

# Chain reactions: building value in procurement through digitalisation

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# About the research

This paper aims to determine the challenges to business continuity and profitability for organisations through the lens of procurement; ascertain the steps taken by procurement professionals to secure supply through this difficult operating environment; and explore the impacts of trends such as regionalisation, localisation, reshoring/nearshoring and the environmental, social and corporate governance (ESG) agenda on their activities. The research provides a deep dive into how procurement is changing as a result of the forces at work, and what some of the catalysts in this shift are.

Between January and February 2022, Economist Impact conducted a global survey of 430 C-level executives across various organisational functions, including chief financial officers (CFOs), chief operations officers (COOs), chief procurement officers (CPOs) and chief supply chain officers (CSCOs). Its objective was to explore how their businesses and industries are transforming procurement to meet existing and emerging challenges amid disrupted supply chains, rising costs and growing uncertainty, as well as trends regarding the future of procurement to ensure continuity and optimisation.

Respondents were asked to share how their approaches to procurement have changed in the short term, the drivers of the digitalisation of procurement processes and how these issues factor into their organisations' long-term sustainability strategies.

The paper draws upon insights from the survey and is supported by interviews with external procurement experts and practitioners. The report is written by Siddharth Poddar, edited by Pooja Chaudhary and Harsheen Sethi and sub-edited by Amanda Simms.

Economist Impact wishes to thank the following experts for their participation:

- *Andrew Brightmore*, executive director, Foodbuy Australia & Compass Group Australia
- *Phil Ideson*, founder, Art of Procurement
- *Marcus Kutzner*, partner, sourcing and procurement lead, Deloitte
- *Chris Shanahan*, chief procurement officer, Thermo Fisher Scientific
- *Peter Smith*, managing director, Procurement Excellence

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# Introduction

The importance of procurement in supporting changing business strategies, managing risks and costs, and ensuring continued access to key resources and inputs has magnified given the disruptions that have roiled the globe over the last two years—the pandemic, geopolitical developments and shifts in consumer behaviour. Amid a challenging business environment, leaders have an opportunity to retire outdated tactics and replace them with a refreshed outlook that reimagines procurement as a centre for value creation.

Even before the onset of the covid-19 pandemic, procurement teams were managing rather opaque supply chains, sustainability issues and delayed digitalisation initiatives. In 2018, for example, 65% of procurement professionals said they lacked visibility into their supply chain beyond their top-tier vendors.<sup>1</sup> Two years later, those numbers only worsened, with 90% of organisations rating their supply chain visibility as moderate to very low.<sup>2</sup>

Those issues were magnified by the covid-19 pandemic, along with growing supply chain and third-party risks, leading many businesses to make big changes in their

operating models as they chase recovery. Although procurement is usually considered a finance- or supply chain-related function, there is evidence that organisations are beginning to bring procurement responsibilities into the remit of their COOs, especially as access to supplies begins to bite into companies' day-to-day operations.

**Andrew Brightmore, executive director of Foodbuy Australia, concurs: “Procurement is a strategic part of the value of the organisation—it’s part of the end-customer proposition.”**

The lessons of the last few years are also pushing companies to get creative as they deal with a tight labour market and low availability of skilled workers. Organisations are becoming more open to engaging with and expanding their external workforce, with one in two planning to do so. Various factors are driving this, including risk reduction, cost savings and a shift to flexible work planning, among others.

Scarcity brings value: the scarcer the resources, the higher the costs. Consequently, procurement becomes a more critical function.

More hybrid and remote work structures are enabling some processes and services to be outsourced to external vendors, while growing digitalisation is catalysing a more efficient, risk-focused approach to procurement that prioritises long-term strategy over short-term tactics.<sup>3</sup> The increased use of technologies such as predictive or advanced analytics, video and audio communications platforms and automation into largely paper-based processes will push procurement leaders to make better-informed decisions as they leverage data to gain critical insights for meaningful action.<sup>4</sup>

Post-pandemic, this will be a key strategy as organisations look to mitigate the risk against the impacts of future uncertainty and create new sources of value in a changing business environment.

Peter Smith, managing director at the consulting firm Procurement Excellence, suggests that the current way of conducting procurement “may disappear altogether” as technology and automation take over. Already there

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1 Deloitte. 2018. “The Deloitte Global Chief Procurement Officer Survey 2018”. [https://www2.deloitte.com/content/dam/Deloitte/at/Documents/strategy-operations/deloitte-global-cpo-survey-2018.pdf] Accessed May 17, 2022.

2 Deloitte. 2020. “2020 Global Chief Procurement Officer Flash Survey”. [https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/2020-chief-procurement-officer-flash-survey.pdf] Accessed May 17, 2022.

3 Supply & Demand Chain Executive. October 25, 2021. “New Characteristics of Post-Pandemic Procurement”. [https://www.sdcexec.com/sourcing-procurement/article/21735128/the-smart-cube-new-characteristics-of-postpandemic-procurement] Accessed May 17, 2022.

4 Supply & Demand Chain Executive. October 25, 2021. “New Characteristics of Post-Pandemic Procurement”. [https://www.sdcexec.com/sourcing-procurement/article/21735128/the-smart-cube-new-characteristics-of-postpandemic-procurement] Accessed May 17, 2022.

are myriad examples of how these changes are taking place, with firms like ANZ Banking Group<sup>5</sup> and AT&T<sup>6</sup> adopting technologies to automate monotonous tasks such as invoice processing and procurement paperwork. Blockchain applications, for example, are at the core of digital automation.

“Procurement has probably never been as important to the health of an organisation [as it is today],” says Phil Ideson, founder of the education and advisory platform Art of Procurement. “We’ve been working hard as a profession to change the narrative around what procurement can do and the value it can bring.”

Andrew Brightmore, executive director of Foodbuy Australia, concurs: “Procurement is a strategic part of the value of the organisation—it’s part of the end-customer proposition.”

“Globalisation and increased outsourcing have made procurement more important, pulling it up our priority list,” says Mr Smith. “Procurement plays a major role in managing high-profile, strategic work, and people are now realising that doing it well translates into competitive advantage.”

### Survey demographics

The survey respondents included 119 chief financial officers, 109 chief operating officers, 102 chief procurement officers and 100 chief supply chain officers. They represented 14 sectors, spanning manufacturing, services and the public sector. A little over half (56.3%) worked in organisations with annual revenue between US\$300m and US\$1bn, while the rest worked at organisations with more than US\$1bn in annual revenue.

In terms of geography, Asia-Pacific and Europe, the Middle East and Africa (EMEA) each had 150 respondents, while 130 came from the Americas.

The survey revealed that most organisations are reimagining the role of procurement teams as they recover from the pandemic and prepare their companies for an uncertain future. Major disruptions to global supply chains, inflationary pressures, sustainability concerns and a limited range of solutions are creating a perfect storm of challenges for organisations, driving them to explore a risk-centric approach to procurement. Digitalisation will act as a catalyst for procurement teams to progress into the next stage of their development by providing the insight and data they need to take meaningful action for substantial change.

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5 Financial Review. August 24, 2015. “Rise of the machines as ANZ brings in robot workers to do the ‘boring’ jobs”. [https://www.afr.com/technology/rise-of-the-machines-as-anz-brings-in-robot-workers-to-do-the-boring-jobs-20150820-gj3fp6] Accessed May 17, 2022.

6 The Wall Street Journal. February 5, 2018. “AT&T’s 1,000 Software Robots Are Doing Boring, Repetitive Work For Humans”. [https://www.wsj.com/articles/at-ts-1-000-software-robots-are-doing-boring-repetitive-work-for-humans-1517847479] Accessed May 17, 2022.

# The engines of procurement's digital revolution

Procurement leaders are turning their focus towards how their functions deliver greater value in a changed business environment. "Many are pointing to digitalisation as a way forward, especially since the global health crisis has injected a dose of fresh perspective for both the short and longer term," says Mr Ideson.

Digital technologies have also helped companies introduce more flexible remote working options—which have been mandatory in most instances—and enable faster collaboration with suppliers. Moreover, digital technologies allow better access to data as it brings all the sources into a single place, which allows firms to use predicative analytics to analyse opportunities for cost reduction, improve supply chain visibility and source new value chains.

