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The Procurement Confidence Barometer 2023

Methodology report

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The Procurement Confidence Barometer 2023: Methodology

The first iteration of the Procurement Confidence Barometer assesses and compares the level of interest in improving the procurement function for collaboration, risk management, and innovation. The barometer outlines the current state of confidence in the procurement function across Chief financial officers (CFOs), Chief operating officers (COOs), Chief procurement officers (CPOs), Chief supply chain officers (CSCOs) and Chief human resources officers (CHROs). It aims to help these C-level executives gain a clearer understanding of the factors that receive attention and vice versa.

This document contains Economist Impact's methodology for the barometer. The research results will be made available on a dedicated content hub.

This Procurement Confidence Barometer remains one of a kind as it takes into account the views of procurement leaders in addition to procurement's internal and external stakeholders.

This year's barometer includes a total of five senior leadership functions. These roles are selected on the basis of desk-based research identifying key stakeholders involved in procurement enhancements.

The barometer showcases three key metrics for enhancing the procurement function - collaboration, risk management, and innovation. As the remit of the procurement function changes over time, the indicators in the barometer will adapt to measure new phenomena in future iterations to ensure that the barometer remains a relevant benchmark of procurement success. This is particularly true as we've continued to see procurement evolve throughout the recent crises, including the covid-19 pandemic, the US-China trade war, and the war in Ukraine.

The barometer is underpinned by an Executive Survey, which focuses on the relationship between the procurement function and its stakeholders in developing and enhancing procurement capabilities.

Acknowledgements

Economist Impact drew on the expertise of highly respected experts in the field of procurement and supply chains to provide input on the methodology, data sources and modelling options for the barometer. This series of expert discussions were held in February 2023.

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Scoring criteria and categories

Categories, indicators and weights used in the barometer were selected on the basis of a 2021 Economist Impact analysis of the procurement landscape as well as a literature review and consultation with industry experts and specialists from think tanks and the private sector conducted in 2022-23. Economist Impact conducted primary research and analysis for indicators.

The barometer contains eight indicators and three sub-indicators organised across three categories:

- 1) Procurement collaboration:** This category captures the breadth of relationships managed by procurement professionals. Studies indicate that poor relationship management and working in silos give procurement teams low credibility among stakeholders. This category gauges the extent to which executives believe that procurement is effectively managing relationships within and outside of the organisation.
- 2) Procurement risk management:** This category examines the procurement function's ability to navigate a rapidly changing risk environment. Risk management is a critical responsibility held by the procurement

team, though the scope has expanded over recent years. This category includes factors focusing on external and internal risks to supply chain management as well as relatively new ESG priorities and requirements of the organisation.

3) Procurement digitalisation appetite:

This category considers the innovation landscape for procurement and the organisation. Specifically, innovation in terms of deploying digital technologies to reduce inefficiencies, manage risks, and meet overall organisational goals. If the C-suite does not find value in digital transformation, then procurement innovation is less likely to occur. The category measures the extent to which executives plan to use and increase the uptake of digital technologies and includes a measure for the uptake of emerging technologies in the organisation.

Each category receives a score, calculated from the average of the underlying indicator scores. Scores are then scaled from 0 to 100, where 100 represents the strongest inclination of C-suite executives to improve the procurement function. The overall c-suite function score for identifying the level of confidence in improving procurement is an average of the category scores.

Economist Impact Executive Survey on Procurement 2023

The 2022 programme on new paradigms in procurement, sponsored by SAP, introduced a novel survey, evaluating the emerging trends in procurement from the C-suite perspective across all functions included in the barometer. Repeated for the 2023 barometer on procurement confidence, the “Executive Survey on Procurement” explores the ways in which the procurement function adds value to the organisational strategy, from senior leadership and internal teams to suppliers, external workers and their own procurement team. This year’s survey was expanded to include insights from at least 50 chief human resource officers (CHROs) and incorporated key questions surrounding emerging technologies and external workers in advancing the procurement function. The 2023 survey was conducted with a group of 500 C-suite executives across 12 countries (Australia, Brazil, Canada, China, France, Germany, India, Japan, Italy, Mexico, Singapore and South Africa). An online survey methodology was employed for the market. Quotas were set at the C-suite function as well as regional levels to ensure consistent sampling and representation and to allow for reliable comparisons.

The following quotas were required within each country:

- Minimum sample size: 500 complete respondents;
- Geography (respondent location): Minimum of 150 responses from APAC, 150 from EMEA and 150 for the Americas;
- Industry: Automotive, consumer goods, financial services, life sciences, oil and gas, public sector, and high technology;
- Company size: \$500m+ with at least 50% \$1bn and above in revenue from OECD countries; Remaining countries \$300m+ and at least 50% \$500m and above in revenue.

The main findings of the survey are captured in the Global briefing paper, including the executive summary, which will be available on the content hub upon launch.

The research team used certain survey data to build several indicators related to all three pillars, focusing on user perceptions of factors such as procurement’s capabilities in managing internal and external risks and interest in the use of technology for procurement advancement. Such data were not easily available through desk research and an existing survey with comparable data could not be found for all C-suite functions included in the barometer.

Sources and definitions

In creating the Procurement Confidence Barometer, Economist Impact relied heavily on publicly available sources. This research approach has the benefit of creating a fully transparent and repeatable methodology.

The main sources used in the Procurement Confidence Barometer are internal reporting by The Economist and research by Economist Impact on trade and supply chains as well as studies by external sources, including The Purchasing Chessboard, Capgemini, The Hackett Group, Harvard Business Review, Future of Sourcing, Proxima, Art of Procurement, Spend Matters, Boston Consulting Group, Sourcing Industry Group (SIG), Deloitte, PricewaterhouseCoopers (PwC), Chartered Institute of Procurement & Supply (CIPS), GEP Worldwide, Supply Management, International Data Corporation (IDC), Supply Chain Digital, Gartner, RFP360, the European Commission (EC), Massachusetts Institute of Technology (MIT), World Trade Organization (WTO), Procurement Magazine, McKinsey & Company, and the Government of the United Kingdom (UK).

