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Procurement: A CEO's Secret Weapon For Growth And Resilience In Turbulent Times

A FORRESTER CONSULTING THOUGHT LEADERSHIP PAPER COMMISSIONED BY IVALUA, APRIL 2023

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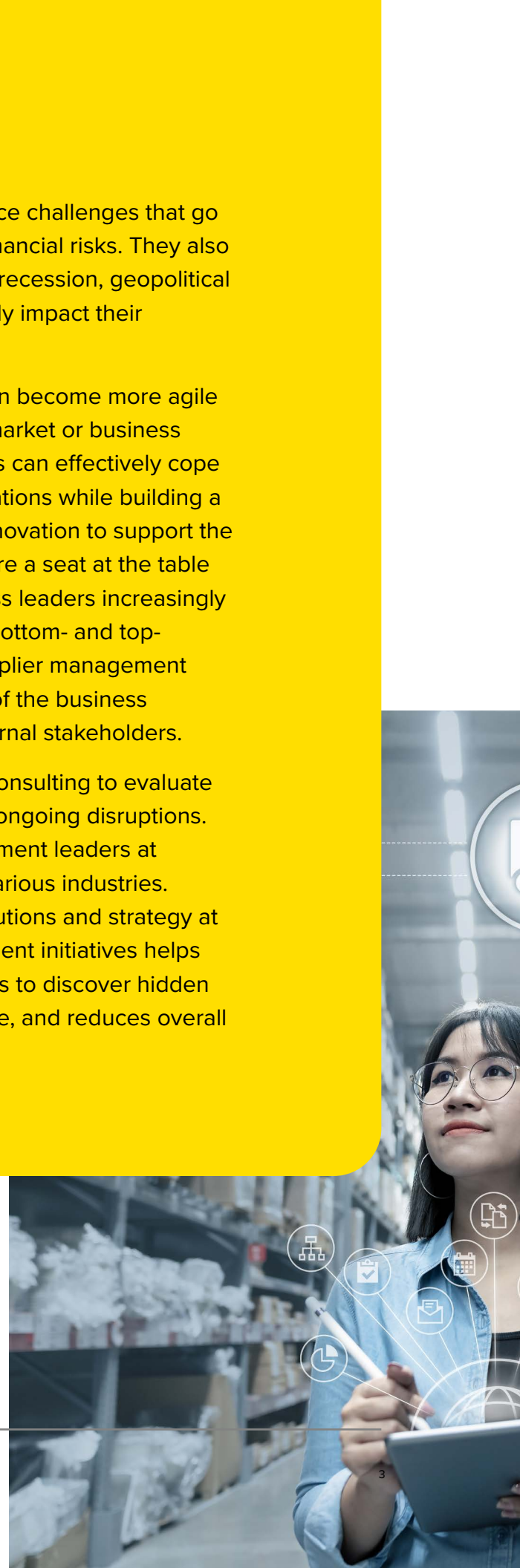
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Executive Summary

In today's complex and dynamic world, businesses face challenges that go beyond the conventional economic, monetary, and financial risks. They also have to contend with mega threats, such as inflation, recession, geopolitical risk, and supply chain disruptions, that can significantly impact their performance and survival.

This study explores how the procurement function can become more agile and help organizations adapt to any changes in the market or business environment. It investigates how procurement leaders can effectively cope with economic fluctuations that may affect their operations while building a digital-first function that leverages technology and innovation to support the wider business growth aspirations and, thereby, secure a seat at the table where they can influence strategic decisions. Business leaders increasingly recognize the importance of procurement in driving bottom- and top-line growth. Through effective application of new supplier management strategies, reimagined procurement sits at the heart of the business becoming a more critical function to internal and external stakeholders.

In November 2022, Ivalua commissioned Forrester Consulting to evaluate the role of procurement in an age of uncertainty and ongoing disruptions. Forrester conducted an online survey of 470 procurement leaders at organizations with at least 1,000 employees across various industries. These leaders had responsibility for procurement solutions and strategy at their organization. We found that improving procurement initiatives helps meet business objectives, allows procurement leaders to discover hidden gems and slash costs, increases operational resilience, and reduces overall business risk due to transparent communication.



Key Findings

Procurement leaders aim to support revenue growth by facilitating product innovation or finding new revenue sources. This demands a more cooperative, flexible approach. Procurement leaders should work closely with suppliers to identify new opportunities and develop new products and services.

Procurement has competing priorities that create challenges. To ensure supply continuity, 76% of respondents compromised on supplier due diligence and 73% compromised on other objectives.

Procurement is more collaborative as it helps organizations cope with uncertainty. Seventy-eight percent collaborated more with suppliers today than three years ago and 50% increased collaboration/info sharing with suppliers.

Procurement is focusing on technology to address crucial business initiatives today. To manage supply chain risks, procurement leaders are investing in a mix of specialist supplier risk and performance management (SRPM) solutions or a supplier value management (SVM) suite with embedded SRPM capabilities.

Procurement functions are the secret weapon that could help businesses not just ride out of the storm but also position themselves for the future.