"Let's say you have ten suppliers for a single product—with better data, you can consolidate those supply chains relatively easily," says Mr Smith. "The increased volume of purchase from just a few vendors gives you stronger negotiating ability because now you have three really strong relationships, rather than ten weak ones."

## User experience tops motives for digitalisation

Businesses have been working towards digitalising their operations for close to 20 years now, with some viewing it as a cost reduction exercise, while others regard it as a part of longer-term strategies for new value creation.<sup>7</sup>

When asked which factors were driving digitalisation for their organisations, improving user experience, category management and mobility solutions emerged as the top drivers for organisations. User experience is picked as one of the top three drivers for transformation by 42.6% of respondents, reflecting a shift away from paper-based procurement processes towards real-time, intuitive platforms.<sup>8</sup>

Consider, for example, the shipping industry, which accounts for at least 75% of global trade flows (by volume)<sup>9</sup> and is highly dependent on paper and disconnected legacy systems.<sup>10</sup> As a result of the limitations of manual procurement, data can rapidly become outdated, or difficult to trace or secure, leading to losses of time and resources as operations struggle to manage these gaps.

"User experience is really important," says Mr Smith. "It's great if you can give them the technology, but if it's not easy to use, they just won't use it—and then your category management is gone, because they're not using the software." He provides a simple example: "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."

It's a similar story on the supplier side, he says. If suppliers find it difficult to raise invoices, for example, they're likely to go looking for a workaround outside the system in place, making many types of software redundant.

From a functional perspective, there is a divergence in opinions when it comes to the drivers of digitalisation. Respondents at the CFO and COO levels were far likelier (43.7% and 44% respectively) to highly rank user experience as a top driver for digitally transforming procurement, over category management, which was the option of choice for CSCOs and CPOs.

In all, 40.2% of professionals say category management is one of the top three drivers in the digital transformation

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<sup>7</sup> McKinsey & Company. January 22, 2021. "Five themes can help procurement shape recovery in the next normal". [https://www.mckinsey.com/business-functions/operations/our-insights/five-themes-can-help-procurement-shape-recovery-in-the-next-normal] Accessed May 17, 2022.

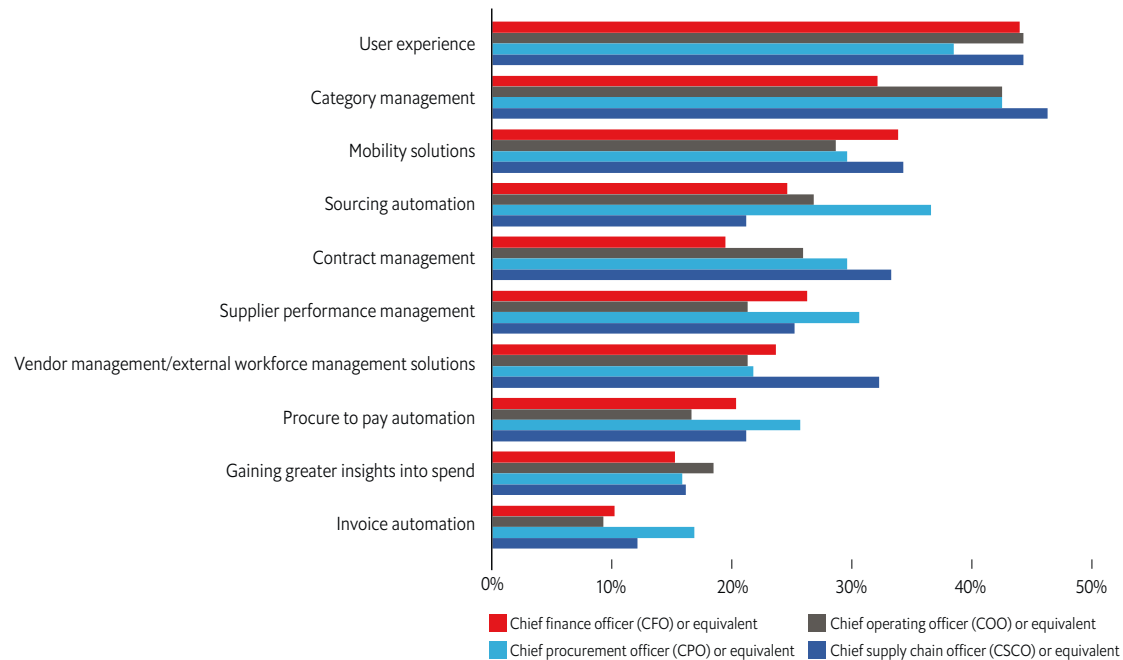
<sup>8</sup> IBM. May 17, 2020. "Digitally perfecting the supply chain". [https://www.ibm.com/industries/industrial/resources/supply-chain-efficiency/] Accessed May 17, 2022.

<sup>9</sup> HKTDC Research. November 3, 2021. "Post-Pandemic Supply Chains: Turning the Tide on Sea Cargo Stoppages". [https://research.hktdc.com/en/article/ODkwMjlyMTMz] Accessed May 17, 2022.

<sup>10</sup> IBM. May 17, 2020. "Digitally perfecting the supply chain". [https://www.ibm.com/industries/industrial/resources/supply-chain-efficiency/] Accessed May 17, 2022.

**Exhibit 1: Digitalisation is being driven by a desire to improve user experience**

What are the main drivers for digital transformation in procurement in your organisation? Please rank, where one is the most important driver.



Source: Economist Impact

of procurement, with 46% of CSCOs and 42.2% of CPOs selecting this option. This suggests that CSCOs and CPOs are concerned with maintaining end-to-end supply chains, resulting in a larger share of respondents choosing category management as a core driver of digitalisation. Many supply chain and procurement officers are focused on digitalising category management to ensure continuous and cost-effective access to supply given the large-scale disruptions in supply chains over the past two to three years.

In some ways, these gaps in opinion reflect the particular priorities and perspectives of specific functions, highlighting Mr Ideson’s earlier point regarding organisations’ differing approaches to procurement. CFOs’ and COOs’ focus on technology’s potential to better user experience reflects their prioritisation of wider organisational efficiencies that are in keeping with company-wide objectives relating to technological adoption.

This divergence might suggest a common debate among procurement leaders on the tensions between the competing priorities of cost reduction, and investments to support recovery and competitiveness post-covid.<sup>11</sup> The debate also reflects how corporate treasurers’ tasks to maintain cash flows can often come into opposition with other functions.

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<sup>11</sup> Supply Chain Dive. May 28, 2020. “Procurement leaders split between cost savings and tech investment for strategic recovery”. [https://www.supplychaindive.com/news/procurement-cost-savings-technology-strategic-recovery-coronavirus/578777/] Accessed May 17, 2022.

