

Top Seven Issues Facing Procurement Leaders in 2023 and How to Solve Them

THE BEST RUN



Top Seven Issues in 2023

- 1 Managing Risk
- 2 Reducing Cost
- 3 Delivering on the Evolving Value of Procurement
- 4 Accelerating Procurement Digital Transformation
- 5 Driving Corporate Sustainability
- 6 Mitigating Talent Disruption
- 7 Improving Predictive Analytics and Reporting Capabilities

We're in a Critical Era for Procurement

Organizations around the globe are facing challenges in safeguarding security of supply, due to ongoing supply chain disruption and rising geopolitical tensions impacting trade with certain countries.

Furthermore, many economists believe we're entering a new recession that will last at least until the end of 2023. Rising inflation and interest rates are already exerting enormous financial pressure on businesses and consumers alike. Executives are looking at you – procurement professionals – to keep costs under control and protect your organization from these threats.

At the same time, you're facing a range of other challenges such as meeting ever-evolving customer demands, accelerating time-to-market, and delivering on your company's sustainability commitments.

You have a lot on your plate – but there's also an excellent opportunity to prove your worth within your organization.

This e-book outlines the top seven issues facing procurement professionals in 2023, identified through our own experiences, as well as renowned research reports. It delivers insights into each of the challenges, and shows how SAP can help you overcome them. We look forward to working with you this year to tackle these issues and seize your moment to shine.



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Managing Risk

One topic keeps coming up on management boards across the globe: risk. Executives are particularly concerned about mitigating the risk of supply chain disruption due to shortages of labor and/or materials.

\$182M is the staggering average annual cost of supply chain disruptions to each organization.¹

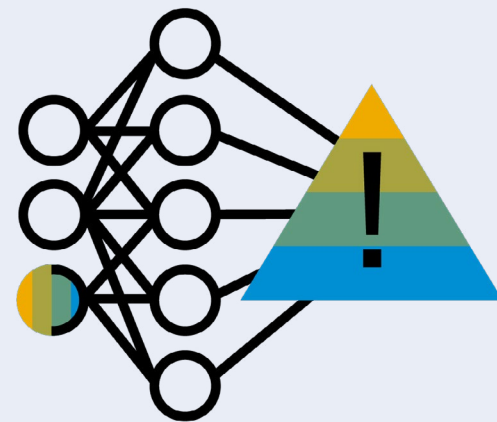
Companies also need clear visibility throughout their supply chains, to ensure they don't risk fines and reputational damage by unknowingly purchasing goods from countries under trade sanctions.

Furthermore, leaders are increasingly concerned about cybersecurity. For instance, Toyota recently had to halt large parts of its production line due to a key supplier being hit by a suspected cyberattack.²

1. Resilience 2022: IT & Technology – Interos Annual Global Supply Chain Report, Interos, August 2022

2. CPO magazine "Toyota's Supply Chain Cyber Attack Stopped Production, Cutting Down a Third of Its Global Output"

1 Managing Risk
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Only 15% of CPOs have visibility into risks affecting their tier 2+ suppliers.³

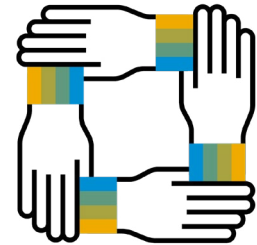


As organizations seek cost savings, there's a natural tendency to bundle sourcing of multiple goods together to negotiate better deals. However, this is often counterproductive, because if there are fewer suppliers that can meet your needs, that reduces competition, which in turn increases risk. In any case, you may already have fewer vendors to choose from, as decades of supplier consolidation followed by the pandemic have driven some companies out of business. In addition, geopolitical tensions may prevent you from trading with suppliers in certain geographies.

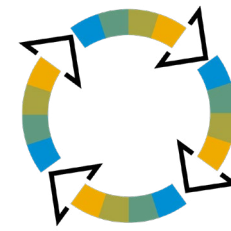
Instead, there's greater value in building resiliency by:



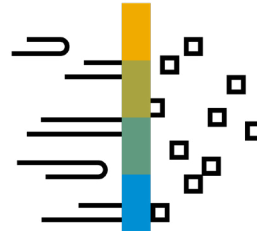
Gaining deeper visibility into your supply chain



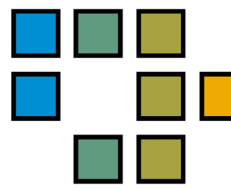
Strengthening your relationships with existing vendors



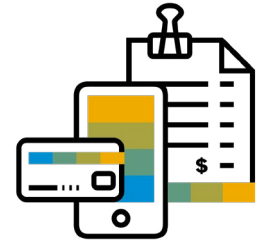
Using automation and digital transformation to ensure your business is agile enough to onboard new suppliers rapidly if needed



Enhancing your predictive analytics capabilities and performing detailed scenario planning to prepare for potential disruptions that could impact your business



Diversifying your supply base



Helping key suppliers remain financially viable through supply chain financing

3. Deloitte 2021 Global Chief Procurement Officer Survey

How SAP can help

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SAP Ariba Supplier Management solutions help you:

- Gain comprehensive visibility into the root causes of risk
- Proactively track and report on risks affecting your suppliers before they impact your business
- Integrate supplier qualification and risk-based segmentation with your source-to-pay processes
- Set up risk scores, incident alerts, and third-party risk assessments for your suppliers
- Continuously monitor suppliers to reduce reputational, compliance, financial, sustainability, and operational risks

With **SAP Business Network**, you can find alternative suppliers, connect with your trading partners, and enable seamless collaboration to improve planning, risk mitigation, and cost savings.