The Expanded Mandate Of Procurement Entails Value Orchestration

Global supply chains have faced unprecedented disruption over the past few years and with the backdrop of even more geopolitical upheaval along with a frenzied rush to ensure ongoing digital transformation, procurement has become a beacon of light for businesses. These often unrecognized teams have proven their criticality to businesses during the COVID-19 pandemic, the Russia-Ukraine war, and other recent global shocks, responding successfully to ensure businesses remain resilient and are prepared for future disruptions. We found that:

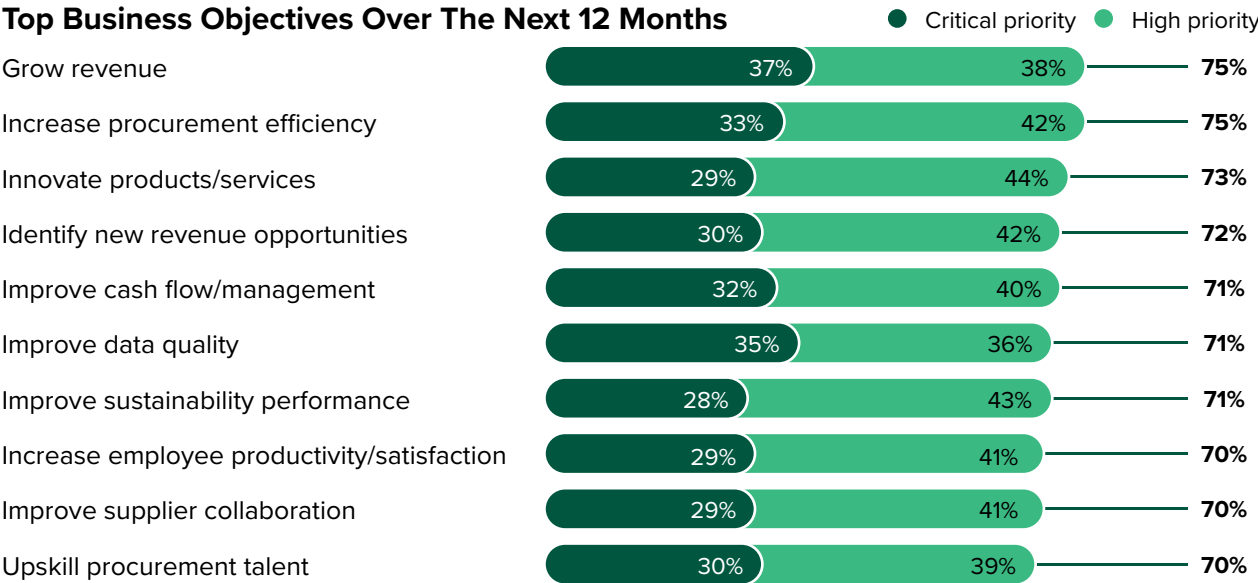
69%

of survey respondents said they will increase supplier visibility.



- Business objectives are shifting towards the top line — for the business and procurement.** Three of the top four business objectives from our survey focus on growing revenue. Survey respondents revealed they will focus on growing revenue (75%), innovating their products and services (73%), and identifying new revenue opportunities (72%). By developing strong relationships, procurement can work with the business to continually weigh up outcomes with growth (see Figure 1).

Figure 1



Base: 470 procurement decision-makers at companies with 1,000 or more employees across multiple industries
 Note: Showing top 10 responses; total percentages may not equal separate values due to rounding.
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2023

In the past year, 73% of respondents said their organizations have compromised performance on other objectives to ensure supply continuity.



- **Procurement is required to juggle more, often around competing priorities.** Volatility and competing priorities are putting companies at risk. More than three-quarters of the respondents admitted to compromising supplier due diligence for supply continuity. And 73% admitted to compromising performance on other objectives. Managing competing priorities requires procurement to improve efficiency, apply new strategies, and obtain timely access to more information.
- **Improving cash flow management and growing revenues remain top of mind.** Solving individual problems with point, fit-for-purpose tools and technology can cause a ripple effect over time and make it much harder to achieve broader procurement strategy goals. Instead, unifying processes in a single suite and having data in a central repository is far greater than the sum of its parts. By reducing third-party spend across indirect and direct materials through strategic sourcing, contract rationalization, and working capital optimization, organizations can significantly improve cash flow management and unlock revenue streams.

The Role Of Procurement In Resolving Disruptions For Businesses

Disruptions have become the norm, and geopolitical dynamics, increasingly active regulatory environments, and climate change suggest ongoing turbulence. Business leaders are increasingly relying on the procurement function to stabilize and — in some cases — even lead their organizations out of trouble. We found that (see Figure 2):

- **Procurement’s dexterous functionality is table stakes for constantly evolving market conditions.** The digital landscape is massively complex and fragmented, and it’s often hard for procurement leaders to know where to begin when helping the business. However, most surveyed procurement leaders believed their firms have the sufficient agility to effectively adjust to changing requirements and market conditions as previously proved during the pandemic. Procurement leaders need to rethink how they deliver value by adopting more flexible ways of working and a delivery model that is responsive to change and fast-paced environments.
- **Procurement’s role as a strategic business partner continues to rise in stature.** The changing view of the procurement function means that the structures this function follows need to change to generate value beyond cost reduction and transactional efficiency. Strong relationships built by procurement teams have created opportunities for organizations and their suppliers to share their expertise and innovate together, growing their relationships into true strategic partners (81%). In other words, the procurement function is permitting a deeper understanding of suppliers, customers, products, and the business.
- **The evolving role of procurement in achieving business objectives.** Seventy-nine percent of survey respondents cited that procurement is being asked to support more business objectives than it was three years ago. As new demands and shifts in focus areas bring a change to procurement capabilities, they’re also now actively contributing to revenue growth, which means procurement is more aligned with meeting business objectives.