### Covid-19 accelerates digital adoption

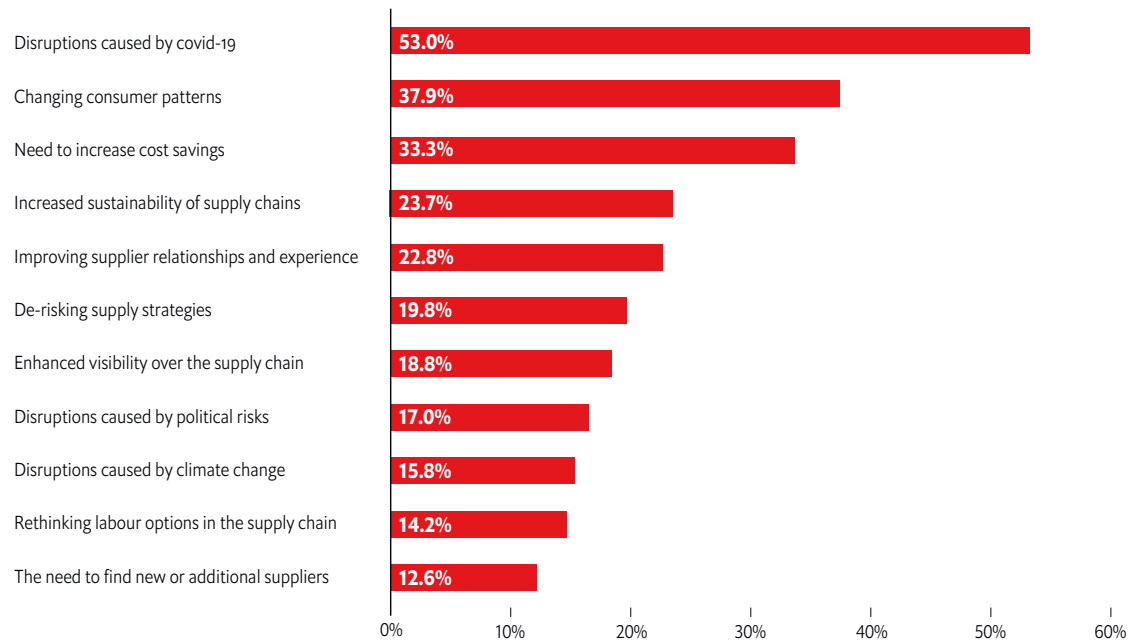
There has been a marked uptick in the adoption of digital technologies for procurement as leaders seek to recover and adapt to a new operating environment.<sup>12</sup> There is also clear consensus that this trend will long outlast the pandemic’s after-effects, with business observers noting the years’ worth of transformation that took seed within months of lockdowns being implemented.<sup>13</sup>

Unsurprisingly, the majority of respondents (53%) selected covid-19 as the overall biggest driver of the increased pace of digitalisation in procurement, with changing consumer patterns (37.9%) and the need to increase cost savings (33.3%) following.

The impact of covid-19 is especially notable in the EMEA region, where 70% point to pandemic-related disruptions as a major driver for change. Respondents in Asia-Pacific, meanwhile, perceive changing consumer patterns (42%) to be the top driver for increased transformation, reflecting the region’s high rates of digital technology adoption and its role as a major manufacturing hub for other global economies.<sup>14</sup>

### Exhibit 2: Covid-19 is still the biggest accelerant of digital transformation in procurement

What are the top drivers of the increased pace of digital transformation in the procurement function? Please select up to three.



Source: Economist Impact

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<sup>12</sup> Amankwah-Amoah, Joseph, Zaheer Khan, Geoffrey Wood, and Gary Knight. Journal of business research. Elsevier Inc. November 2021. “Covid-19 and Digitalization: The Great Acceleration”. [https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8437806/] Accessed May 17, 2022.  
<sup>13</sup> Wired. May 24, 2021. “Covid-19 brought about years of digitalisation in just a few months. Will it last?” [https://www.wired.co.uk/bc/article/covid-19-digitalisation] Accessed May 17, 2022.  
<sup>14</sup> Statista. November 2021. “Leading emerging technology adoption plans within the upcoming two years among businesses across the Asia-Pacific region in 2022”. [https://www.statista.com/statistics/1292880/apac-technology-adoption-plans/] Accessed May 17, 2022.

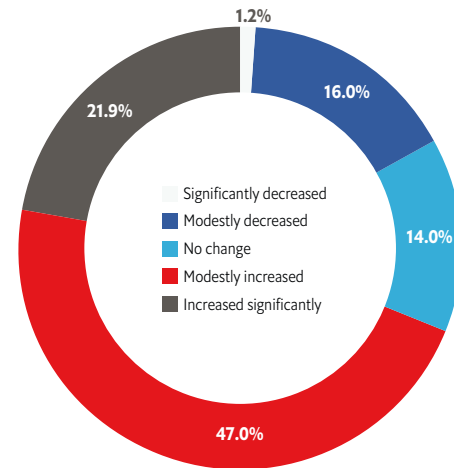
Smaller firms with annual revenue between US\$300m and US\$500m were likelier (62.3%) to select covid-19 disruptions as a major force for accelerated procurement digitalisation. In comparison, companies with bigger budgets and more resources tend to highlight cost savings and changing consumer patterns as key catalysts. This indicates that smaller companies were hit harder by pandemic-induced disruptions and/or larger companies were able to withstand these reverberations relatively better. It also implies that the pandemic may be instrumental in pushing smaller enterprises to embark on their digitalisation transformation journeys.

### Budgets expand to accommodate digital transformation

Is companies' enthusiasm for digitalising procurement being matched with related budget accommodation? According to survey respondents, the answer is yes, with nearly half (47%) of companies modestly increasing their budgets and more than one in five (21.9%) registering significant increases. In particular, companies in healthcare (92.3%), financial services (80.5%) and retail (78.6%) have seen modest to significant rises in budgets to support digital transformation.

**Exhibit 3: Two in three companies have seen budgets for digital transformation increase**

The pace of digital transformation has accelerated across sectors over the last 12-18 months, but to what extent have your budgets changed? Please select one.



Source: Economist Impact

There are significant variations in approach based on geography: the vast majority of companies from the Americas (68.5%) and EMEA (82%) have registered modest to significant rises in digital transformation budgets. In comparison, a much lower 56% of companies in Asia-Pacific had increased their budgets to the same degree, reflecting a more restrained approach in a region populated by countries at either end of the digital transformation spectrum.<sup>15</sup>

This can reflect the impact of the pandemic on companies' bottom lines, an issue given further perspective by the fact that organisations with bigger revenue tended to register proportionate increases in budgets for digital transformation. The survey shows that about half of the firms with annual revenue of under US\$1bn have modestly increased their budgets, while three-quarters (75%) of organisations with an annual revenue of more than US\$1bn have done likewise.

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<sup>15</sup> IMD, September 29, 2021. "World Digital Competitiveness Ranking". [https://www.imd.org/centers/world-competitiveness-center/rankings/world-digital-competitiveness/] Accessed May 17, 2022.



# Budgets and uncertainty reveal digitalisation anxieties

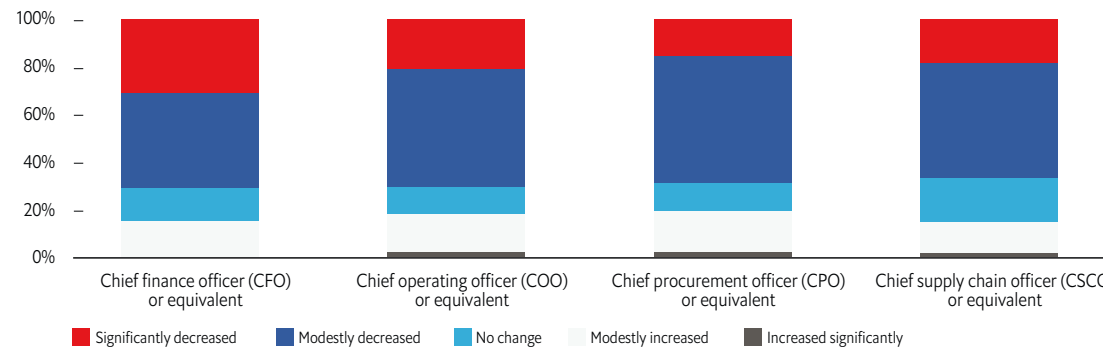
Despite digitalisation budgets having grown over the last 12 months, cost concerns remain a top barrier to digitalisation for most procurement leaders. More than a third of respondents cite budget constraints (35.1%) and uncertainty over technological solutions (31.2%) as the top two barriers to digital transformation. This is perhaps signalling anxieties as to the trade-offs of adopting digital tools, especially among organisations that are yet to take the first step towards digitalisation.

These concerns are especially present among CFOs (40.3%), COOs (33.9%) and CSCOs (35%), which is understandable considering their key role as cost managers. As the cost of managing supply chains has increased dramatically in some instances—owing to the sharp rise in transport costs, for example—and put pressure on organisational budgets, many companies are more squarely focused on keeping the wheels of their business turning.

Interestingly, CPOs are more concerned about the limited or low adoption of digital solutions (32.4%) rather than costs. This suggests their perspective is more coloured by the day-to-day conduct of procurement operations and by the awareness that when products are not procured and delivered timely in a world experiencing global shortages,

**Exhibit 4: CFOs are likelier than their counterparts to think budgets have increased “significantly”**

The pace of digital transformation has accelerated across sectors over the last 12-18 months, but to what extent have your budgets changed? Please select one.



