

Decoding confidence in the procurement function

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About the research

This paper analyses the key priorities and challenges facing the procurement function today. It spans critical themes such as risk management, supplier engagement, external workforce management, collaboration and technology adoption. The paper also explores the impacts of current business trends on procurement, notably macroeconomic uncertainty and rising expectations for the performance of environmental, social and corporate governance (ESG) principles.

Economist Impact conducted a global survey of 500 C-level executives across organisational functions, including chief financial officers (CFOs), chief operations officers (COOs), chief procurement officers (CPOs), chief supply chain officers (CSCOs) and chief human resources officers (CHROs). The objective was to explore how businesses and industries are transforming procurement to meet existing and emerging challenges amid disrupted supply chains, rising costs and growing uncertainty. It also examines trends regarding the future of procurement to ensure the function's optimisation.

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- Giles Breault, co-founder, The Beyond Group
- Omid Ghamami, CEO, Procurement and Supply Chain Management Institute (PSCM Institute)
- Anne-Gaëlle Gonet, global procurement director, INSEAD
- Nick Jenkinson, managing director, Verto Solutions
- Pierre Mitchell, chief research officer and managing director, Spend Matters
- Andrew Newnham, CPO, Marks & Spencer
- Stéphane Morel, global process owner within strategic procurement, Novartis
- Rob Turner, CPO, Deliveroo

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Procurement Confidence Barometer and results

As an outcome of the research for this report, Economic Impact created a Procurement Confidence Barometer designed to measure survey participants' perception of efficacy across various areas of procurement performance. This barometer uniquely takes into account the views of procurement leaders in addition to the function's stakeholders—highlighting the attention factors received within the procurement function and vice versa. Here, we explore its high-level findings.

The barometer found that more than half of surveyed executives were improving procurement as 60% expressed confidence in procurement's performance on managing risks and relationships with stakeholders. This is despite an overwhelming number of companies reporting their willingness to invest in digitalisation for enhancing procurement.

The vote of confidence in procurement's capabilities—as shown in the barometer below—does not guarantee

that companies will improve procurement or even use this function at their full capacity in a crisis. As the barometer results indicate, more attention and action are required to ensure that the procurement function evolves in a manner that aligns with organisational goals and delivers greater value.

Click [here](#) to view the methodology, data overview, and past and upcoming research on the procurement landscape.



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Procurement Confidence Barometer	Advancing procurement	Improving procurement	Emerging procurement	Average	Minimum score	Maximum score	Chief financial officer (cfo)	Chief operating officer (coo)	Chief procurement officer (cpo)	Chief supply chain officer (csco)	Chief human resources officer (cho)
	75-100	50-74	0-49								
Overall Score	75-100	50-74	0-49								
1) Procurement Collaboration		59		59.2	54	66	66	59	62	54.7	54.3
1.1) C-suite confidence in procurement relationships				60.7	57	69	69.3	57.3	61.0	57.3	58.3
1.1.1) Intra-organisation collaboration with procurement				53.2	47	62	62	47	55	51	51
1.1.2) Supplier management role				73.0	66	81	81	66	68	76	74
1.1.3) Long-term supplier management				55.8	45	65	65	59	60	45	50
1.2) C-suite confidence in supplier satisfaction with procurement services				68.6	62	71	71	71	71	68	62
1.3) C-suite confidence in the supplier network				55.8	45	65	65	59	60	45	50
2) Procurement Risk Management		59		59.0	53	67	66.7	58.7	58.7	53.3	57.7
2.1) Confidence in procurement risk management (internal)				63.8	58	70	70	58	66	58	67
2.2) Confidence in procurement risk management (external)				64.4	62	69	69	64	62	62	65
2.3) Confidence in procurement ESG implementation				48.8	40	61	61	54	48	40	41
3) Procurement Digitalisation Appetite	92.9			92.9	90	96	89.5	90.5	93	95.5	96
3.1) C-suite prioritisation of digital transformation in procurement				86.4	80	93	80	82	86	91	93
3.2) C-suite use of emerging technology for delivering value				99.4	99	100	99	99	100	100	99

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Executive summary

Over the last three volatile years, procurement has become one of the most important functions within organisations, playing a critical role in determining business resilience. The covid-19 pandemic and cumulative geopolitical and macroeconomic crises, such as the US-China trade war and the Russian invasion of Ukraine, have fundamentally challenged long-held expectations of an increasingly interconnected world economy.

“I think we are heading into a political situation where supply chains at their base are going to be under threat. Organisations are increasingly looking at supply risk,” says Giles Breault, who is the co-founder of The Beyond Group and was previously the CPO at Novartis. Significant supply chain disruptions to production are now predicted every 3.7 years on average.¹

Geopolitical tension and inflation are not the only pressures facing procurement. Government policies and regulations are also forcing decision-makers to adapt and rethink their supply networks, from massive spending and subsidy programmes like the US\$370bn US Inflation Reduction Act (IRA) and the European Green Deal to

tightening environment, social and governance (ESG) regulation.^{2,3} Procurement teams must navigate these challenges while supporting their organisations’ growth.

Over the last three volatile years, procurement has become one of the most important functions within organisations, playing a critical role in determining business resilience.

Historically, procurement has struggled to gain equal footing in the organisational hierarchy. Companies spend 20-40% of annual revenue on suppliers and service providers, from raw materials to cloud providers. Yet procurement typically receives less than 1% of budget allocation, indicating its perception to be of low priority for budget owners.⁴

To understand how senior leaders view procurement’s place in the enterprise, Economist Impact, sponsored by SAP, conducted a survey of 500 C-suite leaders in

January-February 2023. Building on a 2022 executive survey on procurement, this latest iteration looks at how executives perceive procurement teams, the actions taken to navigate and mitigate risk, their ability to work collaboratively internally and externally, and the pace and constraints of digital transformation. This briefing paper analyses the results through an extensive interview programme with procurement leaders from a range of industries, including banking, pharmaceuticals and retail.



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¹ McKinsey and Company, July 19, 2021. “Responding to inflation and volatility: time for procurement to lead”. [https://www.mckinsey.com/capabilities/operations/our-insights/responding-to-inflation-and-volatility-time-for-procurement-to-lead] Accessed March 29, 2023.

² World Resources Institute, October 28, 2022. “The Inflation Reduction Act, in Short”. [https://www.wri.org/update/brief-summary-climate-and-energy-provisions-inflation-reduction-act-2022] Accessed March 29, 2023.

³ KPMG, November 2021. “European Green Deal Policy Guide”. [https://kpmg.com/xx/en/home/insights/2021/11/european-green-deal-policy-guide.html] Accessed March 29, 2023.

⁴ Future of Sourcing, September 20, 2020. “The case for changing the chief procurement officer role”. [https://futureofsourcing.com/the-case-for-changing-the-chief-procurement-officer-role] Accessed March 29, 2023.

The key findings of this report are:

- Inflation re-emphasises cost and risk for resilience:** experts cite inflation as the reason behind cost (35.7%) and risk (26.6%) management emerging as twin top priorities in the executive survey two years in a row.
- Supply chain visibility is the need of the hour for all businesses:** geopolitical uncertainties, like the covid-19 pandemic and war in Ukraine, have made executives realise they don't have sufficient visibility on their supply chains. Reflecting this uncertain landscape, the 2023 Economist Impact survey reflects a sharp 13.6 percentage point jump, from 16% in 2022 to 29.6% in 2023, in prioritising supply chain visibility to manage organisational risks in the year ahead.
- Procurement is shifting towards a people-centric approach:** procurement leaders are reimagining how to nurture and foster relationships with their teams, contingent workers, business leaders and supplier network. Both supplier relationships and operating models are being equally prioritised (28.2%) to manage organisational risks in the next 12-18 months.
- Procurement is enhancing its user experience (UX) to drive strategic business alignment:** nearly a third of the surveyed executives selected UX as the key driver for the digitalisation of procurement. At the same time, half the executives cited people/relationship management as vital to UX improvement for procurement. This is an area where emerging technologies will likely play a key role through developments like AI-enabled chatbots.
- Category improvement through technology is driving innovation:** the need for improved category intelligence shows promise for maintaining competitive advantage in a volatile global economy. Nearly a third of executives view category management as the top technological trend to implement in the coming year. Simultaneously, more than a quarter view it as a key driver for digital transformation in procurement. Consequently, the utility of should-cost analysis is top of mind for category developments.
- Predictive analytics could unlock confidence in procurement:** business leaders plan to invest in and implement data and forecasting-driven solutions to manage costs, risk and growth. About a third of all executives picked spend analytics as the main driver of digitalisation, a trend that resonated across all functions apart from the CPOs, who prioritised relationship management instead.
- Outsourcing and external workforce utilisation continue to rise, redefining 'core' and 'periphery':** business leaders are continuing to leverage the external workforce, with risk reduction (30.8%), cost-saving initiatives (30%) and flexible workforce planning (29.6%) the top drivers for doing so. A third of procurement leaders cite external workforce management as a top driver for digital transformation within procurement. COOs were the most likely to say that a reliance on the skills provided by external workers was a top reason for turning outwards, selected by 27%.