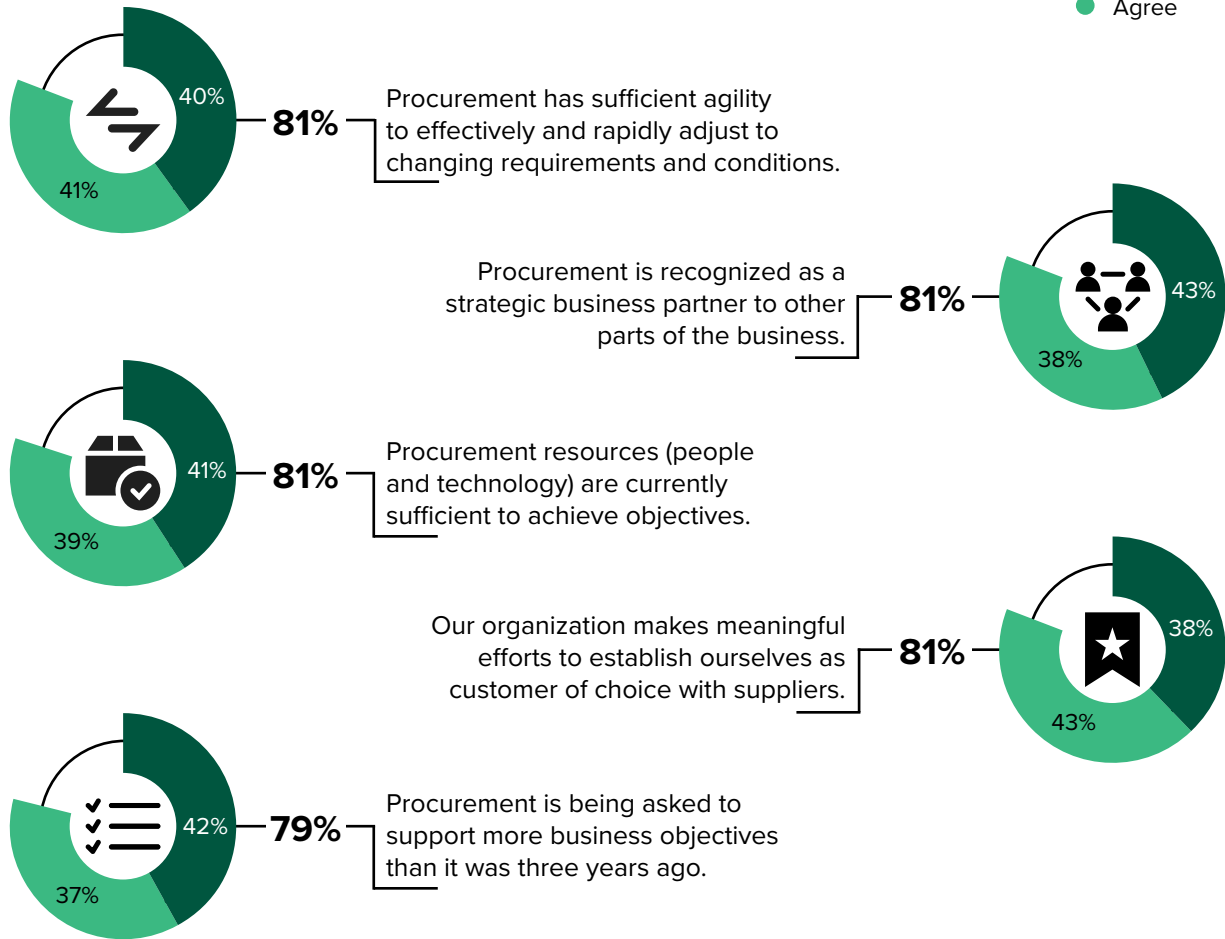
78%
of respondents cited
that procurement’s
stature has increased
in the past year.



Figure 2

Leaders Agree Procurement Is Important

● Strongly agree
● Agree



Base: 470 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Note: Showing top five responses; total percentages may not equal separate values due to rounding.

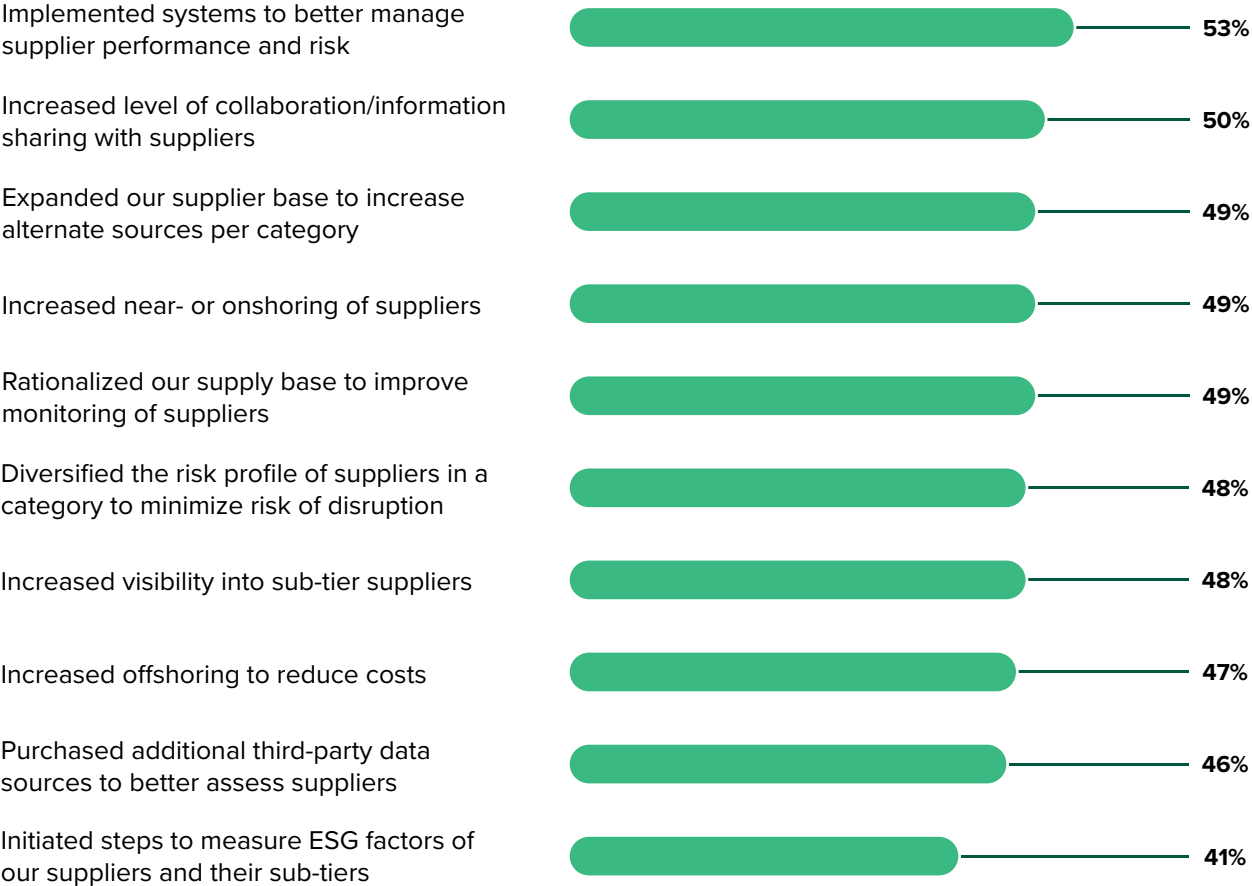
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2023