Plus, the SAP Business Network Supply Chain Collaboration solution gives you visibility into multiple tiers of suppliers and their inventory levels in real time. This enables you to get advance notice of potential upstream shortages and helps ensure you get all the parts you need on time.

In addition, the SAP Qualtrics Experience Management for Suppliers solution turns supplier feedback and signals from the supply chain into real-time insights to help you ensure continuity of supply, improve resiliency, and increase savings.



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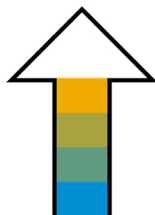
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Reducing Cost

Rising inflation and competition for supply⁴ have led to significant increases in material prices – including key commodities such as crude oil⁵ and gas.⁶ This has left organizations battling to contain costs as far as possible.

This might seem like an impossible task, but there are various ways to find cost savings amid high inflation. One option involves taking advantage of high interest rates to improve working capital. During the pandemic, companies inadvertently tied up working capital as they increased inventory levels by 11% on average to protect supply during widespread disruption⁷, moving from just-in-time to just-in-case supply chains. But building resiliency in this way has come at a heavy cost.

The Hackett Group's Working Capital Survey suggests that the top 1,000 companies have nearly \$1.7 trillion tied up in working capital – an increase of 28%.⁸

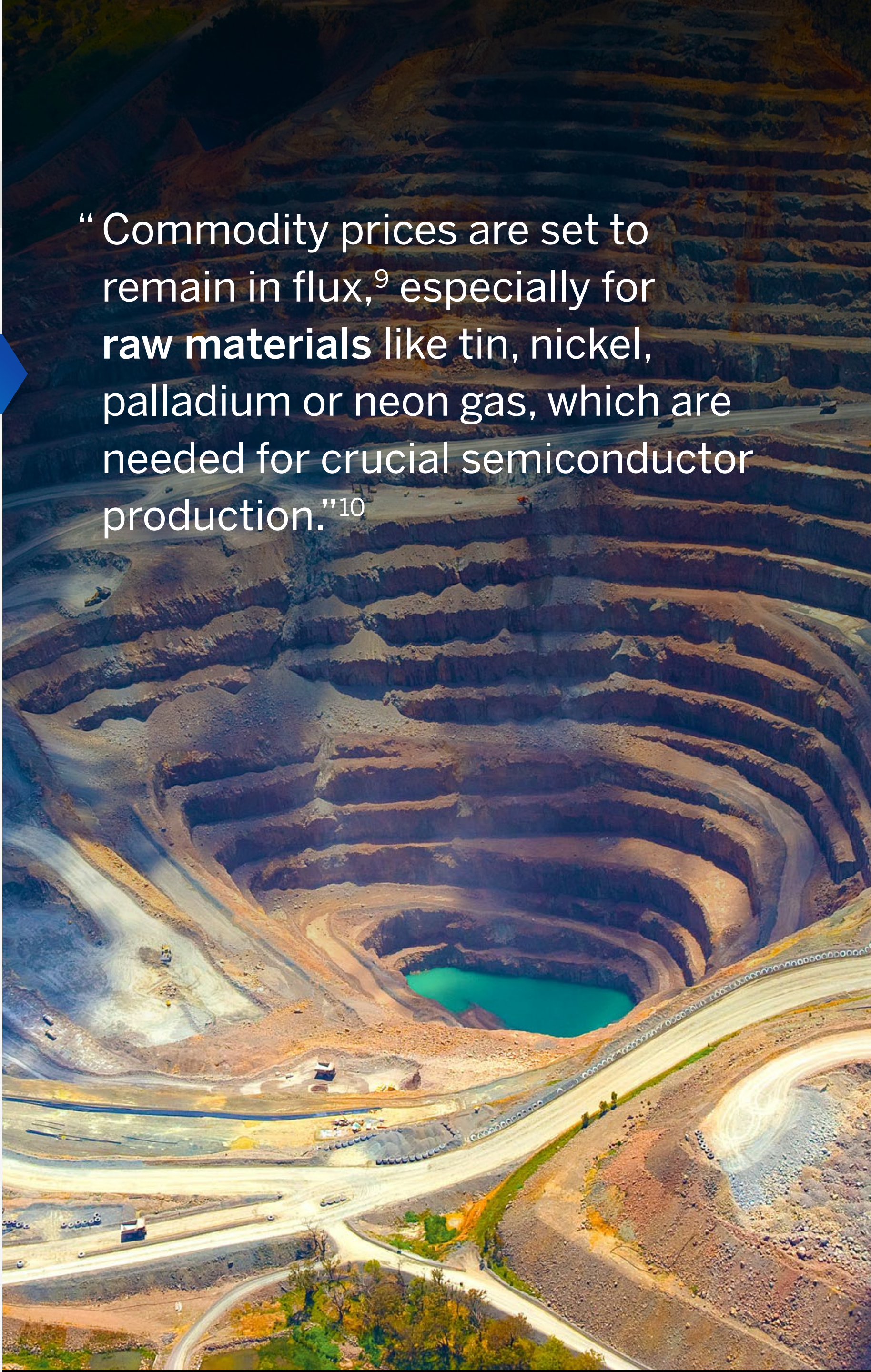
28% 
increase in working capital

Procurement must strike the right balance between these conflicting priorities: creating buffer inventory to ensure security of supply, while freeing up working capital.