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2023: the year of expanded risk and cost management

Cost and risk management were the first (35.7%) and second (26.6%) most-cited ways that organisations are planning to enhance procurement value in the coming months, according to our survey. Both held their top-priority positions from the 2022 survey, although risk reduction was selected by a higher percentage (37.9%) last year.

The continued emphasis on risk management as a value driver reflects today's ceaselessly uncertain business environment. Procurement decisions that hedge or manage risk are existentially important and valuable for the business. Risk management is not just a defensive measure to temporary shocks but a health check for the soundness of the organisation as a whole. Managing risk in an integrated and systematic way, through end-to-end procurement processes, delivers a controlled and well-managed supply chain base, according to Rob Turner, director of procurement and supply chain at Deliveroo.

On a regional basis, our survey found that cost management was more likely to be a priority for enhancing procurement value in the North America and the Europe, Middle East and Africa (EMEA) regions than in the

Asia-Pacific (APAC) region. This may reflect lower inflation in the APAC region, which peaked at 5.5% compared with around 9% in Europe and North America.^{5,6}

The continued emphasis on risk management as a value driver reflects today's ceaselessly uncertain business environment.

Andrew Newnham, CPO at Marks & Spencer, explains that cost will be a massive factor in the next financial year. Mr Newnham says, "we're expecting the economy to be really tough in retail in the run-up to when it peaks during Christmas, which sets the tone for the following year. But now there's an expectation that it might be quite tough over the next couple of quarters. Hence, there will be a big cost-savings drive."

On a functional basis, CFOs were far more likely to see cost management as a leading priority for enhancing procurement's value, selected by 46% compared with

the survey average of 35.8%. This indicates a potential mismatch in expectations between CFOs versus CPOs and CSCOs in the months ahead, with CFOs expecting greater cost containment measures.

Mr Newnham adds that costs are wider than price, and cover business efficiency, "because when you're dealing with suppliers and the wider economy, we're looking for more than savings. We're looking to learn from our suppliers in order to change the way we do things and change our business processes." Mr Newnham notes that this is how they set themselves up for the future, as it [cost] cuts across everything, in line with the third-highest focus area for enhancing procurement value on the 2023 survey—speed and efficiency.

Nick Jenkinson, managing director at Verto Solutions, also points out the massive focus from regulators on companies' base controls and forecasts. Our survey shows that supply chain visibility was the most-cited priority for organisational risk within procurement over the coming 12-18 months, chosen by 29.6% of respondents. This is a significant jump from 16% in last year's survey.

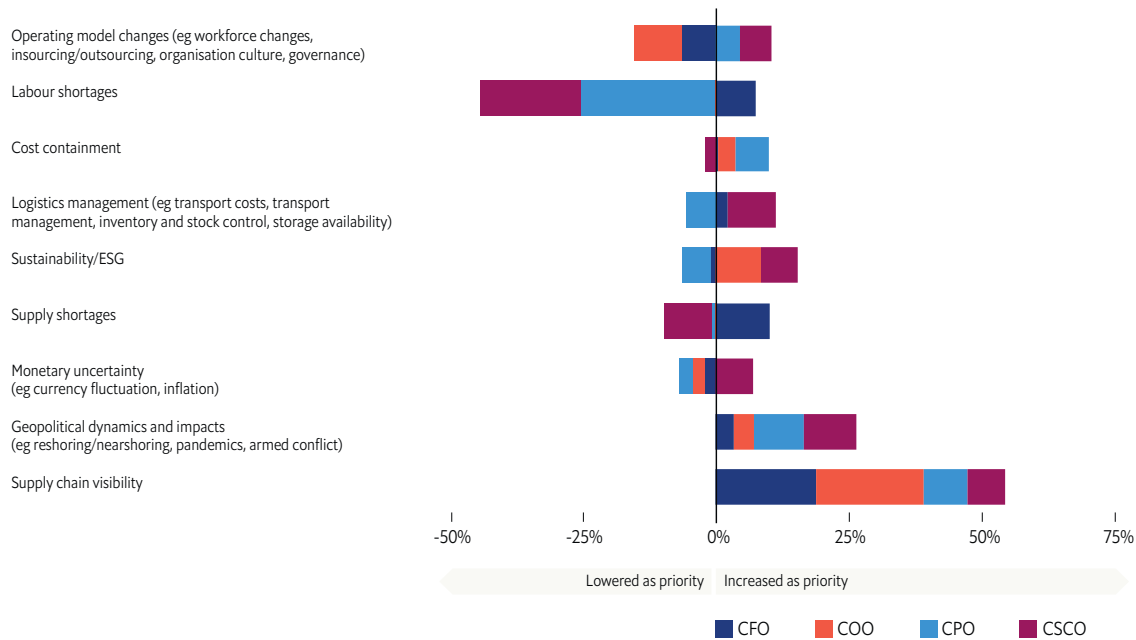
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⁵ J.P. Morgan Asset Management. "Inflation in Asia Pacific - A different phenomenon". [https://am.jpmorgan.com/sg/en/asset-management/liq/insights/liquidity-insights/updates/inflation-in-asia-pacific-a-different-phenomenon/] Accessed March 28, 2023.

⁶ CNBC. "Asia's inflation has peaked compared with major economies in other regions, Morgan Stanley says". [https://www.cnbc.com/2022/08/16/inflation-in-asia-has-peaked-morgan-stanley-says-.html] Accessed March 28, 2023.

Figure 1: Changing organisational priorities between 2022 and 2023



Source: Economist Impact

Increased visibility also facilitates greater category intelligence and foresight. Should-cost analysis was voted by 27.2% of respondents as the number one area of category management to be improved with technology. This implies that companies will likely invest more in understanding the true cost dynamics in their supply chain, especially at a time of volatile prices.

Anne-Gaëlle Gonet, global procurement director at INSEAD, observes that should-cost approaches are not new, but contemporary data and analytics tools have improved the sophistication and speed at which they can be performed, likely bringing it to the fore. Automation and parametric cost models can sift thousands of combinations and produce models that would take human analysts weeks or months.⁷

Interestingly, small and mid-sized companies are more likely to invest in should-cost capabilities enabled through technology. This will continue as evaluating all costs takes on a more regular, automated process as the companies scale. The challenge is particularly acute for mid-sized firms, as products and services become too voluminous and fast-moving for manual checks and estimates to suffice.⁸

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⁷ McKinsey and Company, July 19, 2018. "Find cost opportunities with today's should-cost analysis". [https://www.mckinsey.com/capabilities/operations/our-insights/operations-blog/find-cost-opportunities-with-todays-should-cost-analysis] Accessed March 29, 2023.

⁸ Harvard Business Review, July 30, 2021. "Midsize companies need a systematic approach to cost analysis". [https://hbr.org/2021/07/midsize-companies-need-a-systematic-approach-to-cost-analysis] Accessed March 29, 2023.

The way in which companies are adapting to risks is also forcing companies to review their operational models. Nearly 28.2% of the executives cited operating model changes as their top priority in the coming 12-18 months, closely matching the previous year when it was cited by 31.3%.

Companies are struggling to contain costs in the current inflationary environment and suppliers across most categories are applying significant increases. This forces us to reassess our supplier base and adapt our strategy," says Ms Gonet. In addition to the macroeconomic risks today, procurement's ability to meet strategic objectives and increasing performative demands hinges upon how agile and data-driven its systems might get.⁹

ESG: off the agenda?

The convergence of procurement's role in the supply chain with non-traditional organisational goals, such as sustainability and diversity, has started to shape its role within the organisation. Procurement's responsibility to adopt and embed processes that align with their organisation's net zero targets has increased as companies focus on including indirect

emissions reporting, sustainability criteria and science-based targets in end-to-end processes.¹⁰

In accordance with this, our survey shows that sustainability is an increasingly important driver for procurement over the next 12-18 months, though gains are relatively modest. It was cited as a top priority for organisational risk by 25% of executives in 2023, only a slight increase from 22.3% in the previous year. However, sustainability moved up the priority list in 2023, from being ranked sixth in 2022 to fifth this year.

The convergence of procurement's role in the supply chain with non-traditional organisational goals, such as sustainability and diversity, has started to shape its role within the organisation.

Yet on average, only 48.8% of respondents are confident in procurement's ability to deliver on the company's ESG goals, compared with 62.4% and 63.8% who felt confident

in procurement's ability to manage external and internal risk, respectively. This is a stark reminder of procurement's roadblocks in implementing sustainability objectives, despite playing a bigger role in navigating organisational risk in recent years.

Sustainability was a significantly lower priority for small and mid-market companies, our survey found, with only 10.5% of the smallest tier selecting it as an organisational risk priority. Reasons may include lower brand and reputation risk from inferior ESG performance, lack of resources to invest in ESG capabilities, and the fact that sustainability risk is more dynamic in companies with a larger geographical footprint and supply network, which are thereby exposed to more hazards and regulatory shifts. However, ESG regulations are likely to converge over time to support alignment with international norms, making awareness of market shifts critical for all companies, irrespective of their size. Moreover, those planning geographical expansion in the future will benefit from an ESG profile aligned with the most regulated markets.