Supplier Strategies Have Become More Digitized And Collaborative

Changing conditions have forced businesses to rethink their supplier strategies. First and foremost, supplier management has become more digitized and collaborative, using platforms to better assess, monitor, and share information with suppliers. However, the specific strategies being applied vary significantly with some organizations increasing their supply base to ensure alternate sources exist, while others rationalized their supply base to improve monitoring. Similarly, those increasing offshoring of suppliers are almost identical to those bringing their suppliers closer to home. Leaders must holistically assess their specific situation and priorities and align their supplier strategy at the category level by (see Figure 3):

Figure 3

“How have your supplier strategies evolved in the past year?”



Base: 470 procurement decision-makers at companies with 1,000 or more employees across multiple industries
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2023

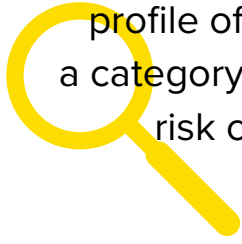
- **Implementing systems to better manage supplier performance and risk.**

Successful procurement leaders analyze and evaluate the performance of suppliers to better manage supplier performance and risk, monitoring and improving their performance continuously — all whilst adapting to the dynamic market conditions. Transparency must extend to sub-tiers to ensure an accurate understanding of risks. This can help organizations reduce costs, mitigate risks, build resilience, and gain a competitive advantage.

- **Increasing collaboration and information**

sharing with suppliers. Procurement's performance can be improved with even incremental changes. These changes create a competitive advantage through making joint decisions, facilitating greater access to external resources, and enhancing supply chain coordination. They can also strengthen long-term partnerships by fostering a culture of proactive communication, transparency, consistency, and knowledge sharing. Relationships procurement teams have built and maintained have also become a powerful driver of innovation and a source of competitive advantage.

Almost half (48%) of respondents said their organizations have diversified the risk profile of suppliers in a category to minimize risk of disruption.



- **Balancing supplier base expansion and reduction.** In these times of volatility and dynamic and changing conditions, a company may apply both strategies of expanding and reducing its supplier base at the category level. Expanding the supplier base can increase alternate sources for each type of product or service the firm needs to procure with a focus to boost revenues. On the other hand, reducing the supplier base can help the company focus on cost reduction by negotiating more favorable terms with a smaller number of suppliers and better monitoring the smaller supplier base. This specific approach would depend on the company's overall procurement strategy and goals and the timing; when reducing its supplier base, the firm would need to carefully evaluate its existing suppliers within each category to determine which ones to continue working with. Equally, various approaches are being applied by focusing on rationalizing their supply base to improve monitoring of suppliers (49%), whilst others may be expanding their supplier base to increase alternate sources per category (49%).

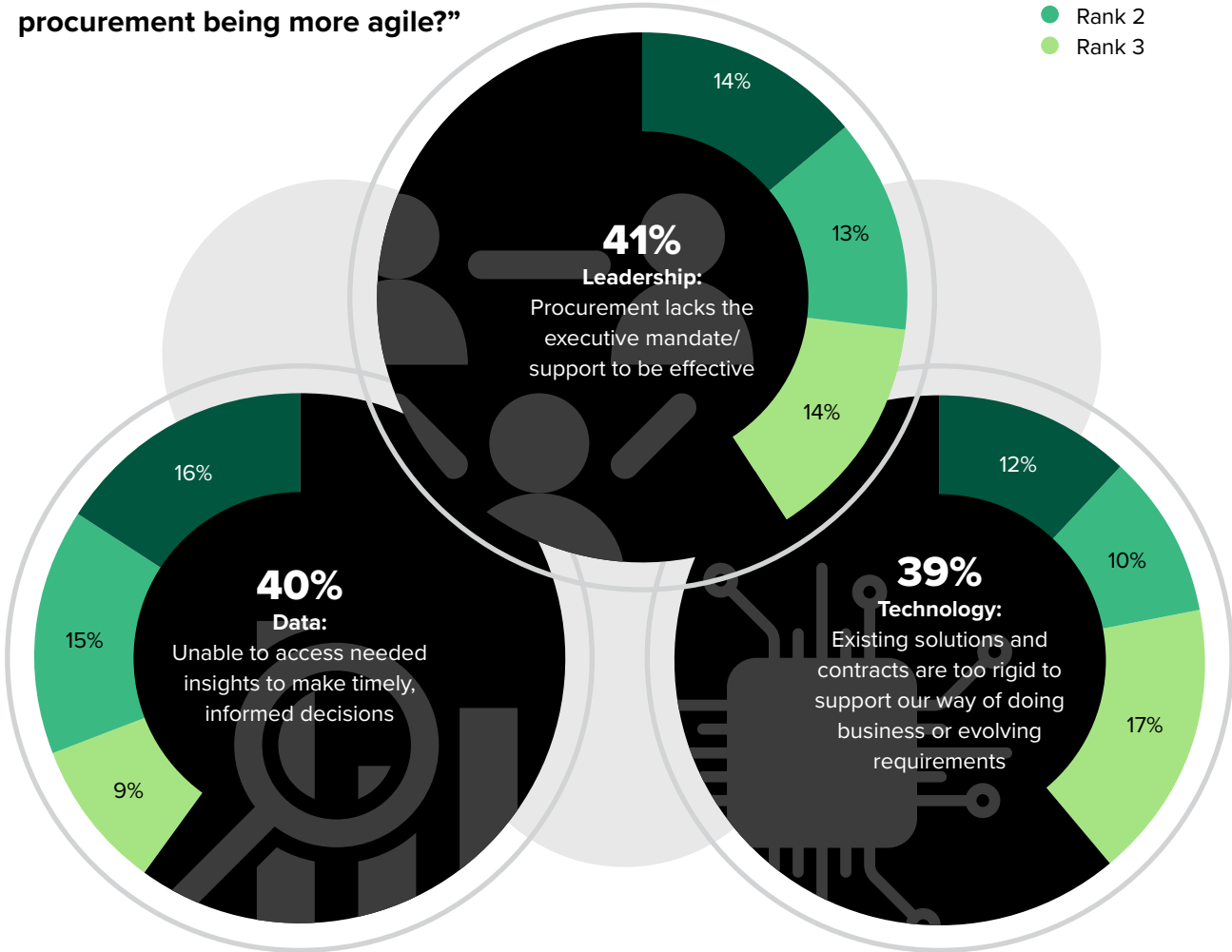
A Lack Of Leadership, Data, And Outdated Systems Hinder Procurement Agility