4. European Central Bank. October 2021. "Sources of supply chain disruptions and their impact on euro area manufacturing"
5. Trading Economics. 2022. "Crude Oil"; 6. Trading Economics. 2022. "Natural Gas"; 7. McKinsey report "Shifting Supply Chains"
8. The Hackett Group's Working Capital Survey

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“Commodity prices are set to remain in flux,⁹ especially for raw materials like tin, nickel, palladium or neon gas, which are needed for crucial semiconductor production.”¹⁰

Another option is embracing dynamic discounting – negotiating discounts from suppliers in exchange for faster payment. This practice used to be widespread when inflation was high in the 1980s, but it fell by the wayside during historically low interest rates following the 2008 global financial crisis. Now is the opportune time to explore which of your suppliers would be a good fit for a discount management program.



of executives are most focused on **cost savings** as they seek to deliver increased value in procurement.¹¹

A third option is unlocking efficiency gains. In particular, this means using digital solutions to streamline and automate processes, as well as ensuring close integration between procurement solutions and back-end systems. For example, integrating suppliers into your business processes via business networks can help you accelerate transactions through automation, reduce error and rework, and improve compliance.



of executives say **price volatility** is the most significant result of supply chain disruptions facing organizations.¹²

You can also tame tail spend by giving employees a simple way to buy indirect materials from preferred suppliers while adhering to policies and processes. Additionally, you can analyze your off-contract spend to identify opportunities to bring high-impact goods and services on contract – and negotiate pricing at the same time.

9. World Bank. April 4, 2022. “World Bank Commodities Price Data (The Pink Sheet)”
 10. Tom’s Hardware. March 11, 2022. “Ukraine Halts Output of Neon Gas, Chip Production at Risk”
 11., 12. Economist Impact report “Chain reactions: building value in procurement through digitalization”

How SAP can help

SAP solutions can help you:

- Liberate cash by unlocking the value in your supply chain using working capital management solutions – including discount management, supply chain finance, inventory finance, and receivables finance – from **Taulia**, now part of SAP. You can use Taulia solutions to scale and automate your supply chain finance programs to drive further savings
- Make the procurement process smooth by replacing complex steps with guided buying and sourcing through the **SAP Ariba Buying solution**. Bring tail spend under control by enabling people to buy more than 100 million items sold by trusted suppliers through the Spot Buy capability (which integrates with Amazon Business)
- Create category plans using rich data from the **SAP Ariba Spend Analysis solution** to help you make smart decisions
- Strike competitive deals and improve category management using our portfolio of **SAP strategic sourcing solutions**, then ensure that contracts comply with negotiated rates, processes, and terms
- Analyze market costs based on your purchasing history
- Collaborate with your suppliers and contract manufacturers on design to improve costs and manufacturability
- Leverage the configurable business rules on **SAP Business Network** to ensure invoices you receive from suppliers match your POs and order receipts



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Delivering on the Evolving Value of Procurement

Recent widespread supply chain disruptions have provided an opportunity to reposition procurement as a crucial business function.

In turn, procurement professionals are turning their focus to how they can drive greater value for the business – rather than being just a financial or operational function that manages spend. A big part of this involves standardizing, simplifying, and automating procurement to generate intelligent insights that you can use to embed smarter buying behaviors across the organization.

The areas CPOs are most focused on as they seek to deliver increased value from procurement are:



13. Economist Impact report "Chain reactions: building value in procurement through digitalization"



Companies that fully optimize category management could potentially achieve **\$114 million in savings** and **more than a 500% return on investment**, as well as reducing risk.¹⁴



Furthermore, procurement leaders are embracing a much broader agenda. It's not surprising that mitigating supplier and supply chain risk and reducing cost are at the top of their list, as these are companies' most urgent needs.

Cutting costs and reducing risk will be particularly challenging as we enter a recession that's predicted to last until at least the end of 2023. Historically, procurement has performed well during recessions, as suppliers facing uncertainty often gave significant discounts in exchange for continued work. But now, the world is very different. Power has shifted to suppliers, as the businesses that survived the pandemic now face less competition. This means that **procurement's traditional recession playbook won't work, so a new strategy is needed.**

In this new world, supply chain visibility will be crucial to anticipating and addressing potential materials shortages and inventory issues, as well as the impact of lockdowns and production problems on output.

Another key area to focus on is supplier relationships. **You want suppliers to see you as a customer of choice, so that if labor and material shortages strike, they prioritize serving you ahead of other clients.** This is particularly important if you need to sole-source any critical goods.

It's worth building and maintaining strong relationships with suppliers, and ensuring your communication with them is clear and timely. Furthermore, it's important to keep your suppliers' cost of serving you low. For example, suppliers need to use an average of eight different systems to work with their most important customers.¹⁵ Streamlining this would deliver far better experiences and encourage suppliers to go the extra mile for you.