The survey also found large companies are much more likely to be considering or implementing supplier sustainability applications in the coming 12-18 months as

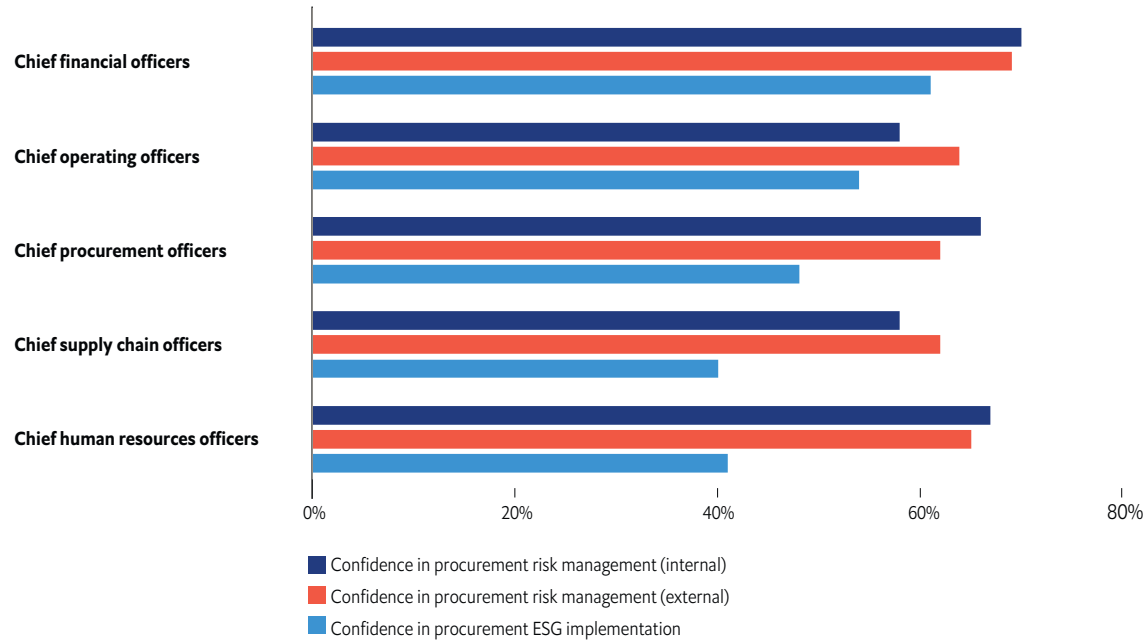
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⁹ Procurement Magazine, October 17, 2022. "The evolution of the procurement function depends on AI & HI". [https://procurementmag.com/articles/the-evolution-of-the-procurement-function-depends-on-ai-hi] Accessed March 28, 2023.

¹⁰ Spend Matters, August 30, 2022. "ESG leadership: The CPO needs a seat at the top table to operationalise the sustainability strategy". [https://spendmatters.com/2022/08/30/esg-leadership-the-cpo-needs-a-seat-at-the-top-table-to-operationalize-the-sustainability-strategy/] Accessed March 28, 2023.

Figure 2: Confidence in procurement risk management



Source: Economist Impact

part of their technology strategy (28.3% versus 17% and 19% of small and mid-tier firms), further suggesting that larger firms place more emphasis on ESG objectives due to a larger emphasis on reputational risks.

Procurement teams are in the difficult position of measuring and tracking supply chain performance. The absence of common ESG standards and metrics to evaluate suppliers and a lack of transparency from some vendors and partners could mean that smaller firms will struggle more to engage in ESG more broadly beyond regulatory requirements.¹¹

The survey also shows a disparity in the prioritisation of ESG across functions and geographies. CSCOs, who shoulder the majority of a company’s ESG responsibility, were much more likely to see sustainability as a leading way in which the organisation enhances procurement value. The trends further highlight a possible lack of a clear vision and alignment for the rest of the business, with only 20% of companies using sustainability measures as the primary criterion for sourcing decisions and supplier reviews.¹² A similar gap appears geographically, with respondents from the Americas far more likely to feel confident in procurement’s management of ESG at 72.7%

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¹¹ IDC. September 2022. "The role of the circular economy in sustainable IT procurement". [https://www.delltechnologies.com/asset/de-de/solutions/business-solutions/industry-market/idc-whitepaper-the-role-of-the-circular-economy-in-sustainable-it-procurement.pdf] Accessed March 29, 2023
¹² Procurement Magazine. January 16, 2022. "McKinsey: Two-thirds of ESG footprint lies with suppliers". [https://procurementmag.com/sustainable-sourcing/mckinsey-two-thirds-esg-footprint-lies-suppliers] Accessed March 29, 2023.

than those in APAC (36.3%) and EMEA (40%), suggesting that the adoption of sustainability measures is lagging in most of the world's supply chains.

Overall, the low emphasis on ESG is a worrying finding, since up to two-thirds of a company's emissions come from its supply chain, making procurement departments crucial in gathering, analysing and reporting emissions data and identifying ESG-compliant vendors.¹³ This goes beyond raw materials and manufactured inputs to include, for example, IT and software. Vendor selection alignment with sustainability goals has become essential throughout the life cycle for circular supply chains.¹⁴

"We need to align with the sustainability function, as procurement has a huge impact on Scope 2 and 3 emissions," says Stephane Morel, global process owner within strategic procurement at Novartis. For CPOs, the ESG transition requires not just higher levels of visibility and engagement on carbon emissions in the supply chain and partner ecosystem, but all aspects of sustainability, from water use to circularity. The 'social' and 'governance' pillars of ESG require more attention as governments strengthen scrutiny and reporting obligations to tackle issues including modern slavery, bribery and corruption.

For some companies, the crises of the last year may have pushed ESG down the list of organisational priorities, according to Mr Morel. He says true ESG focus is also highly dependent on the priorities of the leadership level 'above' the CPO.

Overall, the low emphasis on ESG is a worrying finding, since up to two-thirds of a company's emissions come from its supply chain, making procurement departments crucial in gathering, analysing and reporting emissions data and identifying ESG-compliant vendors.

Mr Jenkinson points out that structural factors may lead to ESG falling off the radar in times of instability and volatility, when multiple competing priorities arise.

"You need an operating model that provides the time to focus on your critical goals, whether they be risk, cost or ESG related. We all face resource allocation decisions, and this requires an effective operating and resource model," he says. "In a climate where everyone is focused on inflation and risk, I can see why sustainability may become less important [without that in place]. The true leaders in the field are those who can balance conflicting priorities and still drive the organisation forward effectively, which should include key sustainability goals."

Companies cannot afford to neglect ESG. Regulations will only tighten in terms of obligations and consequences, and consumer expectations continue to heighten as evidence of the climate crisis becomes incontrovertible. Moreover, procurement leaders can look to ESG not simply as an additional compliance requirement but as an opportunity to drive value in the organisation. As renewable energy becomes more cost-competitive, for instance, CPOs can help their organisations transition to an ESG-friendly model that drives improvements in cost structure and increases operational resilience to the geopolitical shocks that can destabilise oil and gas markets.¹⁵

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¹³ Procurement Magazine. January 11, 2023. "Intelligent Procurement- the rise of advanced business models". [https://procurementmag.com/articles/intelligent-procurement-the-rise-of-advanced-business-models] Accessed March 29, 2023.

¹⁴ IDC. September 2022. "The role of the circular economy in sustainable IT procurement". [https://www.delltechnologies.com/asset/de-de/solutions/business-solutions/industry-market/idc-whitepaper-the-role-of-the-circular-economy-in-sustainable-it-procurement.pdf] Accessed March 29, 2023.

¹⁵ Proxima Group. December 2022. "2023 CPO Report". [https://insights.proximagroup.com/cpo-report-2023/] Accessed March 29, 2023.

Cybersecurity risk: out of focus?

Cybersecurity was only the fourth-highest organisational risk priority in our survey, cited by 27% of respondents. Cybersecurity was a bigger priority for small firms at 31.6% and for respondents in the APAC region at 36.3%.

The overall lower status of cybersecurity could be a problematic outlook, given that cyberattacks are growing more sophisticated as hackers specifically target supply chain weaknesses.