As procurement’s function becomes increasingly embedded within the business, it’s critical for it to have a clear, long-term strategy to set up for future success, regardless of how conditions evolve. If leaders use their procurement capability wisely, they could do much more than simply contain costs. However, our survey respondents highlighted three key obstacles when it comes to procurement agility (see Figure 4):

Figure 4

“What are the top obstacles to procurement being more agile?”

- Rank 1
- Rank 2
- Rank 3



Base: 470 procurement decision-makers at companies with 1,000 or more employees across multiple industries
 Note: Showing top 3 responses
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2023

- **Lack of an executive mandate to be effective.** Forty-one percent of respondents identified a lack of executive support as a significant obstacle to a more agile procurement function. Without clear support, procurement struggles to effectively engage and align with other parts of the business and obtain the resources required to deliver a competitive advantage to the business.

Respondents plan to prioritize improving data quality over the next 12 months.



- **Data challenges that hinder procurement effectiveness.** There is more data available and required than ever before, but quality is poor and often spread among disparate systems, making access difficult and hindering effective business decision-making. Having access and making sense of data is incredibly important for procurement leaders to not only improve cash and cost but also transform existing practices to create a more resilient business.
- **Inflexible and monolith technology systems that don't support evolving procurement requirements.** Cloud-based systems have brought a range of benefits over legacy, on-premises models, including faster time to value and lower total cost of ownership (TCO). However, they often come with greater rigidity, which is becoming a growing handicap, stifling business innovation and agility. Procurement teams need to adopt more agile and modular systems that leverage emerging technologies, such as robotics, artificial intelligence, blockchain, and the internet of things (IoT), which can improve efficiency and other processes. Systems must scale to support new information requirements and enable business users to adjust processes in a simple, self-service manner. Thirty-nine percent of respondents cited inflexible systems as a barrier to procurement evolving. To create an agile and mature procurement function, leadership should facilitate by means of providing resources that combine the virtues of human creativity and digital technology. It is business-critical to invest in and apply the right technology that is fit for purpose to support and improve existing processes to meet evolving requirements.

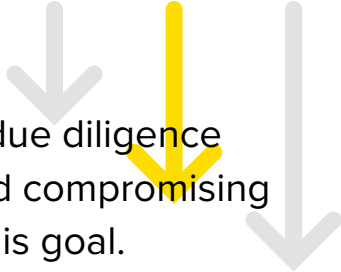
Procurement Is Battling To Support Broad And Competing Objectives

In rapidly changing business environments, procurement leaders face the complex challenge of supporting competing objectives. They must navigate a delicate balance between reducing costs, maximizing profits, and improving operational efficiency while also managing risks and ensuring supply chain resilience.

This requires a deep understanding of organizational goals and needs as well as the ability to adapt quickly to changing circumstances. However, balancing these objectives can be difficult and sometimes contradictory priorities can stifle an organization’s progress. Supply chains in some companies have as many as 25 tiers across multiple countries and rely on legacy systems for data. As such, it is a tough ask to reorder supply chain around environmental, sustainability and governance (ESG) imperatives.

76%

of respondents said they have compromised due diligence to ensure supply continuity while 73% reported compromising performance on other objectives to achieve this goal.