Source: Economist Impact

then production stops or slows down (as witnessed by several auto manufacturers in the past two years) and signals that a digital future is afoot.

Marcus Kutzner, partner and sourcing and procurement lead at Deloitte, says the cross-functional dissonance on budget opinions is not as much about companies being reluctant to invest in digitalisation, but more an issue of storytelling.

“Simply asking for a budget is one thing, but if procurement can’t tell a story [about] how they contribute to overall success—by mitigating risks, or finding better suppliers—then the discussion won’t become equal,” he says. “If procurement learns to better sell the added value it can bring, then the budget discussion will become equal.”

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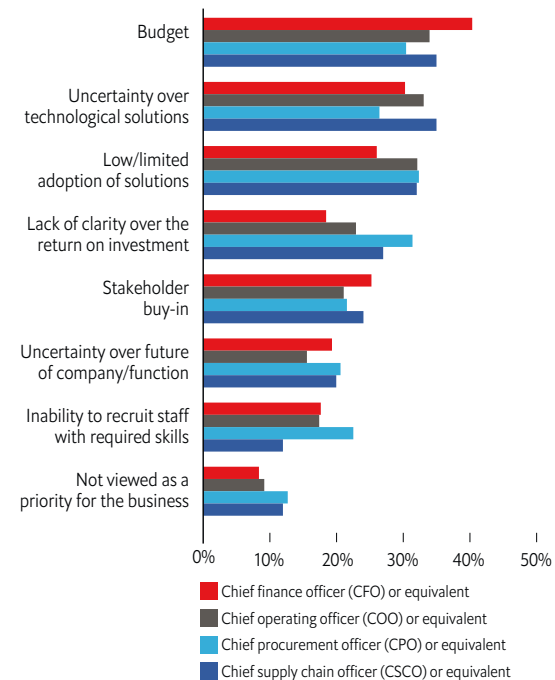
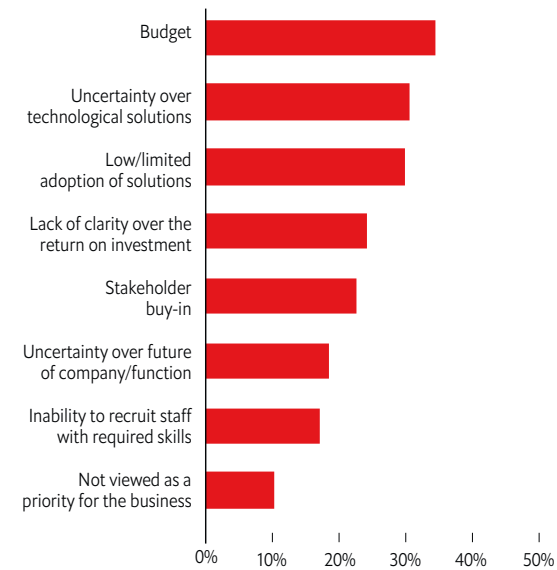
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**Exhibits 5a and b: Budget is the biggest limitation in companies’ digital transformations**

What are the top barriers to digital transformation in the procurement function? Please select up to two.



Source: Economist Impact

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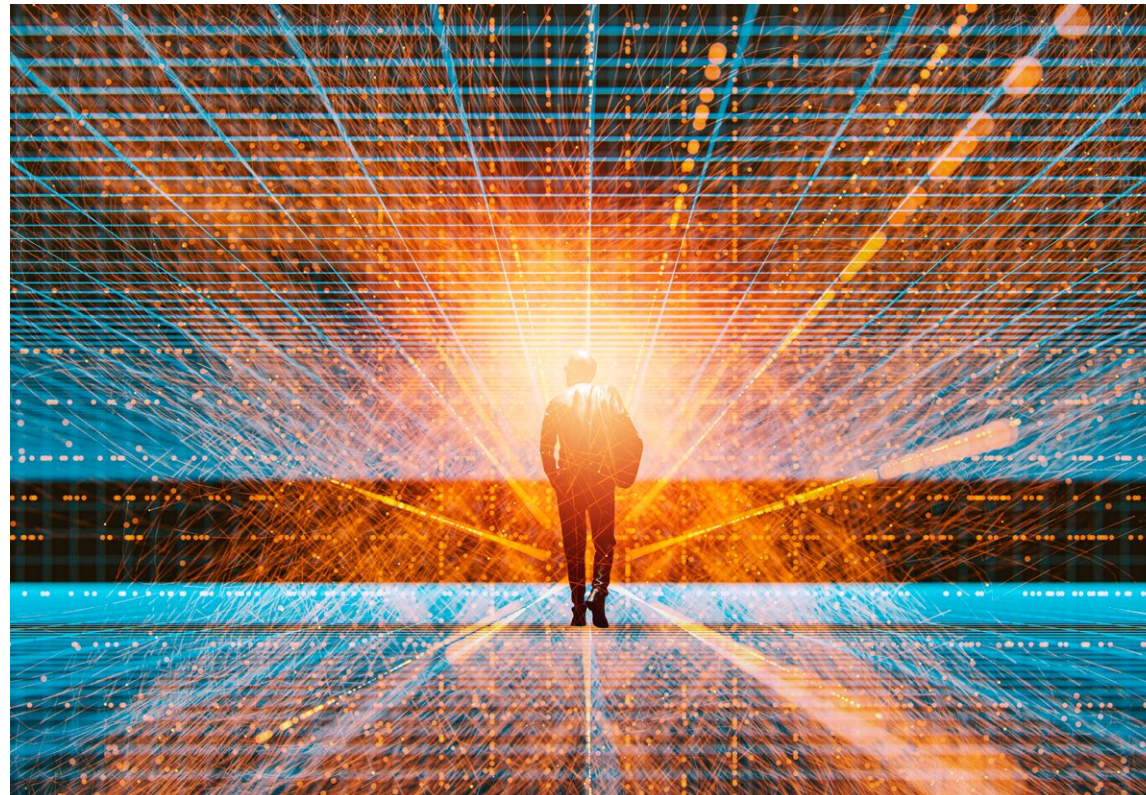
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Another aspect to consider in budget discussions is the expected return on investment. Mr Ideson says: “Businesses are willing to invest a lot of money in digitalisation, so if you’re saying you don’t have the budget, it’s more because you haven’t done an effective job of selling the return of the investment internally.

Either the business looks at procurement and doesn’t think it’s an area of business it should be investing in, or the business case hasn’t been made for that specific solution that needs to be bought,” he adds.

The prominence of these factors is indicative of scepticism and uncertainty among organisations about the real utility of digital tools for procurement processes. Views are also likely coloured by the residual effects of external events. These factors include the pandemic and geopolitical conflicts, US monetary tightening and a Chinese economic slowdown impacting the global recovery,<sup>16</sup> which are dampening companies’ enthusiasm for the additional spending requisite for adopting digital solutions.



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<sup>16</sup> The World Bank. April 4, 2022. “East Asia and Pacific Economic Recovery Faces Risks from the War in Ukraine, U.S. Monetary Tightening, and China Slowdown”. [https://www.worldbank.org/en/news/press-release/2022/04/04/east-asia-and-pacific-economic-recovery-faces-risks-from-the-war-in-ukraine-us-monetary-tightening-and-china-slowdown] Accessed May 17, 2022.

# Procurement as a value creator

Procurement was traditionally seen as a finance and/or operational function depending on the industry, but a changing business environment has forced a reconsideration of its role over the past couple of years into something that creates value and new revenue.

Mr Ideson explains that since procurement functions have direct interface with supply chain networks, it's understandable that the supply chain disruptions of the past three years have impacted how procurement functions.

"Cost has decreased as an influencing factor, and it's not increasing again," says Mr Kutzner. "What we are seeing for the first time ever, and increasingly, is that risk management is on top of the list of procurement objectives."