Cybersecurity is now an issue far beyond the purview of the IT team and especially impacts sourcing and vendor management. The 2017 WannaCry attack affected more than 200,000 organisations and individuals across 150 countries. The UK's National Health Service (NHS), which has a complex supply chain, gave criminals plenty of entry points to identify weak links.¹⁶ The Solar Winds hack of 2020, affecting roughly 18,000 customers and notably the US Departments of Health, Treasury and State, showed

the far-reaching impact of cybercrime on the supply chain.¹⁷ In 2022, a cyberattack on Toyota's supply chain led to the shutdown of 28 production lines.¹⁸

Supply chain risks can emerge in any third-party vendors or providers with physical access to information systems, software code or intellectual property (IP).¹⁹ The increasingly online basis of procurement itself also opens new, high-value entry points for hackers and nefarious actors. Procurement teams need an integrated picture to map supplier cybersecurity standards, vendor security ratings and reporting issues.²⁰

Recent research has raised alarms about a lack of preparedness in the procurement and supply chain departments. The UK government's Cyber Security Breaches Survey 2021 found that just 12% of businesses reviewed security risks arising from immediate suppliers, and only one in twenty looked into security risks stemming from the wider supply chain. In addition to low visibility into supply chains and limited recognition of supplier

risk, the UK government noted that cybersecurity risks to supply chains stem from insufficient tools and expertise to evaluate supplier cyber risks as well as structural imbalances that limit the ability to take action.²¹ Poorly trained staff are another leading risk factor. In one incident at MacEwan University, a fraudster posing as a major supplier convinced staff to transfer US\$11.8m into a criminal account. An internal audit group concluded that controls were substandard.^{22,23}

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¹⁶ Crown Commercial Service. March 1, 2023. "How to build resilience and strengthen the cyber security procurement process- Procurement Essentials". [https://www.crowncommercial.gov.uk/news/how-to-build-resilience-and-strengthen-the-cyber-security-procurement-process-procurement-essentials] Accessed March 29, 2023.

¹⁷ Dina Temple-Raston. April 16, 2021. "A 'worst nightmare' cyberattack: the untold story of the SolarWinds hack". [https://www.npr.org/2021/04/16/985439655/a-worst-nightmare-cyberattack-the-untold-story-of-the-solarwinds-hack] Accessed March 29, 2023.

¹⁸ CPO Magazine. March 9, 2022. "Toyota's Supply Chain Cyber Attack Stopped Production, Cutting Down a Third of its Global Output". [https://www.cpomagazine.com/cyber-security/toyotas-supply-chain-cyber-attack-stopped-production-cutting-down-a-third-of-its-global-output/] Accessed March 31, 2023.

¹⁹ National Institute of Standards and Technology. February 2021. "Best practices in cyber supply chain risk management". [https://csrc.nist.gov/CSRC/media/Projects/Supply-Chain-Risk-Management/documents/briefings/Workshop-Brief-on-Cyber-Supply-Chain-Best-Practices.pdf] Accessed March 29, 2023.

²⁰ Harvard Business Review. July 10, 2018. "Purchasing managers have a lead role to play in cyber defense". [https://hbr.org/2018/07/purchasing-managers-have-a-lead-role-to-play-in-cyber-defense] Accessed March 29, 2023.

²¹ UK Government. November 15, 2021. "Call for views on cyber security in supply chains and managed service providers". [https://www.gov.uk/government/publications/call-for-views-on-supply-chain-cyber-security/call-for-views-on-cyber-security-in-supply-chains-and-managed-service-providers] Accessed March 29, 2023.

²² CBC News. April 04, 2018. "MacEwan University recovers bulk of \$11.8M lost in online phishing scam". [https://www.cbc.ca/news/canada/edmonton/macewan-university-recovers-most-of-11-8m-online-phishing-scam-1.4604729] Accessed March 29, 2023.

²³ ProcureCon Indirect. 2021. "Here's how the procurement industry can understand and meet the challenges of cybersecurity". [https://procureconwest.wbresearch.com/blog/heres-how-the-procurement-industry-can-understand-and-meet-the-challenges-of-cybersecurity] Accessed March 29, 2023.

“Cybersecurity was only the fourth-highest organisational risk priority in our survey, cited by 27% of respondents.”

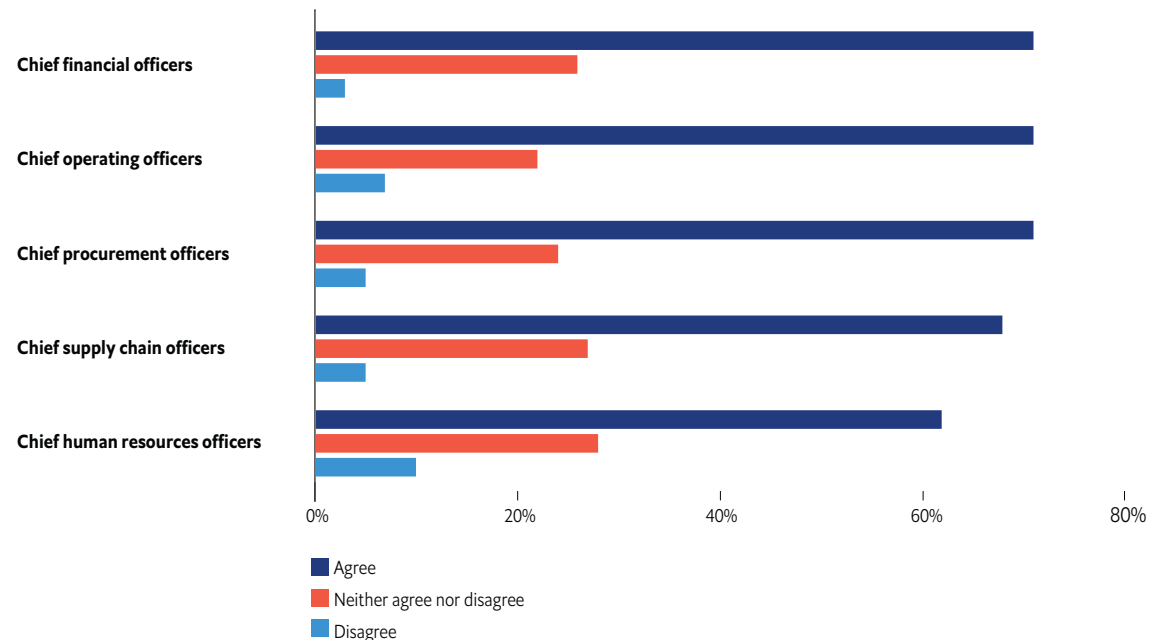


Room to improve supplier relationship management

Currently, company executives spend only 1% of their time with suppliers, a negligible amount considering it's where 50% of their budget goes.²⁴ Unsurprisingly, nearly a third of the surveyed executives felt that tier 1, 2 and 3 suppliers were either dissatisfied or unsure about their procurement teams.

While tier 2 and tier 3 suppliers have gained importance as supply chains gain complexity, supplier engagement levels have remained suboptimal, especially for smaller firms, according to our survey. Only 36.8% of the smallest firms and 61.6% of medium-sized firms thought that tier 1, 2 and 3 suppliers were happy with their organisation's procurement services, and one in four respondents overall are 'on the fence', neither agreeing nor disagreeing about whether their suppliers were happy. Larger companies were much more likely (82.1%) to express confidence in their suppliers' positive experience. Size appears to determine how confident companies are in their suppliers' ability to deliver on expected outcomes, with only 40.4% of the smallest firms expressing confidence, compared with 63.5% and 72.5% of medium to large firms, respectively.

Figure 3: Tier 1, Tier 2, and Tier 3 suppliers are happy with your organisation's procurement services



Source: Economist Impact

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²⁴ Harvard Business Review, May 18, 2022. "The Semiconductor Crisis Should Change Your Long-term Supply Chain Strategy". [https://hbr.org/2022/05/the-semiconductor-crisis-should-change-your-long-term-supply-chain-strategy] Accessed April 03, 2023.

Supplier relationships can become strained during periods of volatility and uncertainty. For example, seeking cost control during inflation can lead procurement teams to reallocate volume where they already have multiple suppliers to choose from, but this could compromise long-term relationships and even trigger contract term violations or lead to disadvantageous pricing structures.²⁵

Experts warn that suppliers’ experiences can be compromised if procurement teams focus unduly on cost-cutting as a value driver for their organisation. “This concept of achieving all your savings by sitting around the table with the supplier and hammering them to accept less profitability so you can report more savings, that’s a big problem,” says Omid Ghamami, CEO of the Procurement and Supply Chain Management Institute (PSCM Institute).

For Marks & Spencer’s Mr Newnham, companies should look at how they can improve their processes to support supplier engagement levels. Buyers with problematic procurement can, he says, actually drive up supply chain costs.

Executives overwhelmingly agree that procurement plays an important role in supplier management, as indicated

by 73% of respondents. However, fewer (55.8%) believe in procurement’s relationship management capabilities, the least of all were CSCOs (45%).

Experts warn that suppliers’ experiences can be compromised if procurement teams focus unduly on cost-cutting as a value driver for their organisation.

According to Pierre Mitchell, chief research officer and managing director at Spend Matters, there is a burgeoning need for better supplier relationship management: “The single largest mega shift is from a sourcing-centric view to a supplier-centric view. The world is moving towards a customer-of-choice space where companies want the best suppliers working with the best customers, and to do that you have to be good at supplier relationship management. Supplier relationship management unlocks more levers in terms of working together on total cost and joint cost through, for example, multi-tier sourcing. It’s

the philosophy of being partners underneath the ongoing renegotiations that helps unlock supplier collaboration in an area such as new product design that can create more revenue and a ‘win-win’ for both parties.”