Another area to focus on is category management. In practice, many organizations have only used it to segment their spend and run tenders. But done well, it can be a powerful tool to improve your strategy by helping you anticipate potential disruptions to each category, and to identify risks and opportunities. Successful category management requires moving off spreadsheets onto efficient digital solutions. IDC research reveals that procurement functions still rely heavily on spreadsheets for several key use cases, the top ones being analyzing spend data (33%), gaining visibility of spend (31%), and analyzing supplier data (30%).¹⁶

14. Future Purchasing "Procurement category management experts"

15. HICX Voice of the Supplier Survey

16. IDC SaaSPath 2022, IDC, June 2022

How SAP can help

SAP can help you:

- Negotiate sourcing agreements that deliver excellent value using **SAP strategic sourcing solutions**
- Embed robust risk management into your source-to-pay process using **SAP Ariba Supplier Risk Management**
- Use **SAP Ariba Buying and Invoicing** to automate your entire purchasing lifecycle and give people one place to search for indirect goods and services
- Collaborate seamlessly with suppliers to anticipate and mitigate disruption using **SAP Business Network**
- Reduce risk and drive more value from contingent workers and services providers through SAP Fieldglass® solutions (for further information, read the chapter on [mitigating talent disruption](#))



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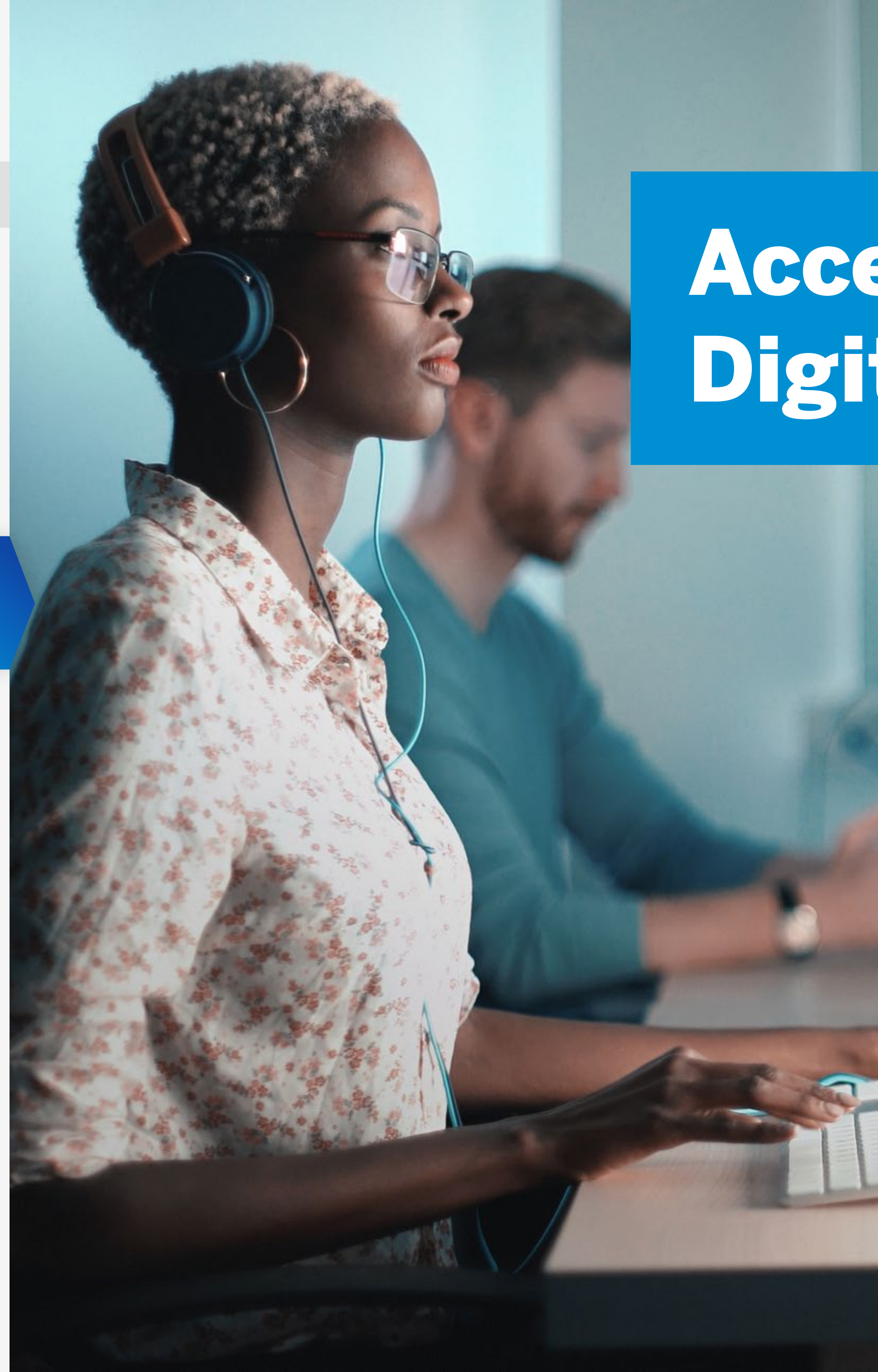
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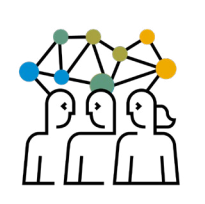



Accelerating Procurement Digital Transformation

Procurement digital transformation has accelerated in recent years, as companies increasingly recognize the value it brings by supporting seamless communication with suppliers, using data to improve decision-making, and boosting efficiency.