Data availability is a critical issue in this barometer and in this field of study. The secondary, publicly available data are not always up to date or disaggregated by relevance to C-suite functions. In addition, much of the insights generated by secondary sources are qualitative in nature that cannot be translated into measurable and actionable insights. This has led to the development of a new set of perceptions-based insights for each edition of the barometer by Economist Impact.

The barometer uses the latest year of survey data as the reference year for all indicators.

The research team hopes to improve the breadth and type of data provided to aid the understanding of procurement evolution and welcomes comments and suggestions to this end.

Data modelling and aggregation

Survey data are prioritised for key indicators of executive confidence in procurement improvements from the long list of questions on the basis of relevance. Survey data is transformed into indicator scores and then aggregated across categories to enable a comparison of broader concepts across C-suite functions. The process of transforming involves rebasing the raw indicator data to a common unit so that it can be aggregated. All indicators in this barometer were on a 0 to 100 scale, where 100 refers to the strongest C-suite inclination for procurement enhancement and 0 indicates the weakest inclination for the same.

The Procurement Confidence Barometer also employs a traffic light methodology to distribute scores in three categories reflecting the extent to which the C-suite is invested in procurement advancement. Based on the desk-based review of literature and consultation with experts, the Procurement Confidence Barometer scores are classified to detect and identify areas that are of key importance to the C-suite and those that do not receive adequate attention. The table below summarises the composition of confidence in a traffic light distribution.

| Label | Colour | Distribution | Relevance |
|-----------------------|--------|--------------|--|
| Advancing procurement | Green | 75 - 100 | This reflects confidence levels among 75% or more C-suite executives, indicating high levels of confidence in improving the procurement function for overall success. |
| Improving procurement | Yellow | 50 - 74 | This reflects confidence among 50 to 74% of C-suite executives, signalling moderate levels of confidence in procurement enhancement and a growing interest in procurement development and improvement. |
| Emerging procurement | Red | 0 - 49 | This reflects confidence among less than or equal to 49% of C-suite executives, highlighting a potential lack of awareness and general confidence in the procurement function. |

Appendix: Detailed indicator list

The categories, indicators and sub-indicators are:

| No. | Indicator | Unit | Description |
|-------|---|---------|--|
| 1 | Procurement collaboration | 0 - 100 | This category captures the confidence among internal and external stakeholders in procurement's ability to manage relationships. The score for the category is an aggregate of 1.1, 1.2, and 1.3. |
| 1.1 | C-suite confidence in procurement relationships | 0 - 100 | This indicator measures the extent to which C-suite executives feel confident in procurement's ability to manage relationships internally and externally. Its score is an aggregate of the following indicators: 1.1.1 to 1.1.3. |
| 1.1.1 | Intra-organisation collaboration with procurement | 0 - 100 | This sub-indicator assesses whether executives think procurement effectively collaborates with the rest of the organisation in meeting the company vision. |
| 1.1.2 | Supplier management role | 0 - 100 | This indicator assesses whether executives believe procurement plays an important role in supplier management. |
| 1.1.3 | Long-term supplier management | 0 - 100 | This indicator assesses whether executives think procurement has established long-term and effective relationships with suppliers. |
| 1.2 | C-suite confidence in supplier satisfaction with procurement services | 0 - 100 | This measures the extent to which the supplier network (<i>Tier 1, Tier 2, and Tier 3</i>) is satisfied with the organisation's procurement services. |
| 1.3 | C-suite confidence in the supplier network | 0 - 100 | This indicator measures the procurement-supplier relationship by assessing the level of C-suite confidence in the supplier network (<i>Tier 1, Tier 2, and Tier 3</i>) to deliver on its objectives. |

| No. | Indicator | Unit | Description |
|-----|---|---------|--|
| 2 | Procurement risk management | 0 -100 | This category captures executives' confidence in procurement's ability to navigate the dynamic risk environment. The score for the category is an aggregate of 2.1, 2.2, and 2.3. |
| 2.1 | Confidence in procurement risk management (internal) | 0 - 100 | This measures the extent to which the C-suite is confident in its procurement team's ability to manage internal risks (e.g., workforce issues from insourcing/outourcing, internal relationships, forward views on projects, organisational visibility, quality risks, etc). |
| 2.2 | Confidence in procurement risk management (external) | 0 - 100 | This measures the extent to which the C-suite is confident in its procurement team's ability to manage external risks (e.g., geopolitical shifts, supplier threats, liquidity risks, etc). |
| 2.3 | Confidence in procurement ESG implementation | 0 - 100 | This measures whether executives believe that procurement teams are effective in meeting the organisation's ESG/ sustainability goals. |
| 3 | Procurement digitalisation appetite | 0 - 100 | This category captures stakeholder confidence in leveraging technology to improve procurement for meeting organisational goals. The score for the category is an aggregate of 3.1 and 3.2. |
| 3.1 | C-suite prioritisation of digital transformation in procurement | 0 - 100 | This measures whether executives perceive digital transformation in procurement to be a priority for the next 12-18 months. |
| 3.2 | C-suite use of emerging technology for delivering value | 0 - 100 | This measures whether executives plan to use emerging technologies (<i>Artificial Intelligence, Internet of Things, Machine Learning, etc</i>) to deliver increased value for the organisation. |

While every effort has been taken to verify the accuracy of this information, Economist Impact cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor.

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