Mr Turner at Deliveroo recommends that procurement teams reflect on how their suppliers see them. “Do they think that because we’re growing quickly we’re a strategic customer, so they position us in a ‘strategic development box’, or do they, because we are a pain to work with, put us in the ‘exploit’ box, whereby they want to work with us transactionally and make as much money as they can?”

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²⁵ Art of Procurement. 2022. “Collaborating with suppliers to blunt the impact of inflation”. [https://resources.artofprocurement.com/hubfs/Collaborating%20with%20Suppliers%20Inflation%20White%20Paper.pdf] Accessed March 29, 2023.

“Do they think that because we’re growing quickly we’re a strategic customer, so they position us in a ‘strategic development box’, or do they, because we are a pain to work with, put us in the ‘exploit’ box, whereby they want to work with us transactionally and make as much money as they can?”

Rob Turner,
CPO, Deliveroo

The evolving external workforce

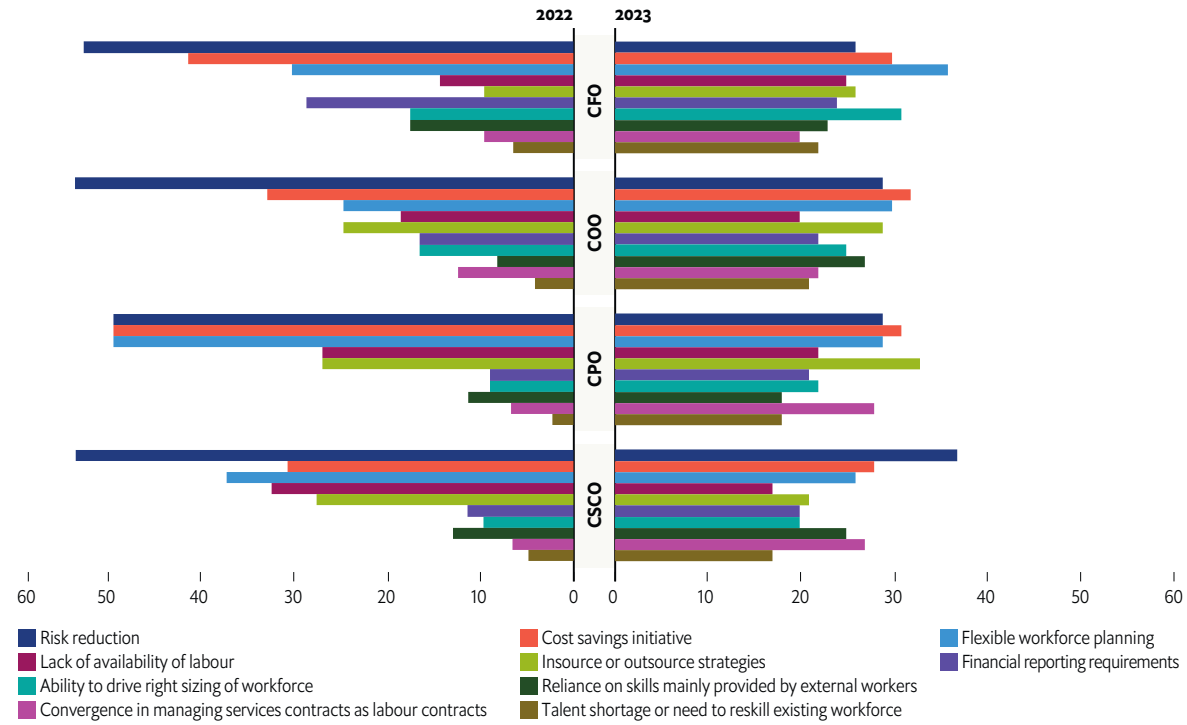
Many companies utilise talent from outside their core full-time employee base, a trend accelerated by the pandemic and the normalisation of more flexible working arrangements. External workforce strategies have evolved from treating non-payroll labour as a contingent resource limited to ‘temps’ and occasional independent contractors to a broader engagement including outsourced services, talent platforms, direct sourcing and marketplaces.²⁶

The drivers of external workforce utilisation today are “capacity, capability or core competence related,” according to Mr Jenkinson at Verto Solutions. He explains that the external workforce strategy should be a key element in defining the overall approach to talent within the organisation.

Our previous survey in early 2022 found that nearly 50% of firms planned to increase the use of external labour, driven by factors including risk reduction (53%), cost-saving (38.6%), flexible workforce planning (35.3%) and a lack of available labour (23.3%).²⁷

This year’s results show a continuation of this trend, with risk reduction (30.8%), cost-saving initiatives (30%),

Figure 4: Reasons for external workforce use 2022-23



Source: Economist Impact

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²⁶ Vish Baliga. May 27, 2022. "Reducing risk through external workforce management". [https://hrnews.co.uk/reducing-risk-through-external-workforce-management/] Accessed March 29, 2023.
²⁷ Economist Impact. June 27, 2022. "Looking out: the rise of the external workforce and its impact on internal functions". [https://impact.economist.com/perspectives/sites/default/files/sap_minipaper_final_version.pdf] Accessed March 29, 2023.

flexible workforce planning (29.6%) and insource or outsource strategies (27.4%) cited as the top drivers for the uptake of an external workforce.

The shift in the prioritisation of insource and/or outsource strategies by the C-suite this year not only reflects a competitive landscape for supply chain management, but also changing requirements in the core competencies of managing these successfully.

Insourcing and outsourcing: redefining the core?

Insourcing and outsourcing strategies are among the leading reasons for leveraging external workers, ranked fourth out of 12—and this is especially true for CPOs, for whom 33% cited it as top reason, and COOs, at 29%. CSCOs view risk mitigation as the primary reason for increasing the use of external workers, whereas COOs and CPOs see it more as a cost-saving initiative.

In terms of priority areas to develop the external workforce, increased visibility of the total workforce (40.8%) and balancing internal and external workers

(40.8%) feature at the top. On a functional level, prioritisation varies, with 47% of CHROs and 43% of CSCOs wanting to focus largely on balancing internal and external workers, while 47% of CPOs prefer increased visibility.

Insourcing and outsourcing strategies are among the leading reasons for leveraging external workers, ranked fourth out of 12—and this is especially true for CPOs, for whom 33% cited it as top reason, and COOs, at 29%.

Increased visibility is a top focus area for over half of respondents from the Americas in the next 12-18 months, which explains their limited confidence (39%) in the procurement team's ability to manage internal risks, including workforce issues from insourcing/outourcing, internal relationships, and visibility. For APAC and EMEA, the numbers were 75.4% and 74.3%, respectively.

Post-pandemic, COOs are taking a more strategic and concerted approach to managing costs, where capabilities are more important than workforce size in maintaining resiliency.²⁸ Expanding worker skills to include new areas of knowledge on carbon accounting, geopolitical risks, use of digital tools and interpersonal skills are opportunities for the procurement function going forward.²⁹ Contingent workforce programmes and talent networks offer advantages to companies trying to satisfy diverse workforce requirements and provide the best source of talent in multiple sets of circumstances, delivering returns on investment beyond savings.³⁰

On one hand, skills provided by external workers have paved the way for greater outsourcing by companies. In our survey, COOs were the most likely to say that a reliance on the skills provided by external workers was a top reason for turning outwards, with 27% selecting this option compared with only 18% of CPOs and 16% of CHROs. The disparity is par for the course for procurement leaders in particular, who tend to work with their teams in siloes.

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²⁸ PwC. October 2022. "COOs refine their teams, supplier relationships and digital defenses". [https://www.pwc.com/us/en/library/pulse-survey/business-growth-through-recession-uncertainty/coo.html] Date Accessed March 31, 2023.

²⁹ Proxima Group. 2023. "2023 CPO Report: what's next for procurement?". [https://www.proximagroup.com/resource/2023-cpo-report-whats-next-for-procurement/] Date accessed March 31, 2023.

³⁰ Art of Procurement. "12 Point Checklist for Transforming Contingent Workforce Management". [https://resources.artofprocurement.com/transforming-contingent-workforce-management] Date accessed March 31, 2023.

In fact, Mr Ghamami explains that one of procurement's chief struggles is the silo within which it operates, noting that the function is typically held responsible for allowing these siloes to be created but "has not yet focused enough on having allegiance to the business unit performance criteria and making the business units successful." So, despite a gainful contingent workforce, procurement teams will only benefit so much without greater collaboration with the organisation.

On the other hand, executives also cited balancing their internal and external workers and increasing the visibility of the total workforce as the top priorities (both at 40.8%) for managing the external workforce—likely a concerted effort at the executive level to reduce future risks. According to a third of procurement leaders, external workforce management (31%) is also a top driver for digital transformation within the function. This is in line with the executive sentiment arising from recent crises (eg covid-19 and the Russian invasion of Ukraine) to ensure companies better collect and analyse information, particularly pertaining to their external stakeholders, including contingent workers and suppliers.

Tilting the risk scales with contingent labour

Our survey flagged several considerations with external workforces. For nearly a third of companies (28.2%), operating model changes—including workforce changes and insourcing/outourcing—is a top procurement priority for organisational risk management over the next 12-18 months, showing an awareness that external workforce engagement may help resolve.