Supply chain risks will remain the major focus of procurement risk management activities as leaders look to ensure their organisations' access to key resources,

but Mr Kutzner also points to growing concerns around reputational risks. Companies are now more cautious about which suppliers they work with, he says, as evidenced by the recent groundswell of companies unwinding their connections to Russian suppliers.<sup>17</sup> This had already been a concern since the successive US trade wars against the world at large.<sup>18</sup>

## Volatile prices bring procurement centre stage...

At the heart of the procurement pipeline is the acquisition of goods and services in accordance with each organisations' timelines, needs and prices, with the ultimate goal of remaining competitive. Effective procurement management is focused on identifying risks and opportunities and negotiating supplier contracts.

Such strategies have become especially pertinent now as organisations deal with wave after wave of supply chain

and operational disruptions, which constantly threaten supply chain costs and planning. Moreover, repeated supply chain diversification and contracts renegotiation adds more workload than procurement departments are used to handling.

Materials and goods shortages, as well as curtailed manufacturing capabilities, have led to significant inflationary pressures on prices, while labour shortfalls are limiting firms' recovery speeds.<sup>19</sup> Other factors such as strict lockdowns in key manufacturing hubs across Asia, and transport disruptions, including about 100 ports constantly in lockdown across the world,<sup>20</sup> have culminated in a volatile cocktail challenging organisations' ability to navigate the "next normal".<sup>21</sup>

Over the short term, commodity prices in particular are set to remain in flux, especially for raw materials like tin, nickel, palladium or neon gas, which are needed for crucial semiconductor production.<sup>22,23</sup> Likewise, the price of other

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<sup>17</sup> Supply Management. March 10, 2022. "What are the costs of unwinding supply chains from Russia?". [https://www.cips.org/supply-management/news/2022/march/what-are-the-costs-of-unwinding-supply-chains-from-russia/] Accessed May 17, 2022.

<sup>18</sup> Deloitte. December 3, 2021. "Supply chain resilience in the face of geopolitical risks". [https://www2.deloitte.com/us/en/insights/economy/us-china-trade-war-supply-chain.html] Accessed May 17, 2022.

<sup>19</sup> European Central Bank. October 2021. "Sources of supply chain disruptions and their impact on euro area manufacturing". [https://www.ecb.europa.eu/pub/economic-bulletin/focus/2022/html/ecb.ebbox202108\_07~e6aad7d32f.en.html] Accessed May 17, 2022.

<sup>20</sup> HKTDC Research. November 3, 2021. "Post-Pandemic Supply Chains: Turning the Tide on Sea Cargo Stoppages". [https://research.hktdc.com/en/article/ODkwMjlyMTMz] Accessed May 17, 2022.

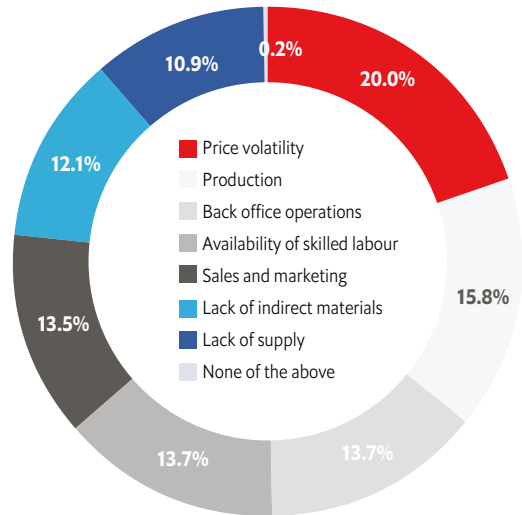
<sup>21</sup> McKinsey & Company. January 22, 2021. "Five themes can help procurement shape recovery in the next normal". [https://www.mckinsey.com/business-functions/operations/our-insights/five-themes-can-help-procurement-shape-recovery-in-the-next-normal] Accessed May 17, 2022.

<sup>22</sup> World Bank. April 4, 2022. "World Bank Commodities Price Data (The Pink Sheet)". [https://thedocs.worldbank.org/en/doc/5d903e848bd1b83e0ec8f744e55570-0350012021/related/CMO-Pink-Sheet-April-2022.pdf] Accessed May 17, 2022.

<sup>23</sup> Tom's Hardware. March 11, 2022. "Ukraine Halts Output of Neon Gas, Chip Production at Risk". [https://www.tomshardware.com/news/ukraine-neon-gas-production] Accessed May 17, 2022.

**Exhibit 6: Price volatility is the top impact of global supply chain disruptions**

What are the main impacts of supply disruption that your organisation is facing? Please select one.



Source: Economist Impact

commodities such as crude oil,<sup>24</sup> gas<sup>25</sup> and coal<sup>26</sup> have increased substantially since the start of the year, while that of others such as copper,<sup>27</sup> zinc<sup>28</sup> and aluminium<sup>29</sup> have fluctuated greatly.

**In Mr Brightmore’s view, price volatility is one of the factors leading the growing prominence of CPOs and procurement teams. “The supply chain of a business has a massive role to play in being flexible, resilient, and managing and protecting continuity,” he says.**

The survey results bear out the realities of these changed contexts: around 20% of respondents say price volatility is the most significant result of supply chain disruptions facing organisations.

In Mr Brightmore’s view, price volatility is one of the factors leading the growing prominence of CPOs and procurement teams. “The supply chain of a business has a massive role to play in being flexible, resilient, and managing and protecting continuity,” he says. A key part of this is how procurement can mitigate price volatility.

For Mr Ideson, procurement teams can manage volatile prices by taking a structured approach to cost management as opposed to relying strictly on price negotiations with suppliers, or passing higher costs on to customers.

**...with several other challenges continuing to plague organisations**

The uncertainty around supplies and volatile prices manifests in other related ways such as through problems in production (picked by 15.8%), the lack of indirect materials (12.1%) and the lack of supply (10.9%).

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24 Trading Economics. 2022. “Crude Oil”. [https://tradingeconomics.com/commodity/crude-oil] Accessed May 19, 2022.  
 25 Trading Economics. 2022. “Natural Gas”. [https://tradingeconomics.com/commodity/natural-gas] Accessed May 19, 2022.  
 26 Trading Economics. 2022. “Coal”. [https://tradingeconomics.com/commodity/coal] Accessed May 19, 2022.  
 27 Trading Economics. 2022. “Copper”. [https://tradingeconomics.com/commodity/copper] Accessed May 19, 2022.  
 28 Trading Economics. 2022. “Zinc”. [https://tradingeconomics.com/commodity/zinc] Accessed May 19, 2022.  
 29 Trading Economics. 2022. “Aluminium”. [https://tradingeconomics.com/commodity/aluminium] Accessed May 19, 2022.

Supply chain disruptions can also affect back-office operations, the availability of skilled labour, and sales and marketing.

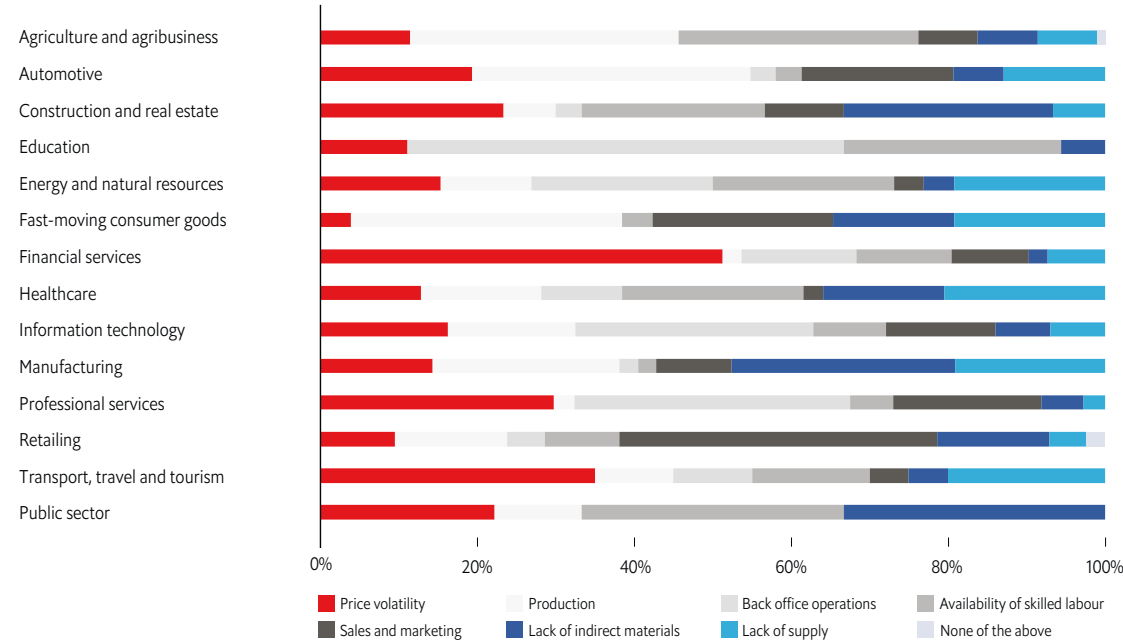
The second overall biggest impact (15.8%) was on production, an issue that was particularly highlighted by CSCOs (25%). Companies from Mexico (45%) were the most likely to cite this as a major issue, as well as those from Germany and Singapore (23.3%)—all countries that are major global manufacturing hubs.