MITIGATE SUPPLY CHAIN RISKS AND GAIN A COMPETITIVE ADVANTAGE

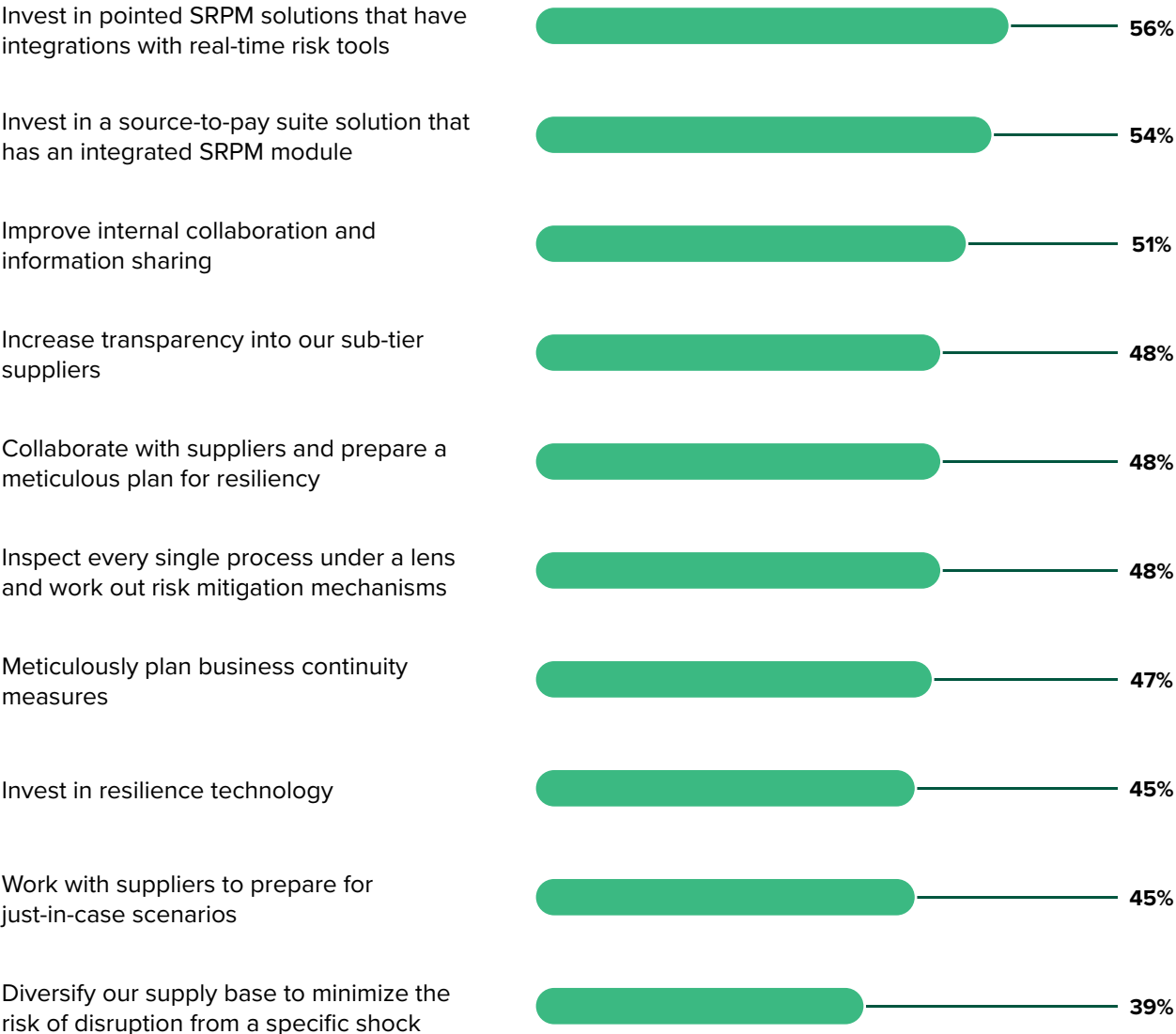
The supply chain crisis threatened to leave a permanent scar in organizations. CEOs and their leadership teams have been expected to do the impossible task of cutting costs while improving the quality of their companies’ goods and services and simultaneously making their businesses faster, innovative, and more sustainable.

Business leaders realize that a short-term solution may fix the issue but not solve the overarching problem. The procurement function is the secret weapon that could help them not only ride out of the storm but also position them for the future.

Respondents noted their procurement organizations are focusing on technology and enabling better collaboration to prepare their firms for the future. They have invested in modern, flexible AI-powered technology to address current crucial business initiatives in enterprises. To manage supply chain risks, they are investing in a mix of specialist SRPM solutions or an SVM suite with embedded SRPM capabilities (see Figure 5).

Figure 5

Steps Firms Are Taking To Mitigate Supply Chain Risks



Base: 470 procurement decision-makers at companies with 1,000 or more employees across multiple industries
 Note: Showing top 10 responses
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2023

Procurement also uses technology to facilitate interactions with suppliers as strategic value contributors, get transparency into their sub-tiers, and proactively prepare resiliency plans for the just-in-case scenarios. We found that:

- **SRPM solutions reduce supplier risks and boost procurement outcomes.** More than half (56%) of respondents said their organizations are investing in SRPM solutions to reduce their exposure to supply chain disruptions, increase operational efficiency and cost savings, and enhance their supplier relationships to gain a competitive advantage in the market.
- **Source-to-pay (S2P) solutions achieve better procurement outcomes.** S2P solutions can handle all the procurement processes from sourcing to payment. They also have built-in modules that manage supplier risk and performance throughout the procurement cycle. They can also enhance visibility, collaboration, and adaptability in procurement, so it's no surprise that 54% of respondents leveraged these tools to mitigate risks and gain a competitive advantage.
- **Collaborate and share to optimize procurement.** Surveyed procurement leaders recognized the value of working together and sharing data across different functions and departments; 51% noted improving collaboration and information as a top step to mitigate supply chain risks. Internal collaboration and information sharing can help procurement teams align their goals, strategies, and processes with the rest of the organization. It can also enable them to leverage collective intelligence, expertise, and resources to optimize sourcing decisions, supplier relationships, and risk management. By improving internal collaboration and information sharing, procurement leaders can enhance their efficiency, effectiveness, and innovation in delivering value to their stakeholders.

EFFECTIVELY COMBAT THE EFFECTS OF INFLATION

Mitigating the impact of inflation has quickly moved from a non-issue to a top business priority. This has presented a particular challenge for procurement for a couple of reasons.