The main barrier to using external workforces, the survey found, is the risk of confidential data exposure (47.2%), followed by a negative impact on organisational culture (45%), limited work visibility (40.6%) and complexity and the time taken for onboarding and offboarding (40.2%). The risk of sensitive information leaks is intrinsically linked to the increasing prevalence of cyberattacks faced by companies today. Procurement and human resources (HR) are especially vulnerable to these attacks due to the commercially sensitive information they manage, such as bid information, personal data, financial details and company and customer information.³¹

However, the survey indicates a perception mismatch concerning the relative responsibility of HR and procurement concerning the external workforce. Nearly half (46%) of respondents think that HR is responsible for managing the external workforce, while 29.8% say procurement is responsible. Importantly, CFOs were significantly more likely to consider it an HR responsibility rather than a procurement one, at 59% and 21% respectively. Given the often-superior position of CFOs in the C-suite hierarchy, this could impact procurement's 'voice' and resources in shaping external workforce strategies going forward.

The survey also revealed a progressive shift in attitudes based on company size. Small firms were far more likely to consider HR to be responsible for external workforce management rather than procurement, at 54.4% versus 15.8%. The balance shifts in mid-sized firms (48.8% versus 22.2%) and again in the largest (41.7% versus 39.6%). This indicates that procurement's mandate for external workforce management becomes more prominent in larger firms. One explanation could be that, at larger scales, external workforce engagement could be more structured and strategic rather than simply adding individual workers to support specific workflows.

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31 CIPS. May 25, 2017. "Procurement and cyber attacks - what you need to know". [https://www.cips.org/supply-management/news/2017/may/procurement-and-cyber-attacks---what-you-need-to-know/] Accessed March 28, 2023.

Procurement and HR teams will have to balance the need to access skills and competencies in which HR is best-placed to lead with appropriate controls and checks. This could include ensuring complete onboarding and offboarding to avoid lingering access to systems and IP and/or applying an up-to-date understanding of regulatory shifts in employers’ legal responsibilities to external workers. Procurement and HR teams should work closely to create and maintain a holistic talent strategy, as they share responsibilities.³² Business trends indicate a growing need for these two functions to collaborate in the future. This shift will be driven by rising labour shortages, increasing reliance on services procurement and contingent labour, and companies’ desire for the right strategy to guide outsourcing versus insourcing and optimising the process of securing, negotiating and monitoring external talent.³³

Mr Jenkinson recommends a strategic approach. It should start with the quantum of work to be done and, from there, identify “the talent best placed to undertake those tasks, whether it be full-time employees, contingent labour or a statement of work where we are buying an outcome”. Risk management approaches will then vary significantly based on whether you are paying for a specific worker, in which case screening is on an individual basis, or buying an outcome. While there’s quite a bit to be done in this space, he adds that bringing cross-functional teams to make these decisions is paving the way forward.



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³² Vish Baliga. May 27, 2022. "Reducing risk through external workforce management". [https://hrnews.co.uk/reducing-risk-through-external-workforce-management/] Accessed March 29, 2023.
³³ Harvard Business Review Analytic Services, "Talent Disruption: Strategic Workforce Planning in the Age of Labor Shortages". [https://news.sap.com/2022/07/once-in-a-generation-opportunity-workforce-innovation/] Accessed March 29, 2023.

Collaborate to innovate

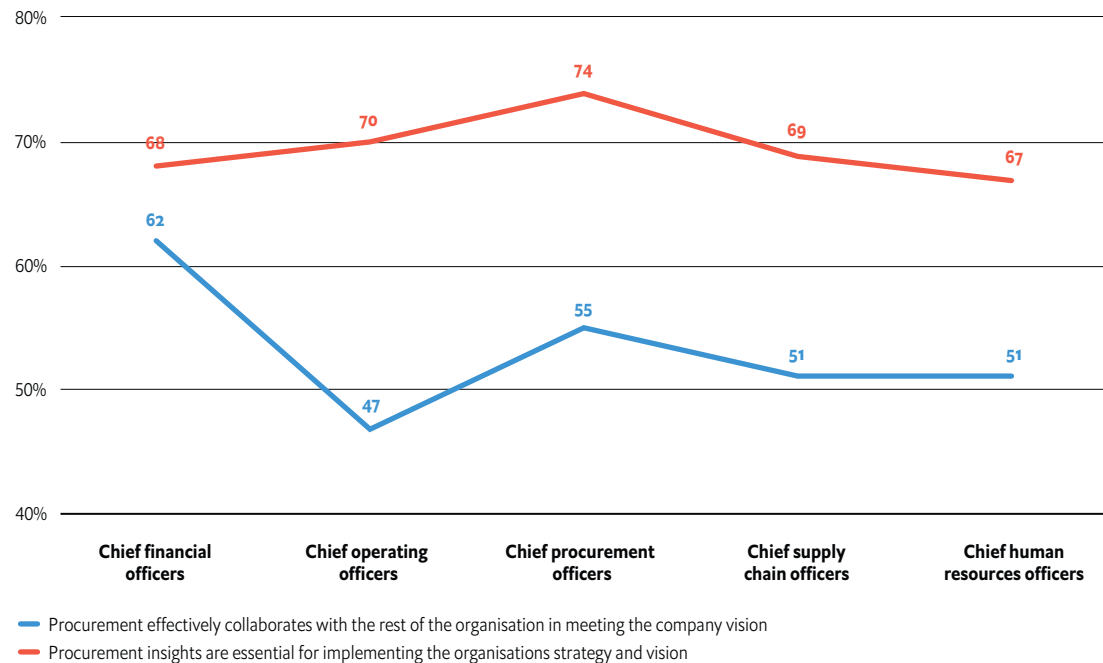
Procurement is inherently a collaborative function, working with internal operations and external partners on a daily basis. But procurement teams often experience friction or misalignment on both fronts, leading to poorer outcomes.

In one striking example, a procurement unit stockpiled steel in anticipation of price increases but did not co-ordinate with the supply chain team. As a result, the warehouses were inundated and the steel ended up rusting, therefore becoming unusable, after being kept outdoors.³⁴

Only half (53.2%) of the executives in this year's survey agree that procurement is effectively collaborating with the rest of the organisation in meeting the company vision; the figure was less than half (47%) among COOs, arguably the position best placed to make this assessment given their operational oversight. COOs were also the most likely reporting line for procurement teams in the 2022 survey at 33.5%, giving them deeper insights into the function's performance.

Yet 69.6% of respondents believe that the procurement function's insights are essential for implementing an organisation's strategy, showing a positive perception of this role in principle. Respondents from the largest

Figure 5: C-suite confidence in effective procurement management



Source: Economist Impact

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³⁴ McKinsey and Company, July 19, 2021. "Responding to inflation and volatility: time for procurement to lead". [https://www.mckinsey.com/capabilities/operations/our-insights/responding-to-inflation-and-volatility-time-for-procurement-to-lead] Accessed March 29, 2023.

companies were much more likely to agree with this statement, at 80.8% compared with 40.4% of the smallest firms, indicating that perceptions of procurement’s contribution tend to be higher in larger companies.

Improving procurement’s internal collaboration outcomes requires shifts in perception in the broader organisation and within procurement itself. Procurement can help drive this shift by actively engaging with teams across the company to ensure it is part of the early stages of planning and decision-making in areas that could affect it later. This type of collaborative alignment would likely improve confidence from other teams in the procurement function.

One study found that stakeholders are typically 57% of the way through the buying process before they pursue commercial conversations with a prospective supplier.³⁵ As a result, procurement teams do not usually engage with internal stakeholders until after the scope and specification have been defined and a preferred supplier has been identified. In such a context, procurement is forced to be a price reducer rather than a value driver and finds itself swimming against the tide of pre-formed stakeholder preferences.³⁶

Experts note that procurement is often in an inferior position once commercial conversations begin. “We are positioned as a cost centre instead of a profit centre,” says Mr Ghamami. “As a result, we’re not resourced effectively.” He also notes how sales teams spend around a fifth of their time on training while procurement teams, who negotiate with sales, spend a mere 2% on average. “The reason is they [sales] are viewed as rainmakers, as revenue centres.”

One way of improving procurement’s engagement with the wider business is ensuring that reporting lines create the structures for collaboration. Procurement teams too often do not report to the CEO, Mr Ghamami observes, instead reporting to accounting, finance, legal, operations, manufacturing, or corporate services.

Unsurprisingly, whom procurement reports to strongly influences its overall strategy and performance. Although separate from Mr Ghamami’s view, our survey positively found that procurement reporting lines are most commonly directed to the CEO today (in 28% of cases versus 21.9% in last year’s survey), a welcome shift in the importance of procurement to overarching strategic objectives.

Notably, when more procurement teams were reporting to finance last year (29.3% in 2022 versus 23% in 2023), a larger share of procurement leaders perceived cost management as a key method for enhancing procurement value (45% in 2022 versus 31% in 2023). This year, procurement teams’ alignment with CEOs is likely paving the way for sustainability, increased speed/efficiency and digitalisation as key value drivers for the function.