According to a recent EU briefing paper, semiconductor shortages stymied computer and electronics production by 20% between January 2021 and January 2022.<sup>30</sup> Most of these production issues can be laid at the feet of global shortages of both labour and raw materials, leading to bottlenecks through a highly sensitive global network that relies on a “just-in-time” approach to manufacturing.

This philosophy necessarily keeps inventories thin, but leaves firms unable to respond effectively to shortages at any point of the value chain. Automakers, for example, were especially affected due to growing demand for electric vehicles, as production is highly dependent on access to semiconductors as well as car parts originating from all over the world. As a result, a tightening in chip supplies has resulted in knock-on effects for automakers.

**Exhibit 7: The impacts of supply chain disruption vary by industry**

What are the main impacts of supply disruption that your organisation is facing? Please select one.



Source: Economist Impact

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<sup>30</sup> Eurostat. March 2022. “Impact of Covid-19 crisis on industrial production”. [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact\_of\_Covid-19\_crisis\_on\_industrial\_production] Accessed May 17, 2022.

Several other industries in which production was particularly affected by supply chain disruptions, with 34.6% of respondents from agriculture and agribusiness, 35.5% of those in automotive (35.5%), and 34.6% of consumer goods executives reporting impacts. The combined impact of skyrocketing demand and labour shortages caused by the pandemic has exacerbated production issues for these industries.

Today, maintaining inflated stock has become a value-add strategy for companies, leading to an increased shift away from “just in time” and lean inventory management—characterised by reduced inventory holding costs, reduced wastage and lower warehousing costs—towards a “just-in-case” approach, which is characterised by larger inventories but higher costs in order to deal with demand surges or supply crunches.



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# Creating value-first solutions

In light of these major procurement issues, companies are employing myriad solutions to address the challenging business environment. According to the Economist Impact survey, more companies will focus on maximising cost savings (39.8%) in order to bring value to their businesses—the solution of choice for CPOs (45.1%)—over other strategies.

From a geographical perspective, a larger share of companies in Asia-Pacific will prioritise category management as one of the three areas they will focus on to deliver increased value in procurement. Category management options provide a more precise analysis of trades, which facilitates not only costs and flows optimisation, but also helps identify risks and opportunities in the short, medium and long term. This shows the need for a more refined and detailed supplier/client follow up in Asia, which increases flexibility and reactivity.

The second-most-picked solution in the top three to deliver increased value to procurement is reducing risk by diversifying the supply chain (37.9%), an issue that has grown in importance due to the dependence of the US and Western Europe on Asian manufacturing. The deepening dependence—and therefore vulnerability when supply chains are not fluid anymore—between these regions has been a major source of pain for organisations, and is sparking

**Exhibit 8: Cost savings and risk reduction are much more important areas of focus in EMEA and the Americas than in APAC**  
What are the top areas you will focus on to deliver increased value in procurement? Please select up to three.

	APAC	EMEA	Americas
Cost saving	32.0%	48.0%	39.2%
Risk reduction	24.0%	45.3%	45.4%
Inventory management	12.0%	18.0%	29.2%
Category management implementation/improvement	25.3%	18.7%	10.8%
Demand management	19.3%	12.7%	20.0%
External labour contracts	12.7%	18.0%	20.0%
Increasing outsourcing	18.7%	10.7%	19.2%
Core or direct spend areas	18.7%	14.0%	13.8%
Supplier performance management	12.7%	18.0%	16.2%
Invoice management including, payment approvals simplification, automation	11.3%	14.7%	12.3%
Early payment and working capital strategies	15.3%	12.7%	7.7%
Increasing vertical integration	11.3%	10.0%	10.8%
Internal and external Relationship and experience management	14.7%	11.3%	4.6%
Supplier-led innovation	4.0%	14.7%	10.0%
Dual or multi sourcing of key items	12.7%	2.0%	10.8%
Regionalization/nearshoring of the supply chain	10.7%	6.0%	3.1%
External services contracts (consultancy, construction et al.)	10.7%	4.0%	1.5%
Increasing supplier contract compliance	5.3%	4.7%	6.2%
Reducing maverick/non-compliant spend	8.7%	2.0%	1.5%

Source: Economist Impact

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a movement towards reshoring/onshoring/nearshoring in the US and Western Europe. That is the relocation of the manufacturing sites closer to the place of consumption.

Unsurprisingly, this has made risk reduction a key solution for respondents in the US (45.4%), where domestic and government policy over the last few years has become increasingly focused on building up local manufacturing of key materials like petroleum.<sup>31</sup> Separately, in early 2022, the US administration proposed a US\$52bn bill that would fund domestic chip production in an effort to unwind their dependence on Asian semiconductor manufacturers.<sup>32</sup> Similar policies are being mooted in the EU.<sup>33</sup>

### Just-in-time no more

Inventory management (19.3%) is the next most widely picked solution by c-suite executives as a way to bring value through their procurement process. This is mostly the case for developed economies such as Japan, the US and Western Europe, which, as “receiving regions”, are suffering the most from supply chain delays. Supply chain disruptions in the wake of covid-19 have helped puncture the glittering promise of the existing “just-in-time” philosophy that allowed companies to reduce waste by minimising or eliminating superfluous inventory.

**Chris Shanahan, chief procurement officer at Thermo Fisher Scientific, points out that this lack of capacity in the market led to a tightening in supplies that have taxed organisations’ agility and created high rates of inflation. In response, many have sought to maintain larger inventories, marking a shift to a “just-in-case” philosophy, wherein the chief operational driver is risk mitigation and business continuity over cost saving.**

One clear example can be seen in a global pharmaceutical company’s use of data company Cloudleaf’s technology to enable real-time, accurate monitoring of blood plasma deliveries. By collecting and analysing the products’ movement history, the company was able to improve its return on investment 50-fold.<sup>34</sup>

However, Chris Shanahan, chief procurement officer at Thermo Fisher Scientific, points out that this lack of capacity in the market led to a tightening in supplies that have taxed organisations’ agility and created high rates of inflation. In response, many have sought to maintain larger inventories, marking a shift to a “just-in-case” philosophy, wherein the chief operational driver is risk mitigation and business continuity over cost saving.

By managing their inventory through long-term strategies like nearshoring or building back-up supply chains, companies can insulate their operations from future supply shocks. For example, a company could engage with manufacturers in the Philippines, Mexico, Morocco, Romania or Turkey in addition to their existing suppliers from China and India to ensure access to key materials is always maintained.

However, while the pandemic has revealed the limitations of heavily relying on a single geography and a limited number of suppliers in times of crisis, leading organisations to try and diversify their supply chains, nearshoring has, thus far, been an underutilised supply chain strategy due to high expenses, limited access to labour and significant lead times in case of factory relocation.<sup>35</sup>

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<sup>31</sup> Forbes. March 8, 2022. “Surprise! The U.S. Is Still Energy Independent”. [https://www.forbes.com/sites/rpapier/2022/03/08/surprise-the-us-is-still-energy-independent/] Accessed May 17, 2022.