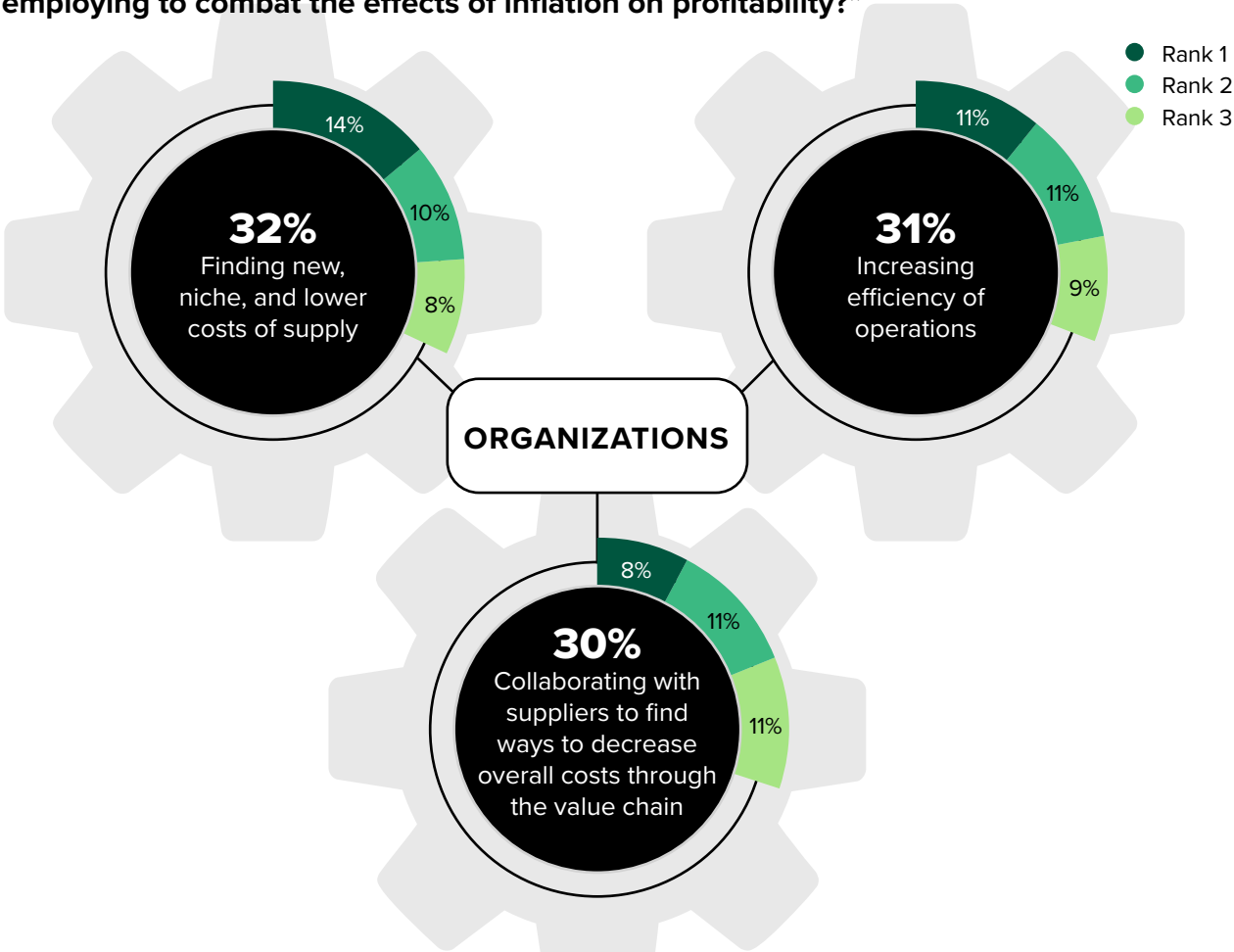
Firstly, traditional approaches to cost reduction, such as negotiating lower prices, have limited potential in the face of surging inflation throughout supply chains and can even harm the overall health of the supply chain.

Secondly, businesses must balance inflation mitigation with other challenges and objectives. For instance, shifting to low-cost remote suppliers can reduce costs but must be carefully managed to avoid impacting resilience or exposing the business to ESG risks, such as child or forced labor. Similarly, while closer collaboration with suppliers can improve resilience, squeezing suppliers on prices or extending payment terms can reduce a company's attractiveness as a customer of choice.

Procurement is employing the following strategies to combat the effects of inflation (see Figure 6):

Figure 6

“Which of the following are the top strategies procurement is employing to combat the effects of inflation on profitability?”



Base: 470 procurement decision-makers at companies with 1,000 or more employees across multiple industries
 Note: Showing top 3 responses
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2023

- **Finding new sources of supply.** To mitigate the impact of inflation on profitability, surveyed procurement leaders noted exploring new sources of supply. Instead of pressuring existing large suppliers for better value, businesses can actively seek out new, nimble suppliers that offer more competitive pricing and better value. This approach can help procurement lower costs, diversify risks, and access innovation. By ensuring alternate suppliers exist, procurement can also increase their bargaining power and improve their ability negotiate better deals.
- **Streamlining processes for maximum impact.** Procurement leaders noted employing a strategy of improving operational efficiency. By looking inward and identifying opportunities to streamline processes, eliminate waste, and optimize resource utilization, procurement can lower costs and increase productivity while enhancing quality. For this to happen, organizations must retrain a new generation of strategic buyers and attract star talent through measures such as employee training and development; focusing on key skills such as negotiation; utilizing contract management systems; and building strong vendor relationships. Further, recruit a broad range of support staff that includes super forecasters, master data engineers, AI programmers, and robotic-maintenance engineers.
- **Collaborating with suppliers.** Surveyed procurement leaders noted they are increasingly working with suppliers to find ways to reduce overall costs. One approach is to evaluate the composition of products and identify lower-cost alternatives that can still meet quality standards. By collaborating with suppliers in this way, procurement builds trust and fosters innovation while creating value for both parties. This strategy can also help procurement and suppliers work together to find mutually beneficial solutions that reduce costs while maintaining quality.

Technology Must Become More Flexible To Enable Greater Procurement Agility

Although agility has become a prominent topic in recent years, increased agility is not a goal in itself; it is a means to achieve a certain business outcome (see Figure 7).