When executives were asked to name the **top three drivers** accelerating the pace of procurement digital transformation:

53% 
said the pandemic

38% 
said changing
consumer patterns

33% 
said the need to
increase cost savings¹⁷

17. Economist Impact report "Chain reactions: building value in procurement through digitalization"

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As organizations pursue procurement digital transformation, they're primarily focused on improving the user experience (43% of executives count this among the top drivers of procurement digital transformation).¹⁸ This is largely about replacing paper-based processes and disconnected legacy systems with easy-to-use systems that provide better experiences for employees and suppliers.

The second priority is category management (cited by 40% of executives),¹⁹ reflecting the focus on ensuring continuous, cost-effective access to supply. Interestingly, CPOs and Chief Supply Chain

Officers (CSCOs) prioritize category management, whereas CFOs and COOs are more focused on user experience as they hunt for operational efficiencies.²⁰ In both cases, these areas reflect the strong emphasis on reducing cost and risk.

The biggest barriers to procurement digital transformation are budget constraints (cited by 35% of executives), uncertainty over technological solutions (31%) – perhaps reflecting anxiety among companies that haven't yet taken the first step to digitalization – and low adoption (30%), which better user experiences can help address.²¹

Executives say the top drivers of procurement digital transformation are:

- 1 User experience** (cited by 43%)
- 2 Category management** (40%)
- 3 Mobility solutions** (31%)
- 4 Sourcing automation** (27%)
- 5 External workforce management** (24%)²²

18.–23. Economist Impact report "Chain reactions: building value in procurement through digitalization"



Peter Smith, managing director of Procurement Excellence, gives an example of why user experience is important:

“ Say I need a pair of scissors, but it takes up to an hour and looking through ten screens to order a pair, I’m just going to the local shop, buying them and putting them on expenses.”²³

How SAP can help

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We're ready to support your procurement transformation journey with:

- Deep technical expertise and established solutions spanning the entire source-to-settle process and numerous spend categories
- Sophisticated solutions that help you connect, manage and analyze spend data from across your entire organization via a single platform
- A customer-first approach
- **World-class services** that support millions of customers across hundreds of countries
- **Extensions and automation services** to transform procurement processes to suit your unique business needs
- **Expert advice** on transforming procurement processes into a competitive differentiator
- Deep industry experience and expertise, so we understand the specific challenges in each industry and help you overcome them



SAP Ariba solutions were named **Gartner's Customer's Choice** for procure-to-pay suites in 2021.



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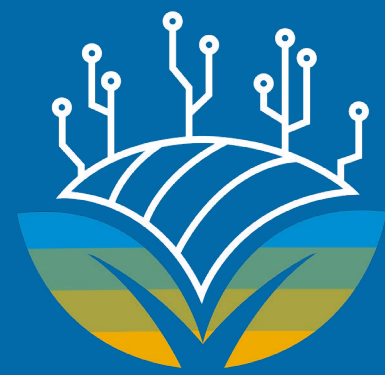
Driving Corporate Sustainability

Executives have differing opinions regarding procurement's value in driving corporate sustainability.

CFOs, COOs, and CSCOs rank sustainability as the sixth highest priority for reducing risk – but CPOs put it third.²⁴ In other words, procurement leaders know they have a huge role to play in improving sustainability. For example, McKinsey points out that supply chains generate around 80% of a typical company's greenhouse gas emissions;²⁵ however, CPOs haven't done a good job of articulating this to other executives.

80% of companies' greenhouse gas emissions are from supply chains.²⁶

24. Economist Impact report "Chain reactions: building value in procurement through digitalization"
25., 26. McKinsey "Starting at the source: Sustainability in supply chains"



By 2023, 40% of organizations will mandate responsible sourcing policies and solutions requiring proof of compliance to build consumer trust.²⁷



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Sustainability isn't just about doing the right thing by people and planet. It also makes good business sense because it helps attract talent – and that's especially useful in tight labor markets. It can also strengthen relationships with suppliers, because companies want to be seen as doing business with organizations that are driving positive change and being role models for social responsibility.

Furthermore, it helps strengthen brand reputation, meet consumer expectations, and comply with legislation in different countries, such as modern slavery laws in the UK, Australia, and Canada. Another example is Germany's new Supply Chain Act, which obliges all companies of a certain size with operations in Germany to manage and report on human rights and environmental risk in their supply chains.

Many different initiatives fall within the sustainability category. For example, companies in the United States often focus their sustainability initiatives on supplier diversity, whereas European organizations concentrate on carbon emissions. Overall, CPOs' top priorities in improving sustainability are reducing waste (cited by 38%), cutting energy consumption (32%), and increasing supplier diversity (28%).²⁸

CPOs' top priorities in improving sustainability are:



reducing waste
(cited by 38%)



cutting energy consumption
(32%)



increasing supplier diversity
(28%)²⁹

27. "IDC FutureScape: Worldwide Sustainability 2022 Predictions," IDC, October 2021.
28., 29. Economist Impact report "Chain reactions: building value in procurement through digitalization"

How SAP can help

Building a sustainable future takes a village. Or rather, a global ecosystem.