More strategic reporting lines support procurement’s ability to support business goals and establish alignment earlier in the business cycle. Mr Ghamami advocates joint reporting relationships and convergent processes early in the design cycle. “By the time procurement gets involved, most of the problems are already hard coded. Then all we can do is flawless execution to an ill-conceived demand.”

In an example of the benefits of joint reporting, Mr Breault cites a large European auto manufacturer in which procurement and engineering reported to the same person. This meant they had a set of shared performance metrics and collaboratively produced results that engineering could have never done on its own. By acting together, they reduced cost and improved performance across product lines.

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³⁵ Harvard Business Review. March 2015. “Making the Consensus Sale”. [https://hbr.org/2015/03/making-the-consensus-sale] Accessed March 28, 2023.

³⁶ Art of Procurement. 2021. “Part One: A framework for aligning procurement performance with corporate objectives”. [https://resources.artofprocurement.com/procurement-inc-part-one] Accessed March 29, 2023.

Procurement, heal thyself

While perceptions of procurement in the wider organisation can be improved and misperceptions challenged, the function also has itself to blame for some of its lack of clout, experts point out.

“It’s not enough to say ‘we want to sit at the C-suite, and report to the CEO’. There has to be a demonstration of value,” says Omid Ghamami. In part, he argues, value can be shown by ensuring that the money procurement saves through efficiencies and value realisation goes back to the CFO and makes a contribution to earnings before interest and taxes (EBIT), which is often not the case.

Procurement needs to position itself within the context of the wider corporate strategy, not just focus on cost management, which leads to narrow perceptions of value. “[Currently] we’re driving strategies to buy goods and services, which is wrong. We should be driving strategies to buy performance

results,” argues Mr Ghamami. That means engaging earlier in the business process and having a singular focus on performance results. “We’ve misused the early engagement opportunity; we have allegiance to procurement policy and procedures instead of allegiance to business unit performance. The reason we exist is to enable business unit performance at the lowest total cost, not to achieve procurement policies and procedures.”

Procurement’s value offer includes boosting business resilience through diversified supplier portfolios and influencing product and customer strategies through constant monitoring of category and commodity markets and the activities of competitors. Procurement can drive competitive advantage on revenue growth, regulatory compliance and/or operational agility.^{37,38}

“If you are in a tight margin business in this climate, nothing is more important than generating cash

benefits, so you should not shy away from [cost management],” says Nick Jenkinson, the managing director at Verto Solutions. But “you need to be aligned with business objectives and define what role you can play. You can say you were important during covid-19 but how do you keep that in the future? It is often harder to keep a seat at the table than to get one in the first place.”

For Andrew Newnham, ‘partnering with’ the business is critical to improving collaboration and increasing the perceived value of procurement. “I think the nub is how aligned you are with the business, how you demonstrate that you are affecting the business and how relevant you are to the business,” he says. That requires a sound level of process and governance but also the agility needed to deliver an outcome. “Be outward-facing,” he advises. “That does not mean we don’t challenge ourselves. We should have an opinion but that’s an opinion you work through in the business.”

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37 Future of Sourcing. March 09, 2022. “Tracking the evolution of procurement and where it’s going next”. [https://futureofsourcing.com/tracking-the-evolution-of-procurement-and-where-its-going-next/] Accessed March 29, 2023.

38 Art of Procurement. 2021. “Part One: A framework for aligning procurement performance with corporate objectives”. [https://resources.artofprocurement.com/procurement-inc-part-one/] Accessed March 29, 2023.

“While perceptions of procurement in the wider organisation can be improved and misperceptions challenged, the function also has itself to blame for some of its lack of clout, experts point out.”



User experience driving digital transformation

The pandemic spurred digital transformation across functions, compressing years of investment and reform into a matter of months everywhere from telemedicine to touchless retail. It pushed the procurement function out of its traditional hesitancy, driving the adoption of capabilities including artificial intelligence (AI), machine learning, the Internet of Things (IoT) and automation.³⁹ As procurement readies itself for the future, incorporating key advancements that promote efficiency becomes as important as those that enhance UX.

Our survey found that improved UX was the number one area in which respondents planned to use emerging technologies, such as AI, machine learning and the IoT, with 34% of respondents selecting this option. Smaller companies were the most likely to look to technology to support UX, at 43.9%.

For Mr Ghamami, creating user-friendly platforms is vital for procurement units to engage the wider business. “Procurement has to do everything with influence. We’re not in a position to make mandates,” he observes. “As a consequence, UX is extremely

important because people will only engage in procurement and procurement tools if they see the value, not because procurement policy mandates them to.”

The pandemic spurred digital transformation across functions, compressing years of investment and reform into a matter of months everywhere from telemedicine to touchless retail.

Digital innovation is key to improving UX in procurement, with experts noting that big gains have already been made to align the business experience with the consumer experience. However, as INSEAD’s Ms Gonet observes, there is still more work to be done. She says procurement and enterprise resource planning (ERP) software solutions are not very user-friendly and the design clearly is not as engaging as the digital tools users are accustomed to in their everyday lives. “In the ERP world, not enough effort is put into its design, it is information-heavy and not always

logical in terms of the information and presentation,” she says. She predicts the platforms that will succeed are those who will find the right balance between an engaging user interface, comprehensive and simple processes, automation, AI driven decision-making support and embedded BI at all stages of the processes.

Nearly a quarter of respondents plan to implement or evaluate technology trends in supplier sustainability applications to track and monitor ESG (23%) and for supplier discovery (22.6%). Comprehensive ESG reporting can only be achieved if companies can see into their entire ecosystem, while governance regulations require deeper supply chain visibility. In financial services, for example, reforms are widening requirements to encompass more supply chain partners and fourth parties, according to Mr Jenkinson, who recently led a major procurement transformation at Santander.⁴⁰

INSEAD’s Anne-Gaëlle Gonet says technology can help procurement teams to “link the procurement bricks together from budgeting, category management to strategic sourcing, risk and compliance management, supplier performance management and all the

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³⁹ Procurement Magazine, January 11, 2023. “Intelligent Procurement- The rise of advanced business models”. [https://procurementmag.com/articles/intelligent-procurement-the-rise-of-advanced-business-models] Accessed April 13, 2023.

⁴⁰ Bank of England, Prudential Regulation Authority, March 2021. “Outsourcing and third party risk management”. [https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2021/ss221-march-21.pdf] Accessed March 29, 2023.

transactional aspects. With a comprehensive smart procurement solution, we gain useful insights, companywide visibility, and stronger data accuracy to drive fast and efficient decision making.”

Beyond Group’s Mr Breault pinpoints AI as offering particular benefits in supplier discovery and visibility. As one example, it could help with pinpointing and understanding trends that impact supply chains, say if an acquisition were to impinge upon their market. “Do we have complete visibility [on issues like this]? Buyers do not have that at the moment,” he notes. Mr Breault says that companies are struggling with “mountains of data” at the same time as being blind to the underlying sources of problems that might be driving a shift in price or availability elsewhere in the supply chain. “AI could help us understand that.”

Transformation interrupted

While digital technology can support the procurement function, it is yet to be embedded en masse in procurement processes.⁴¹ Our survey found change management and ease of deployment to be the two main

barriers to digital transformation in procurement currently, selected by 33.6% and 32.2% respectively. Company size correlates to the barriers faced. Smaller firms (28.1%) were more likely to report ‘no return on investment’ in digital initiatives than the largest firms (20.8%).

While digital technology can support the procurement function, it is yet to be embedded en masse in procurement processes.

One might assume smaller companies could move faster, but resource challenges override the agility benefits of being small. Yet size brings challenges in both directions. The survey found that the largest organisations were much more likely to cite ease of deployment as the top barrier to digital transformation, selected by 35.4%, compared with 22.8% of small firms.

“Often, smaller organisations have less financial means to have comprehensive procurement technology in place. Even though the maturity varies with the

strategic positioning of procurement within large organisations, most are also struggling to have unified interconnected companywide platforms. There is still significant room for improvement in this area,” says Anne-Gaëlle Gonet.

For Mr Morel, one obstacle to digital transformation initiatives is that decision-makers find it tough clarifying their objectives. “What are the pain points to solve and the outcomes to achieve against a clear existing framework or process map? Otherwise you will receive a salesperson from a software company promising miracles.” He adds that, in the case of start-ups or non-traditional software providers, procurement decision-makers should look not only at the quality of the product but also at the company strategy, culture, the power balance, and whether the buyer can positively influence their product roadmap.

Mr Newnham at Marks & Spencer encourages procurement leaders to take a holistic view of how technology supports the business rather than simply considering whether a given tool works well. “I’ve not seen anything in predictive analytics that changes what

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⁴¹ RFP360. December 29, 2022. “The top 23 procurement technology tools for 2023”. [https://rfp360.com/procurement-technology/] Accessed March 29, 2023.

a good procurement team is,” he argues. “Of course, data is the bedrock, and understanding and interpreting it is more important now, but it’s more about understanding the market you are in and aligning with business strategy and being clear about what you are trying to achieve with suppliers—that’s about having experienced people who understand the supplier’s business.”