<sup>32</sup> Reuters. January 26, 2022. “U.S. House leaders unveil chips, China competition bill”. [https://www.reuters.com/business/us-house-leaders-set-unveil-chips-china-competition-bill-2022-01-25/] Accessed May 17, 2022.

<sup>33</sup> CNBC. February 8, 2022. “EU plans multi-billion euro boost for chip production to ease supply disruptions”. [https://www.cnbc.com/2022/02/08/eu-plans-multi-billion-euro-boost-for-chip-production.html] Accessed May 17, 2022.

<sup>34</sup> Cloudleaf. April 2020. “Cloudleaf Empowers a Global Pharmaceutical Company to Track Blood Plasma Samples with 100% Visibility”. [https://www.parkoursc.com/wp-content/uploads/2020/04/Pharma\_ColdChain\_Cloudleaf\_CS\_2020-04.pdf] Accessed May 17, 2022.

<sup>35</sup> MES. March 2021. “6 Reasons Why Near-Sourcing is NOT a Sustainable Solution”. [https://www.mesinc.net/6-reasons-why-near-sourcing-is-not-a-sustainable-solution/] Accessed May 17, 2022.

The long lead times required make this a longer term strategy for organisations.

Digital technologies are making nearshoring approaches more accessible by streamlining communications, leading to a rise in nearshoring activities in Latin America for the US, and Eastern Europe, Middle East and North Africa for Western Europe.<sup>36</sup> Such nearshoring activities are thriving, evident in the purchasing manager's index of the concerned countries.<sup>37</sup>

This approach is highly dependent on the type of industry, which is why companies in the healthcare (30.8%) and manufacturing (26.2%) sectors—where operations depend on reliable and available supplies—are more likely to turn to inventory management as a workable solution. Automotive manufacturers like Toyota and Volkswagen are beginning to stockpile months' worth of parts in order to protect their production lines.<sup>38</sup>

That said, inventory increase is not an equal opportunity solution for companies with fewer financial resources. Survey results illustrate that 22.9% of companies with revenue of more than US\$1bn plan to focus on inventory management. In comparison, only 18.9% of those earning

between US\$500m and US\$1bn will choose this approach, while just 9.4% of those earning even less (between US\$300m and US\$500m) will take this path.

### Category management's rising star

Category management is undergoing a subtle evolution thanks to the increased use of digital technologies like smart contracting platforms that leverage sophisticated indices for identifying risks and opportunities.<sup>39</sup> This is why category management emerged as the second biggest driver of digital transformation.<sup>40</sup>

And while category management (18.6%) was selected as the fourth procurement solution of choice for companies seeking to bring value, it is particularly popular among respondents from APAC (25.3%). CSCOs (23%) are also more likely to favour category management than those in other functions owing to its focus on expanding supplier networks as a means of reducing risks.

As companies continue to seek more opportunities to maximise procurement value, there is growing importance placed on new sourcing procedures,

capabilities and data sources—all of which can be enhanced through digital technologies.

Mr Smith notes that over the years category management approaches have been “quite basic”, as firms rely on reducing the number of suppliers to keep costs low. However, as organisations turn towards more risk-focused approaches, category management has shifted towards growing supply options and become more comprehensive.

The advent of digital tools is also exerting a shift in how category management is understood. Mr Kutzner says that since category management is a strategy driven primarily by “knowledge and insights”, technologies can help procurement managers tease out key insights on how to optimise their supply networks.

### Operating model changes

The challenges brought about by instability in supply chains, volatility in prices and increased labour costs are also resulting in operational changes, particularly from the perspective of organisational control. While four in

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<sup>36</sup> The Hill, November 22, 2021. “Nearshoring: Panacea, quick fix or something in between?”. [https://thehill.com/opinion/international/582542-nearshoring-panacea-quick-fix-or-something-in-between/] Accessed May 17, 2022.

<sup>37</sup> Trading Economics, April 2022. “Manufacturing PMI”. [https://tradingeconomics.com/country-list/manufacturing-pmi] Accessed May 17, 2022.

<sup>38</sup> Wall Street Journal, May 3, 2021. “Auto Makers Retreat From 50 Years of ‘Just in Time’ Manufacturing”. [https://www.wsj.com/articles/auto-makers-retreat-from-50-years-of-just-in-time-manufacturing-11620051251] Accessed May 17, 2022.

<sup>39</sup> McKinsey & Company, April 8, 2022. “Full-potential procurement: Lessons amid inflation and volatility”. [https://www.mckinsey.com/business-functions/operations/our-insights/full-potential-procurement-lessons-amid-inflation-and-volatility] Accessed May 17, 2022.

<sup>40</sup> Category management is the subject of a briefing paper to be published separately, that will delve into the importance of digitalisation and the use of digital technologies, and its impact on procurement.

ten companies are seeing procurement move towards increased centralisation or a centre-led model, half are going the other way, seeing increased decentralisation or a move towards a hybrid model.

These shifts in operating models are having implications on staffing in the procurement function. Of those executives who say procurement staffing at their organisation has increased, nearly four in ten say this can be attributed to operating model changes. Moreover, many companies are expanding their external workforce to cope with the changing demands of procurement and to be in sync with changing work structures, the adoption of technologies and market conditions.<sup>41</sup>

Operating model changes also featured as one of the top priorities for organisational risk that companies will focus on in procurement in the next 12-18 months. Three in ten (31.2%) companies list it as a priority item on their agenda, just below supply chain risk (34.4%). The results of the survey show that procurement is going to be central to changes in organisational models over the next one to two years, given its centrality in all business operations. It is still too early to outline what this might look like in the future, but it is clear change is under way.



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<sup>41</sup> The external workforce is the subject of a briefing paper to be published separately, that will delve into the growing use of external workers, the drivers for this shift, and implications on organisational operating models.

# Is sustainability a “nice to have” for procurement?

Amid growing concerns around climate change and increasingly disruptive natural disasters, the business world has placed increased emphasis on the importance of environmental, social and governance (ESG) areas.

ESG isn't just an issue of virtue, but one that can create value for businesses by expanding access to new markets, reducing operational spend on raw materials, easing regulatory pressure and attracting quality employees. While most people think of the ESG agenda as being focused on environmental issues, Mr Shanahan says that more companies are expanding its remit to also take into account aspects like modern slavery, supplier diversity and labour rights.

Especially key is the fact that a strong ESG approach can boost companies' long-term continuity by opening doors to promising, future-forward industries, particularly amid growing consumer awareness and prioritisation of these issues, which can in turn impact business performance.<sup>42</sup>

“More and more consumers are getting involved in this from various positions, even sceptical ones. The conversations are happening, so you better have a solution or an offering”, says Mr Brightmore.

Even before the pandemic's onset, sustainable procurement had been gaining traction among managers. A 2019 analysis, for example, found that 81% of organisations had increased their commitment to sustainable procurement, of which 42% of the organisations moderately increased their commitments and 39% of organisations significantly increased their commitments to sustainable procurement.<sup>43</sup> Today, supply chain emissions are 5.5 times higher than emissions from companies' everyday operations—and this is certainly an underestimation considering managers' lack of visibility into their value chains.<sup>44</sup>

Considering the function's increasing sphere of influence, procurement teams would be well placed to create significant ESG opportunities for companies.<sup>45</sup> For instance, supplier diversity is increasingly becoming an ESG priority, and is becoming key to mitigating supply chain procurement risks and reducing buyers' purchasing costs.<sup>46</sup>

ESG priorities tend to rank differently when viewed from the perspective of specific roles. For example, CFOs (34.5%), CPOs (38.2%) and CSCOs (36%) prioritise waste reduction, while COOs' top priority is energy consumption (26.6%), indicating the latter's responsibility over the day-to-day running of company facilities.

Mr Smith points out that specific industries such as consumer goods, the public sector and automotive manufacturers have placed growing emphasis on ESG issues, with many pushing their suppliers to improve their behaviour. And the role of procurement is becoming more central to driving the ESG agenda. Mr Smith says that he is increasingly seeing “companies using procurement to try and change the behaviour of their suppliers. So rather than saying that I want to reduce the energy consumed in producing my chocolate bars, I'm going to my downstream suppliers of packaging, of equipment, of raw materials, and saying, I want you to use less energy in your production process, and waste less water.”