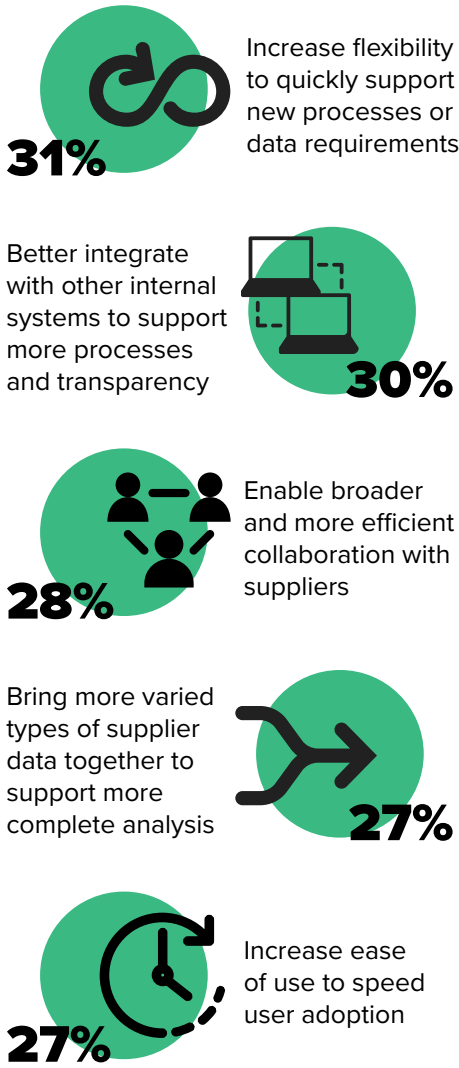
Becoming agile means a procurement delivery model that fosters speed, flexibility, innovation, and cross-functional, collaborative ways of working.

In a business transformation sense, agility strengthens the organization’s position; it increases its readiness to address unforeseen risks, such as supply chain disruptions, and deal with evolving demands, such as those from consumers and/or ESG guidelines. It’s no surprise then that 31% of procurement leaders cited providing greater flexibility to support new processes or data requirements as the top requirement for technology to improve.

As new risks, such as cybersecurity, grow in importance and regulatory requirements increase, more data is required than ever before. Often, these requirements extend beyond simply adding a field to an existing form but require entirely new tables. For example, carbon emissions reporting requirements require a broad set of information. Technology must support broad expansion of reporting.

Furthermore, capturing and reporting is often not sufficient. To drive meaningful results without complicating the process for employees, new information must be incorporated into intelligent workflows. To reduce carbon emissions, the products that appear in employee catalogs should be intelligent and display those approved products that

Figure 7
“How can your existing spend management technology best improve to enable greater procurement agility?”



Base: 470 procurement decision-makers at companies with 1,000 or more employees across multiple industries
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2023

have lower total carbon footprints based on employee location and other factors. Such expansion cannot be dependent on vendor R&D, which is unpredictable and takes months or years.

Processes also must be flexible, both to adapt to changing conditions and to enable business innovation. Standardization to best practices is a great starting point, but it puts organizations on par with competitors. As procurement looks more towards supporting top-line growth, there is a growing need to do strategic things differently — and better — than competitors. Technology must support such variety from one customer to another and do so in a rapid manner that doesn't require consultants or technology vendor development.

Key Recommendations

Forrester's in-depth global study identified several key recommendations for chief procurement officers (CPOs) and procurement teams to navigate their organizations in an uncertain environment:

Redefine the procurement function so that it is fit for purpose.

Firms should put their procurement function at the heart of their relationships with suppliers. The procurement function should be given the resources to create a future-fit function that combines the virtues of human creativity and digital technology. Firms must invest in modern technology and train a new generation of strategic buyers. And to make this all happen, there should be a board-level commitment to elevate the role of procurement.

Take a holistic view of technology.

Technology choices have lasting effects which can either enable or stifle future performance. Leaders must consider how technology will address immediate needs as well as how it will support unknown data and process requirements in the future. Be sure that investments improve data quality and access, rather than creating further siloes.

Ally with your firm's suppliers to chart it on the sustainability journey to meet ESG imperatives.

Firms are realizing that if they want to be known as a leading high performer that meets its ESG obligations, it needs the active support of its suppliers. The procurement function is made responsible in such leading firms to adjust their sourcing strategies for low-carbon business and work with suppliers to deliver ESG standards. Join the race for net-zero carbon emissions and ascertain the upstream emissions suppliers produce. Keep your eyes on not just the "E" in ESG but also tackle the "S" and "G," too.

Boost your organization's supply chain resilience by adopting just-in-case thinking.

Stabilize your firm's supply chains at the first indication of a crisis. Approach the A suppliers and proactively work on black swan scenarios. Work your measures for both parties to ride out the storm, including measures to protect against financial risks. Secondly, chart out means to stabilize the supply chain. Finally, codevelop long-term strategies with your suppliers to make your company more resilient and future fit.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 470 procurement leaders at organizations in Europe, North America, and Asia Pacific to evaluate the role procurement plays in the age of uncertainty. Survey participants included directors, vice presidents, and C-level executives. Questions provided to the participants asked how their procurement function is performing, what priorities and initiatives they're focusing on over the next 12 to 24 months, how procurement can unlock value, how their supplier strategies have evolved in the past year, and how to best improve procurement agility. The study began in November 2022 and was completed in March 2023.

Appendix B: Demographics

REGION	
Asia Pacific	11%
Europe	56%
North America	33%

SIZE	
1,000 to 4,999 employees	53%
5,000 to 19,999 employees	33%
20,000 or more employees	14%

INDUSTRY	
Financial services	16%
Consumer product goods	15%
Manufacturing and materials	12%
Healthcare	11%
Technology services	10%
Automotive	9%
Construction	9%
Retail	9%
Telecommunication services	8%

POSITION OF RESPONDENT	
C-level executive	8%
Vice president	20%
Director	72%

RESPONSIBILITY OF RESPONDENT RELATED TO ORGANIZATION'S PROCUREMENT SOLUTIONS	
Final decision-maker	16%
Part of a team of decision-makers	58%
Influence decisions	26%

Note: Percentages may not total 100 due to rounding.



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