However, it is important to note that having a deeper understanding of suppliers and their associated risks and benefits rests with procurement teams that have worked within siloes thus far. This lukewarm reception of predictive analytics’ potential for binding procurement insights with collaboration is no surprise when the adoption of such digital solutions lags automation-related technologies.

Poor data quality and poor integration across applications remain of key concern for procurement leaders. Studies indicate that less than a quarter of CPOs feel confident in their data, while more than half cite issues in deriving meaningful insights due to a skills gap in their workforce.⁴² Procurement efforts to develop more comprehensive and integrated datasets on spend and suppliers are further constrained by a lack of funding for such initiatives.⁴³

In a world of cumulative risks, predictive analytics could hold the key to procurement’s collaboration problem with the rest of the business by offering improved transparency into the function and its relationship with its supplier network—a significant risk highlighted during the covid-19 pandemic for nearly 60% of business leaders.⁴⁴



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⁴² GEP and Sourcing Industry Group. “How AI can accelerate procurements transformation into a strategic function”. [https://www.gep.com/research-reports/how-ai-can-accelerate-procurements-transformation-into-a-strategic-function] Accessed March 28, 2023.
⁴³ Future of Sourcing. March 26, 2021. “Surprise, surprise: procurement has yet to solve its data challenges”. [https://futureofsourcing.com/surprise-surprise-procurement-has-yet-to-solve-its-data-challenges] Accessed March 28, 2023.
⁴⁴ Supply Chain Dive. February 6, 2020. “60% of procurement leaders say lack of transparency is a risk, survey finds”. [https://www.supplychaindive.com/news/procurement-leaders-transparency-risk/571847/] Accessed March 28, 2023.

“Ultimately, it comes down to leadership. My role as a procurement leader is to reposition the role [of procurement] and to be able to tell the value-enabling story [about what they are here to do], and I think that’s where the critical element comes in.”

Nick Jenkinson,
managing director,
Verto Solutions

Conclusion

To be successful in navigating and adapting to the dynamic risk environment—from high inflation to geopolitical instability—collaboration will be key. Cross-functional workflows and continuous communication with all partners, internal and external, will help procurement drive innovation and contribute to strategic and risk management goals.

In a move to longer-term, trust-based relationships with stakeholders, procurement can reevaluate the role of its external partners as an extension of the business. This would result in closer alignment to the organisation's objectives and mission, offering incentives for partners to share their innovations through trust-based relationships.

Clearer communication will be vital for procurement as it seeks better collaboration and decision-making between functions. "Ultimately, it comes down to leadership. My role as a procurement leader is to reposition the role [of procurement] and to be able to tell the value-enabling story [about what they are here to do], and I think that's where the critical element comes in," says Mr Jenkinson.

This shift, in favour of a proactive approach to navigating ongoing and anticipated risks, also necessitates that procurement establish cross-functional relationships. These connections with other teams enable real-time visibility into

the supply chain and a greater ability to assess potential risks. Procurement teams are now dedicating more time to strategic initiatives and developing their own objectives in line with organisational priorities on these issues. As a result, they are expanding their skill sets and leveraging technological solutions, like AI and source-to-pay systems, to meet emerging business needs.

Digital tools and technologies are playing a key role in making supply chains smarter, allowing them to fine-tune solutions in real time and reducing supplier and sourcing risks. Studies estimate that a shift to AI alone could create US\$2trn of value for supply chain management and manufacturing.⁴⁵

Mr Mitchell highlights the need for better supplier management. "If you talk to any CPO and you ask them what they're trying to do, they're trying to create value beyond cost savings. One way to do so is by injecting more insights into the process to help enable business users to manage their own spend. This is a procurement value proposition focused on enablement and best practice rather than forced procurement controls. That value proposition makes it easier for employees to find a new supplier, work better with an existing supplier, resolve contract issues, and overall get better value from the suppliers."

However, this doesn't stop at improving speed and efficiency. "The other [way to do so] is just giving them deeper insights and more market intelligence about what's going on with suppliers and with broader trends in the increasingly complex and risky supply chains," Mr Mitchell adds.

At the same time, emerging technologies, like AI, are challenging executives to reconsider their value proposition. The C-suite is increasingly looking for more user appeal through their interfaces and experiences to drive adoption, revealing a strong customer-centric mindset for procurement leading the way in the medium term.

In today's complex business environment, the procurement function must be closely aligned with the organisation's wider strategic direction. At its best, a well-run procurement unit promotes innovation and growth and mitigates risk. Achieving that requires change both in procurement leaders and the wider C-suite to recognise each other's needs and challenges and work in tandem to deliver on organisational goals.

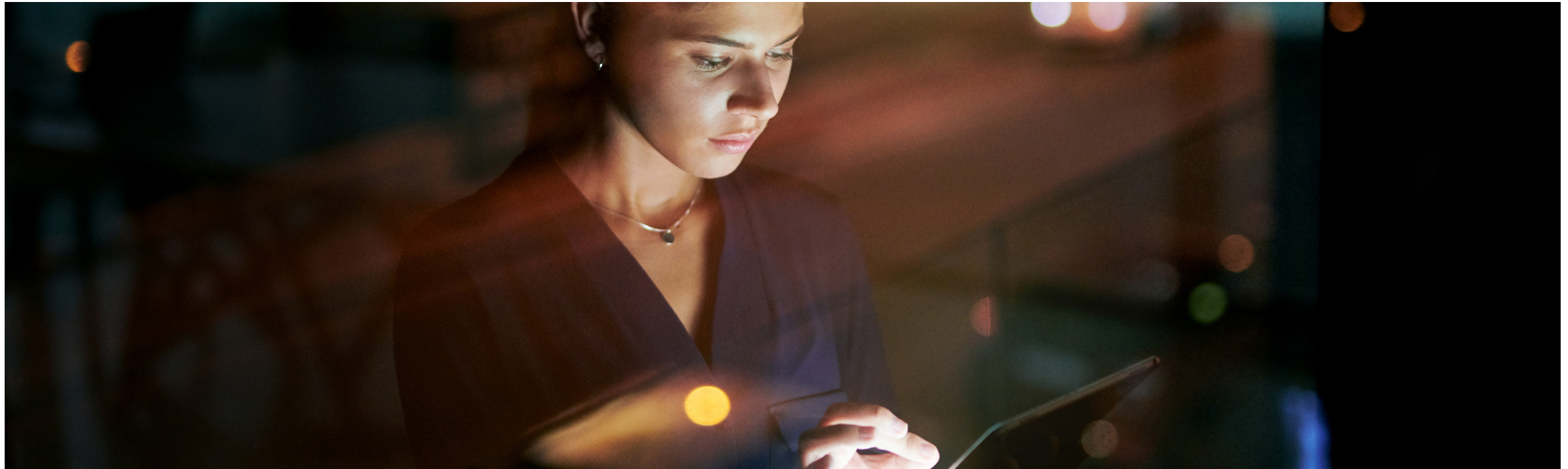
The survey data provides important insights, which the expert discussions have assisted in contextualising. These insights illuminate the perceived strengths and vulnerabilities of the procurement function and, in an ever-changing world, the challenge procurement now faces is to utilise this information to affect meaningful change.

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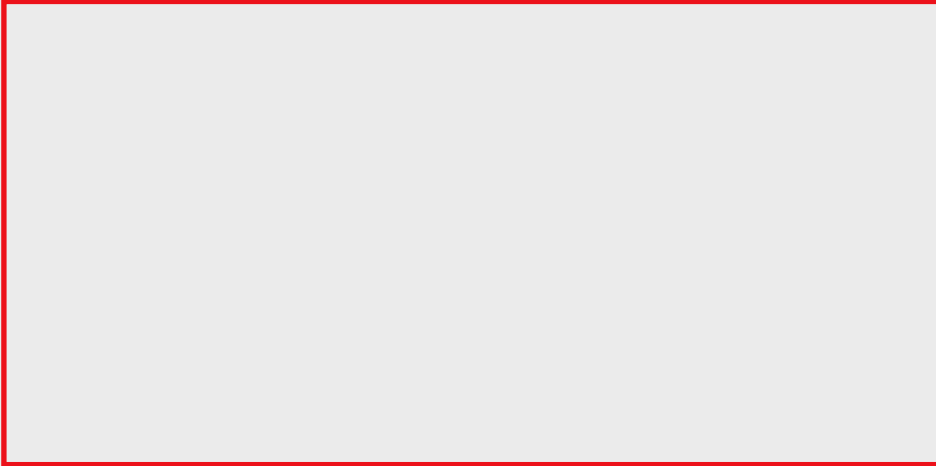
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⁴⁵ The Economist, July 11, 2019. "Digitisation is helping to deliver goods faster". [https://www.economist.com/special-report/2019/07/11/digitisation-is-helping-to-deliver-goods-faster] Accessed March 28, 2023.

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