“We're working with our supply base to get them to commit to some targets. We're working downstream with our suppliers to say 'okay, we've made these commitments as a company and the supplier base is part of that commitment, and as part of our supply chain, we are looking for you to make some similar commitments,’” says Mr Shanahan.

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42 McKinsey Quarterly, November 2019. “Five ways that ESG creates value”. [https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.ashx] Accessed May 17, 2022.

43 NYU Stern, July 24, 2019. “Sustainable Procurement Barometer 2019”. [https://www.stern.nyu.edu/sites/default/files/assets/documents/2019-sustainable-procurement-barometer-from-compliance-to-performance.pdf] Accessed May 17, 2022.

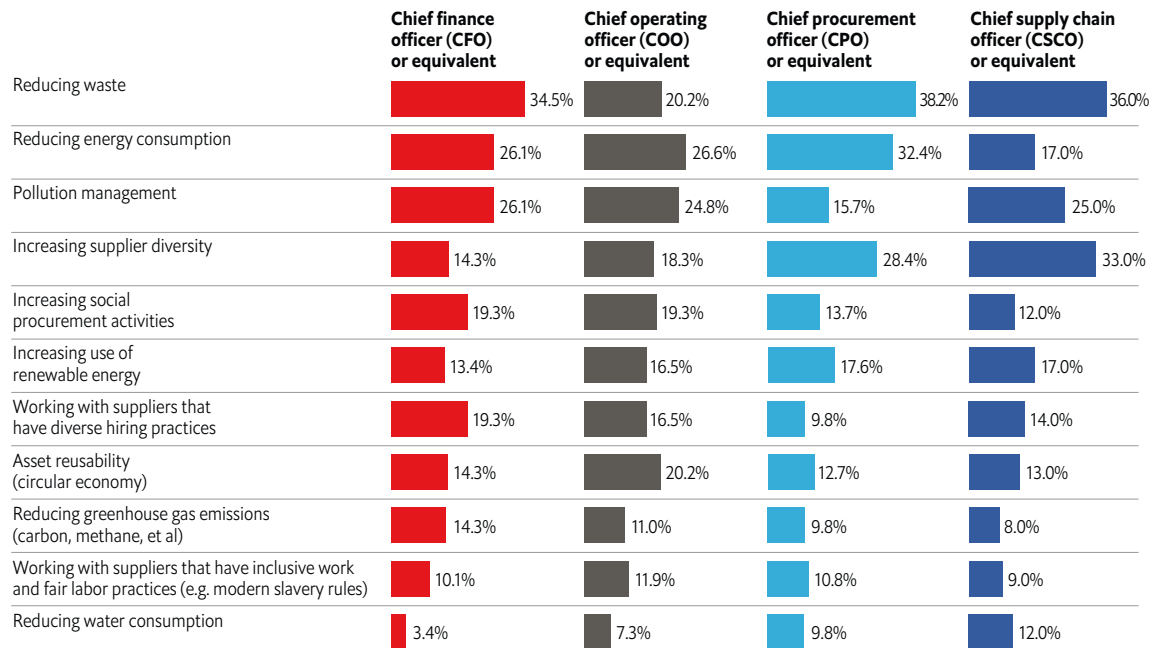
44 CDP, 2020. “CDP Supply Chain: Changing The Chain”. [https://cdn.cdp.net/cdp-production/cms/reports/documents/000/004/811/original/CDP\_Supply\_Chain\_Report\_Changing\_the\_Chain.pdf?1575882630] Accessed May 17, 2022.

45 Sustainability in procurement is the subject of a briefing paper to be published separately.

46 MIT Sloan Management Review, June 30, 2020. “Maximizing the Benefits of B2B Supplier Diversification”. [https://sloanreview.mit.edu/article/maximizing-the-benefits-of-b2b-supplier-diversification/] Accessed May 17, 2022.

**Exhibit 9: ESG priorities change depending on role**

What will be the top priorities related to Sustainability & Environmental Social Governance (ESG) that will drive your approach to procurement strategy? Please select up to two.



Source: Economist Impact

The emergence of “hardcore reporting laws and regulations” in Western Europe, especially among listed companies, is helping to drive the ESG agenda, says Mr Kutzner, especially with regard to supply chain transparency. Stricter regulations have led to a growing movement among European companies to divest from countries like Malaysia and Indonesia, for example, over the use of forced labour in palm oil production.

Despite the importance of sustainability and ESG issues, and their prominence in the mainstream discourse, many companies still consider them “nice to haves”, as costs and margins take precedence. Mr Kutzner warns that the absence of “tangible benefits” will still exert a dampening effect on where ESG sits on the procurement priority list.

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# Conclusion: procurement in flux

As the global recovery continues, companies will be looking for opportunities to improve their bottom line through better procurement. It need not necessarily be thought of as a function of limitations and control, but also a place from which firms can expand opportunities and mitigate risks in a world becoming more uncertain by the day.

Procurement is changing, with digitalisation catalysing the changes. However, Mr Brightmore sees a risk that procurement teams may become complacent too quickly thanks to the perception that covid-19 is no longer ascendant and things may normalise soon. “The belief of positive optimism, complacency, whatever it may be—may cause people to quickly de-invest in procurement or move it back to the basement as a tactical function rather than strategic function.” The recent lockdowns in China provided a stark reminder that the crisis is far from over.<sup>47</sup>

Instead, Mr Brightmore advises companies to fight to stay relevant by enabling ESG and sustainable procurement practices, and “understand what’s out there, or in development, in order to provoke conversation in the organisation”. The procurement function now includes

an advance warning role, indispensable to planning and resilience, for which digital communication and software solutions are of the essence.

**“The belief of positive optimism, complacency, whatever it may be—may cause people to quickly de-invest in procurement or move it back to the basement as a tactical function rather than strategic function”, says Mr. Brightmore. The recent lockdowns in China provided a stark reminder that the crisis is far from over.**

ESG aside, technological solutions can offer relief for companies, as well as a path towards future-proofing their business. Tools such as predictive analytics and digital communications can support more streamlined operations, lower costs, improve access to labour and

bring more visibility into supply chains, all of which are essential to strengthening procurement’s role.

In a world of procurement and supply chain management, where the rule of 20% challenges has become 80%, digital applications help identify, map, solve and plan faster for alternative solutions. This allows the procurement department to meet deadlines with a dramatically heavier workload and with the same number of staff.

“Organisations that haven’t invested in good procurement technology risk getting left behind,” says Mr Smith. This is something that CPOs already acknowledge. It is now time for companies to reimagine the possibilities for the future of procurement, as it becomes more and more central to value creation.

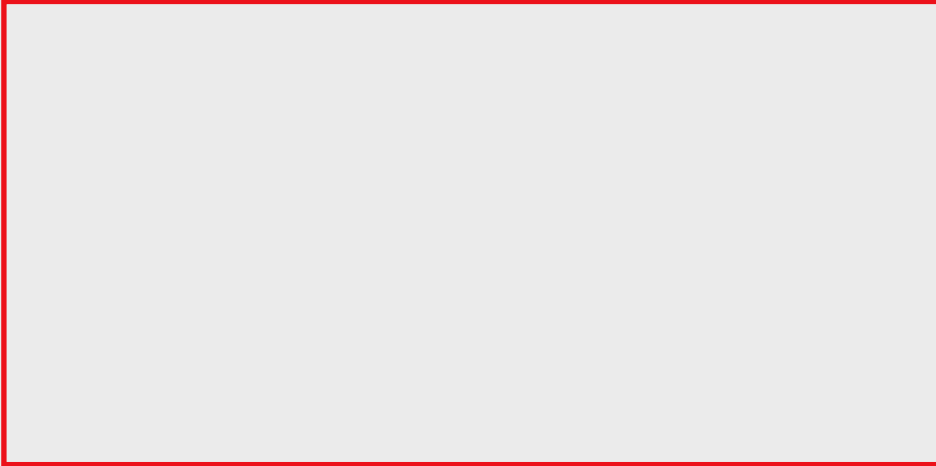
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