in demand



of executives say the external workforce helps their business recover from downturns

* This data is from executives who are responsible for managing their external workforce. See the research methodology section of this report for more information about the two research studies that are cited in this section.

However, Procurement does not see external labor spend as a priority.

In fact, only 35% of executives have technology for contingent workforce management. 70% of executives have technology for services procurement. Further:

- Only 1 in 5 have technology to manage their systems and facilities access and automatically turn it off at the end of the project.²
- Around 1 in 3 can enforce negotiated rates for contingent workers, and only 1 in 5 when it comes to services providers.²
- Only 1 in 3 can track and manage SOW to PO to invoicing for projects done by services providers.²

Many organizations are using traditional procure-to-pay solutions to manage contingent workers' and services providers' contracts and POs. But there are big gaps in functionality, because 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.

**Only
1 in 5**
organizations have
technology to
manage contingent
workers' and
services providers'
access to systems
and facilities, and
automatically turn it
off at the end of the
engagement²

Without the right technology, Procurement cannot gain visibility and manage the external workforce effectively. This creates risks, reduces ROI, and makes it difficult to pivot quickly.

Despite these challenges, some organizations are driving better business results from their external workforce and reducing risk. To learn how they do it, 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.](#)

Too much exposure to supplier risk

Our research found serious vulnerabilities in organizations' supplier risk management.

Years of supplier optimization have led to over-reliance on too few suppliers and increased risk:

- Only 1 in 2 executives can quickly find alternative sources of supply when needed.
- In direct spend, more than half (53%) of executives say their organization has one or more products that it purchases from only one supplier — which can be risky in the best of times, especially for a critical product.

Poor visibility presents another challenge. **Fewer than half of executives have near-real-time or real-time visibility to inventory levels in their own facilities or in supplier facilities.**

This makes it difficult to predict and prevent product shortages and overages, putting organizations on the back foot.

When it comes to supplier risk management, leaders are only slightly ahead of other organizations. While leaders are more likely to say their supplier risk management is highly effective (49% of leaders versus 30% of others), they don't always fare better. All organizations have room to improve when it comes to managing supplier risk.

Fig. 11: Leaders are only slightly ahead of others in supplier risk management

Percentage of executives who “agree” or “strongly agree” with the following statements about their procurement function