SAP can help you:

- Find, vet, and award business to the suppliers most in alignment with your ESG goals using **SAP strategic sourcing solutions**
- Gain visibility into vendors and select diverse suppliers from **SAP Business Network** – more than 25% of the suppliers on our network are marked as diversity suppliers
- Automate your ability to manage certifications, collect detailed information about suppliers' sustainability practices, and support human rights due diligence through supplier self-assessments using **SAP Ariba Supplier Management**
- Track supplier information and drive spend towards preferred suppliers using **SAP Ariba Supplier Lifecycle and Performance** in combination with **Guided Buying**
- Reward suppliers that work on sustainability initiatives and provide ESG metrics by giving them incentives through solutions from **Taulia**, now part of SAP





Mitigating Talent Disruption

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Amid tight labor markets and skills shortages, 50% of organizations are sourcing the talent they need by increasing their use of the external workforce,³⁰ which includes:

- Contingent labor (such as contractors and freelancers)
- Services providers (organizations that supply services delivered by people, such as consulting firms and facilities management companies)

The external workforce is a huge spend category representing 42% of workforce spend.³¹

When executives were asked about the main reasons for increasing their use of the external workforce:

- | | |
|---|---|
| 1 53% said risk reduction | 4 23% said lack of availability of labor |
| 2 39% said cost savings | 5 21% said increase in remote work |
| 3 35% said flexible working | 6 13% said reliance on skills mainly provided by the external workforce ³² |

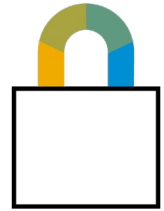
30., 32. Economist Impact report "Looking out: the rise of the external workforce and its impact on internal functions"

31. Agile Procurement Insights Research by SAP in collaboration with Oxford Economics "Agility isn't always on the payroll"

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Many organizations lack insight into this large, important spend category and don't manage it effectively. This creates compliance and security risks, because companies struggle to stay ahead of evolving labor regulations and have poor visibility of external workers' systems and facilities access. It also means companies are often leaving money on the table, because they can't find the right people to work on lucrative revenue-generating opportunities, or they struggle to measure the value their external workers deliver.

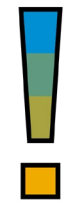
However, a group of leaders outperform other organizations by actively managing their external workforce to drive greater ROI and reduce risk. For example:



70% of leaders and only 33% of other executives are highly informed about their contingent workers' access to facilities



61% of leaders and only 32% of other executives are highly informed about their contingent workers' quality of work

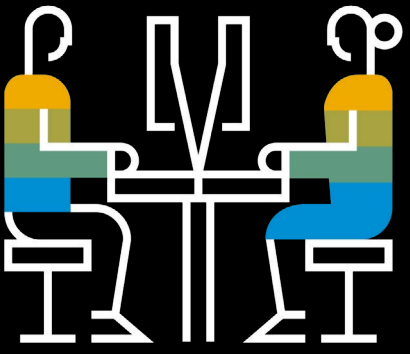


0% of leaders and 42% of other executives experience compliance issues with their services providers³³

33.-35. Agile Procurement Insights Research by SAP in collaboration with Oxford Economics "Agility isn't always on the payroll"

To better manage your external workforce, you need:

- 1 The right strategy.** You may need to embrace a new operating model, change your workforce planning strategy, and foster closer collaboration between HR and procurement
- 2 The right technology.** Only around one-third of organizations have technology to help them encourage use of preferred suppliers, support different pricing models, enforce negotiated rates, and track quality of work. Even fewer have solutions to help them manage security access, run bid events, and track equipment usage.³⁴ Sophisticated, purpose-built vendor management solutions ("VMS") enable organizations to do all of this and much more



The external workforce is a huge spend category representing 42% of workforce spend.³⁵