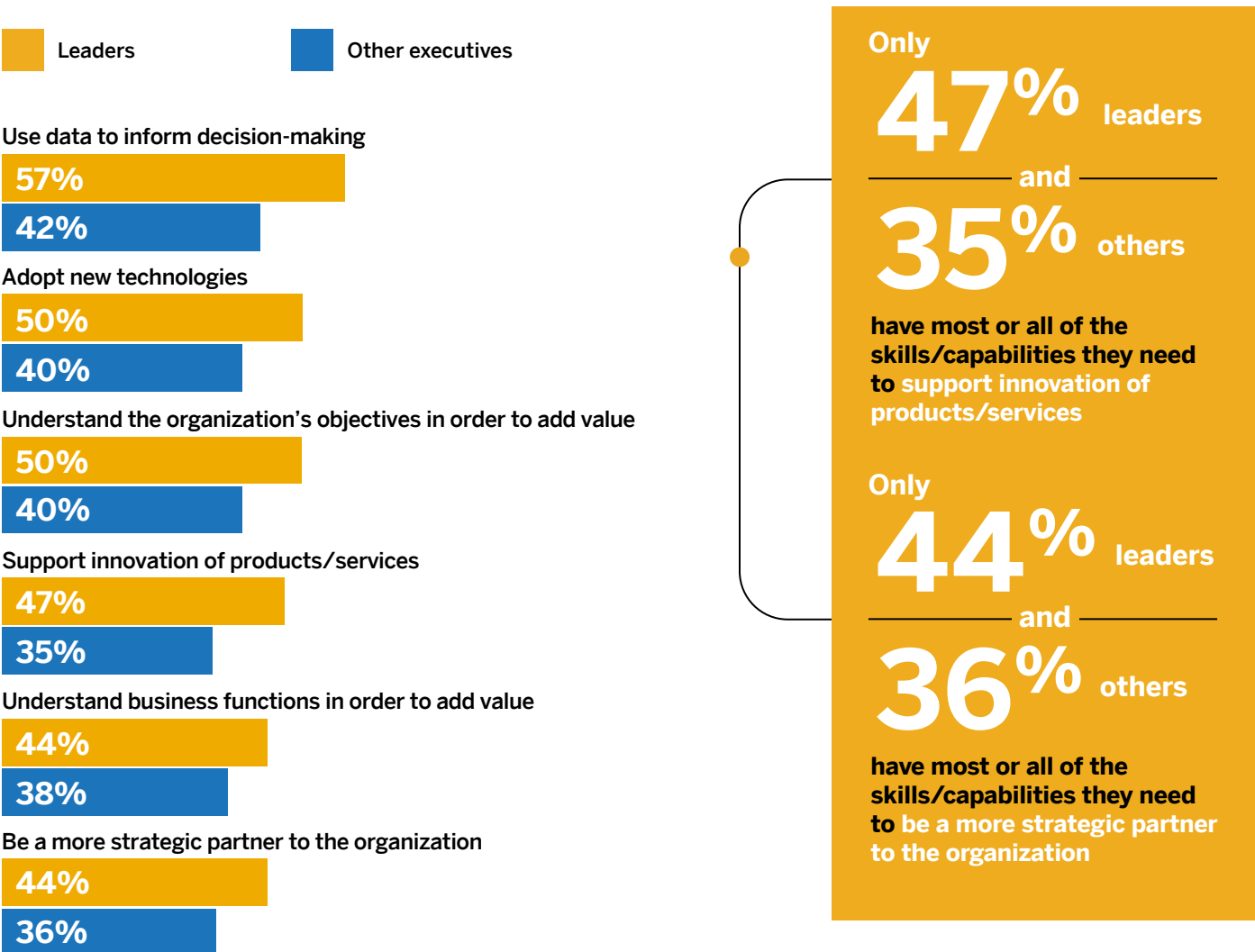


Skills shortages

Although leaders see themselves as strong contributors to the business, they don't have all the skills and capabilities they need to meet their goals. **Skills shortages impair Procurement's ability to fully support the business and drive more strategic value.**

Fig. 12: 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



Lack of specialized talent is a barrier to digital transformation of the procurement function (cited by 34% of leaders and 56% of others). What's more, lack of data analysis skills is a barrier to using data for decision-making (40% of leaders and 62% of others). Although leaders report fewer skills shortages than other respondents, **skills shortfalls remain a key challenge for all organizations to overcome.**

Spotlight on direct spend

Your supply chain is the lifeblood of your business. So it's surprising that so many organizations aren't very effective at managing their direct spend.

For instance:

- Only 20% of executives have more than half of their direct spend under management.
- Just 26% say their organization's collaboration with top suppliers is highly effective in remediating potential shortages or overages.

This is especially problematic given organizations' heavy reliance on outsourced manufacturing. More than half of the executives outsource at least a quarter of their manufacturing. Yet they don't collaborate closely enough with their direct spend suppliers.

Ineffective collaboration is partly caused organizations not having suitable technology. An astonishing 1/3 of executives are still using phone, email and spreadsheets as their primary means of collaborating with external partners on key supply chain processes.

Despite these challenges, a group of organizations in our survey outshine other participants. These direct spend leaders are driving impressive results from their collaboration with direct materials suppliers, including:

- 82% of leaders report 5% or more improvement in on-time in-full performance.
- 69% of leaders report 10% or more improvement in inventory turns.
- 64% of leaders report 10% or more improvement in on-time delivery from suppliers.
- 63% of leaders report 10% or more improvement in speed to market.

To discover the secrets to direct spend leaders' success, read our report:

[Close collaboration that goes beyond transactions: direct spend leaders engage with essential suppliers to improve performance.](#)

The data in this spotlight on direct spend and the associated report is based on responses from the 468 executives in our survey who are responsible for direct spend.



Conclusion

Boost your impact

What can we learn from the leaders? And how can you, as a procurement executive, drive more value in your organization?

The leaders' results show that investing in procurement digital transformation pays off, helping them drive better business results and avoid common procurement issues. **Leaders recognize that digital transformation doesn't stop at technology investment.** They partner more closely with the business, helping to drive higher adoption of new processes and technologies. **Leaders' focus on adoption and change management is vital to their success.**

Leaders have challenged the status quo and changed ingrained behaviors. **They have embraced data-driven decision-making and made substantial investments in AI.**

Process automation plays an important role, too. It enables procurement professionals to spend more of their time and energy on proactively collaborating with the business, rather than being in reactive mode and putting out fires. **Lean, automated processes help leaders anticipate and react faster to the unexpected, so they are better positioned to help their organization navigate the uncertain business environment.**

The procurement digital transformation journey is a continuous one, and leaders still have some way to go.

The skills gap presents a real challenge that needs to be addressed. The Deloitte Global CPO Survey 2019 suggests that **Procurement needs different skills to play a more strategic role:** "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."⁵

By closing capability gaps and advancing their procurement digital transformation, leaders and others alike have a huge opportunity to boost their impact and deliver even more value to their organizations.

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:

Dig deep into technology, automation and data/analytics:

[Procurement-powered performance: How digital transformation is elevating Procurement](#)

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](#)

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

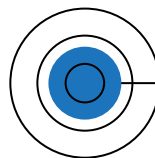
A range of company sizes are represented in the survey (figures indicate annual revenue):

- 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 22)
- ³ <https://www.mckinsey.com/featured-insights/future-of-work/what-800-executives-envision-for-the-postpandemic-workforce>
- ⁴ <https://www2.deloitte.com/be/en/pages/strategy-operations/articles/global-cpo-survey.html>
- ⁵ Ibid