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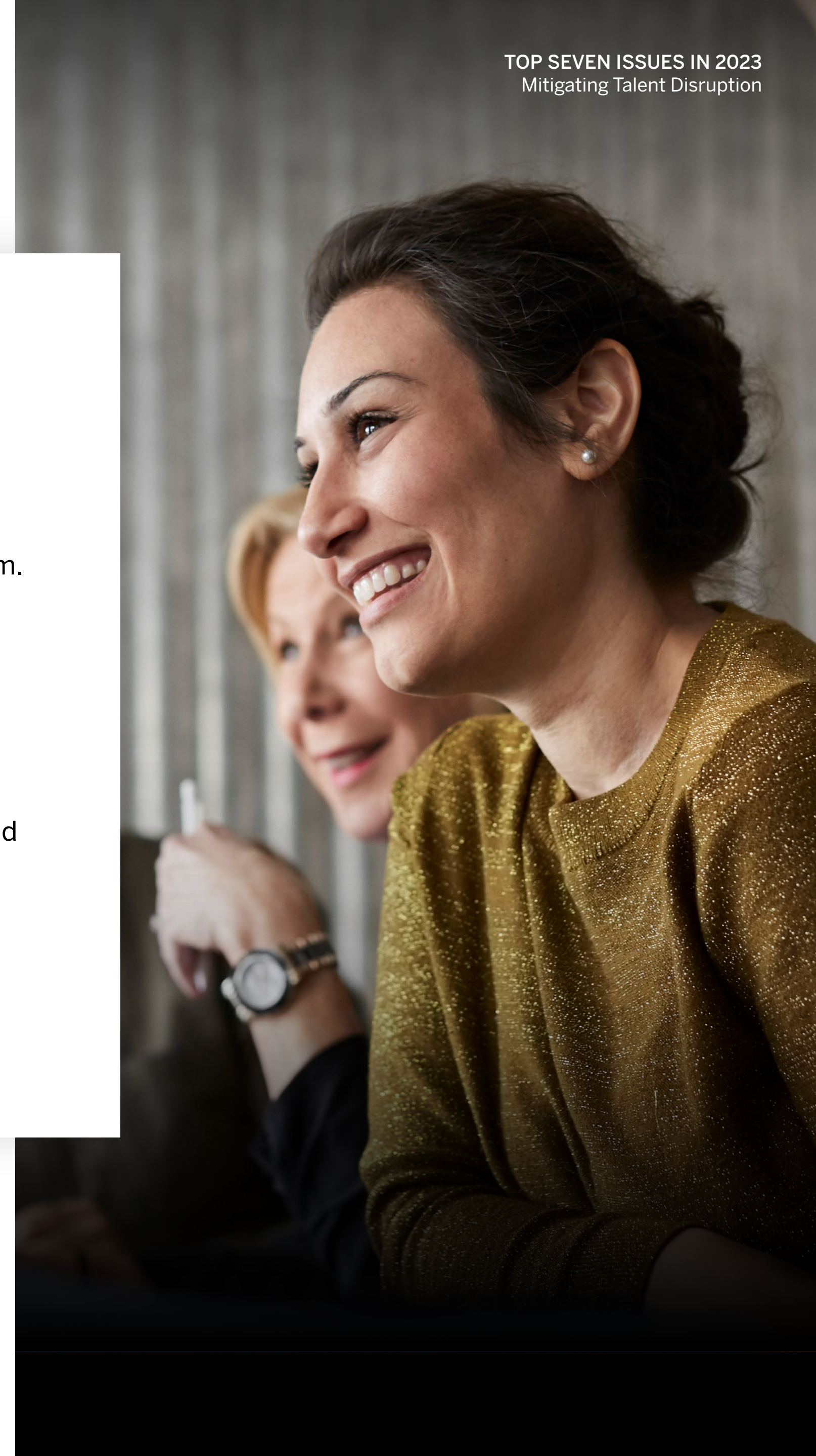
How SAP can help

We can help you **navigate every step of your external workforce management journey**. You can use our **quick assessment tool** to find out your organization's maturity in external workforce management and discover how to improve.

Technology will play a key role in your journey, so it's important to choose the right VMS. We've created a list to help you **spot the common pitfalls in choosing a VMS** – and learn how to avoid them.

What's more, our SAP Fieldglass Contingent Workforce Management and SAP Fieldglass Services Procurement solutions offer rich functionality to supercharge your external workforce management. They can help you:

- **Improve ROI and reduce risk** from your contingent workers and services providers
- **Manage the end-to-end process** – from finding and onboarding resources to invoicing and beyond
- **Gain deeper visibility** and manage important aspects of your contingent workers and services providers – including compliance, security, workers' skills, credentials, and responsibilities
- **Connect with our partners** who can help you find the right talent, implement e-signatures for contracts, run background checks, and much more



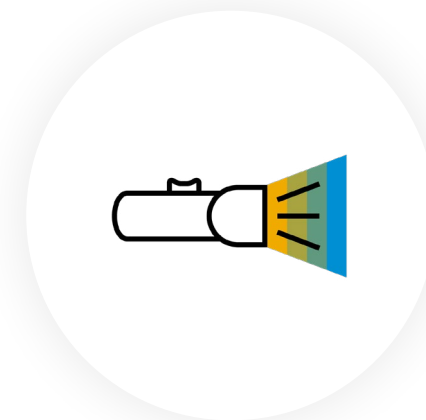


Improving Predictive Analytics and Reporting Capabilities

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There are **three key areas** taking up most of procurement's time:



1 Gaining visibility of supply



2 Analyzing spend data



3 Performing analytics³⁶

All of these capabilities can help you make better decisions faster, so you can deliver much-needed risk reductions and cost savings. Tracking every dollar spent is important, because you can't manage what you can't see.

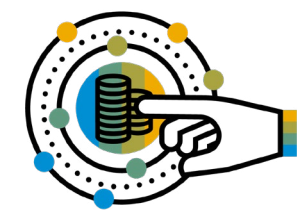
36. IDC SaaSPath 2022, IDC, March 2022

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As organizations work to enhance their reporting and analytics capabilities, they're focusing on fundamental use cases that are proven to deliver added value, such as:



Procure-to-pay digitalization



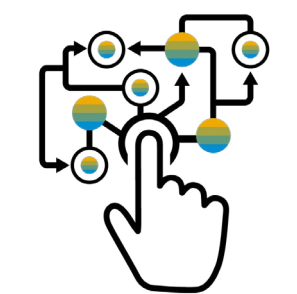
Paperless invoicing



Data analysis and visualization



Source-to-contract digitalization³⁷

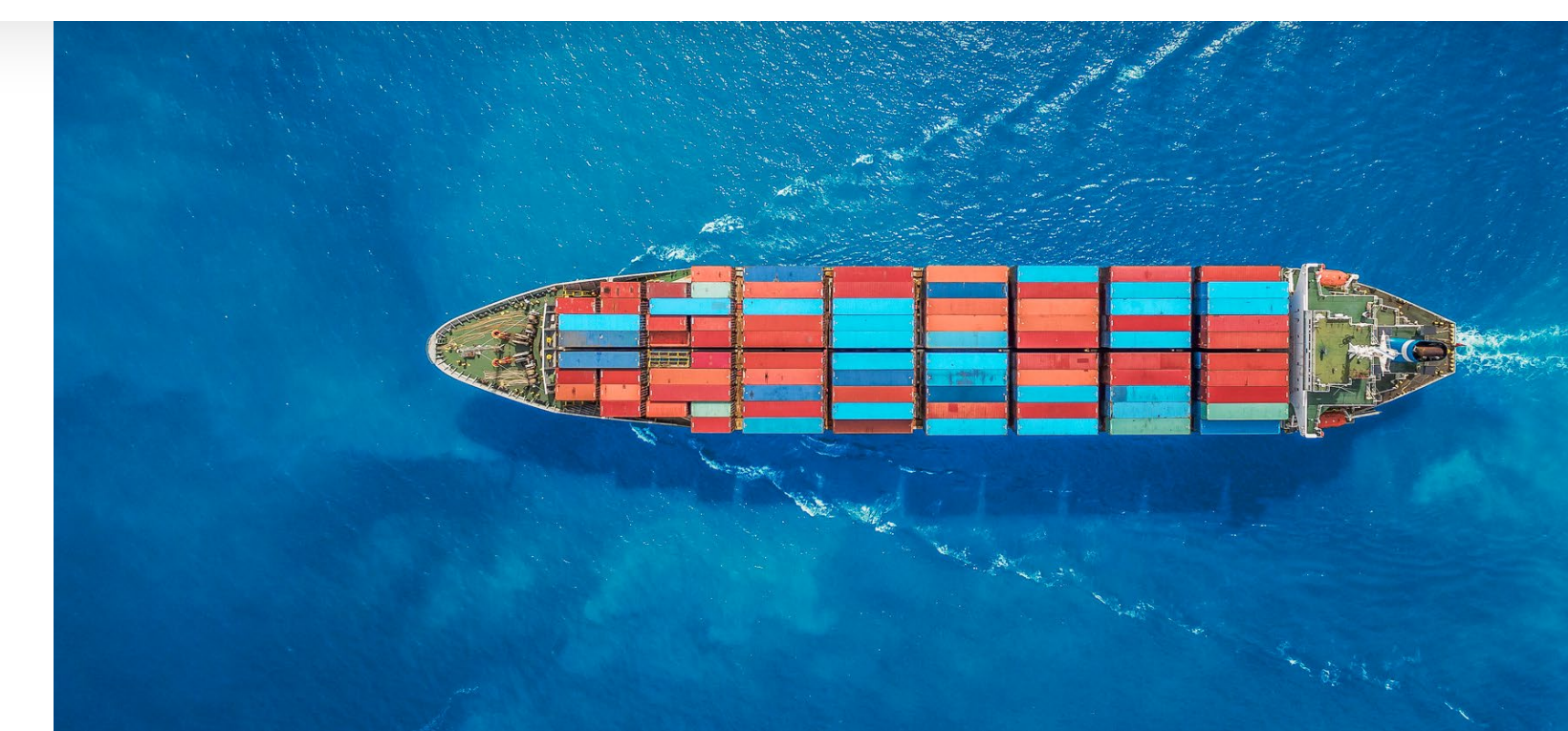


Automation of administrative tasks

How SAP can help

SAP can help you:

- Classify and enrich your company's spend data with machine learning-based data classification and enrichment, plus market intelligence from **SAP Ariba Spend Analysis**
- Use advanced analytics and a centralized view to better understand your spend by supplier, buyer, category, and part to drive savings and deliver strategic value
- Gain even deeper insight and powerful data visualizations by using the **SAP Ariba Spend Analysis solution with the SAP Analytics Cloud and SAP Data Warehouse Cloud solutions**



37. PwC Global Digital Procurement Survey 2022

- 1 Managing Risk
- 2 Reducing Cost
- 3 Delivering on the Evolving Value of Procurement
- 4 Accelerating Procurement Digital Transformation
- 5 Driving Corporate Sustainability
- 6 Mitigating Talent Disruption
- 7 Improving Predictive Analytics and Reporting Capabilities

Conclusion

2023 will see procurement battling conflicting priorities, such as increasing inventory to protect against shortages, while freeing up as much working capital as possible. Managing these issues requires a delicate balancing act.

In the background, the tables have turned. The balance of power has shifted away from procurement in its relationships with suppliers, at the same time as intense competition for labor makes it harder to source talent. This puts procurement in a tricky position.

To navigate these challenges, you must develop a strong strategy – and make sure you have everything you need to deliver on your plan. That might mean investing in digitalization, process optimization, and automation. It could also mean adapting your operating model and ensuring you have access to the talent and specialist skills you need across employees, contingent workers, and services providers.

The right strategy will help you deliver the risk and cost reductions the business needs to see it through this challenging economic period. Meanwhile, it'll help you gain greater recognition and influence within the organization. It's a win-win.



To learn more about these solutions, **contact your SAP partner**



