

Chain Reaction: Holistic Supplier Management Is Key To Business Success

A Collaborative, Data-Driven Approach To Supplier Management Can Improve Supply Continuity, ESG Performance, And Other Top Priorities

Table of Contents

3	<u>Executive Summary</u>
4	<u>Key Findings</u>
5	<u>Procurement's Remit Continues To Widen</u>
8	<u>Most CPOs Overestimate Their Department's Maturity</u>
11	<u>Procurement And IT Need To Partner Better</u>
14	<u>Procurement Has Plans To Improve Collaboration Efforts</u>
16	<u>Risk Assessment Is The Major Obstacle To Improved Supply Continuity</u>
20	<u>ESG Priorities Are Broadly Considered Very Important, But They Lack Formal Policies And Targets</u>
24	<u>Systems, Data, And Supplier Willingness Are Hindering Supplier-Led Innovation</u>
27	<u>Organizations Are Incentivizing Procurement And Enabling Better Collaboration</u>
29	<u>Key Recommendations</u>
31	<u>Appendix</u>

Project Director:

Tarun Avasthy,
Senior Market Impact Consultant

Contributing Research:

Forrester's Infrastructure & Operations
research group

ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

© Forrester Research, Inc. All rights reserved. Unauthorized reproduction is strictly prohibited. Information is based on the best available resources. Opinions reflect judgment at the time and are subject to change. Forrester®, Technographics®, Forrester Wave, RoleView, TechRadar, and Total Economic Impact are trademarks of Forrester Research, Inc. All other trademarks are the property of their respective companies. [E-53861]

Executive Summary

Dependence on and exposure to suppliers continue to grow. Best-in-class organizations know that no matter how streamlined and digitally enabled their business is, without meaningful collaboration, business and consumer demand will suffer.

As a result, leading organizations are taking a holistic approach to managing their suppliers by better monitoring and more closely engaging them, leveraging technology to stay ahead of the curve. In turn, through Forrester's supplier management maturity model, we identified three groups: 1) "Leaders" that formalize and broadly apply various supplier management initiatives, 2) "Intermediates" that formalize and apply their supplier management approach to a subset of their supply base, and 3) "Beginners" that have ad-hoc programs running with no clear direction.

In January 2022, Ivalua commissioned Forrester Consulting to evaluate the approach organizations are taking to manage their suppliers along with how they plan to increase collaboration; the methods they're applying to minimize disruption, accelerate innovation, and improve sustainability; and how future-fit their strategies are. To explore this topic, Forrester conducted an online survey with 462 procurement leaders who are at the director level and above at organizations across the globe.



Key Findings

Most organizations are formalizing supplier management, but significant improvements are needed. Organizations need to grow and mature to increase the value of supply chains through people, processes, and technology. Our survey found that most procurement leaders are proactively working with suppliers to monitor progress, meet common goals, and even provide suppliers greater flexibility in how they meet requirements.

Procurement plays a key role when enabling better collaboration. Increasing collaboration with business units, IT, and suppliers elevates the role procurement plays as a strategic partner by unlocking new sources of value beyond traditional areas like cost.

Only 13% of our survey respondents are considered Leaders. We define Leaders as organizations that have a formal program broadly applied in areas such as defining improvement plans with suppliers, sharing company strategy details with suppliers, combining third-party data, actively sharing forecasts, and more.

The global supply-chain model is shifting in the name of business continuity. From increasing inventory levels, rationalizing the supply base to better monitor suppliers, and even defining contingency plans in the event of disruptions, procurement leaders are employing a breadth of tactics to ensure business continuity prevails.

Environmental, social, and governance (ESG) is an important imperative, but it lacks formal policies and targets. Businesses that demonstrate ESG principals are building a competitive advantage to help stand out from the crowd. However, most firms don't have actual targets and formalized policies to really drive ESG initiatives to the next level, suggesting a level of greenwashing is still in place.

Procurement's Remit Continues To Widen

For the past two years and counting, global supply chains have experienced increased volatility that's adversely impacted consumers and businesses far and wide. At the same time, businesses are increasingly being held accountable by consumers, governments, and their own employees for ethical issues in their supply chains, from forced labor to carbon emissions. With procurement at the juncture between organizations and their suppliers, the function is increasingly supporting top-level boardroom priorities.

Costs and efficiency remain critical, but they are now two of many important procurement objectives and are often achieved as much by collaboration as negotiation (see Figure 1).

When asked the importance of 15 common procurement objectives, a notable majority of leaders indicated for each that its importance has increased, with supporting business agility (71%) and supply-chain sustainability (71%) tied for the top spot (see Figure 2).

This has fundamentally altered how leaders think about supply chains, the strategies deployed, and how procurement works with suppliers with significant implications for the future. Just in time, supply chains and cost-dominated sourcing have rapidly been replaced or at least adapted. The future of supply chains will be characterized by a dynamic outside-in approach to analysis and collaboration. Organizations will continuously adapt and evolve to meet changing customer demands.

- **Reducing product costs remains important.** Businesses have been feeling the macroeconomic squeeze of global markets. In response, procurement leaders are prioritizing the reduction of product costs (73%) and savings on indirect costs (62%). They need to help their firms remain competitive while preserving profitability. That hasn't changed. What's new is that procurement now has to do this while addressing many other imperatives.

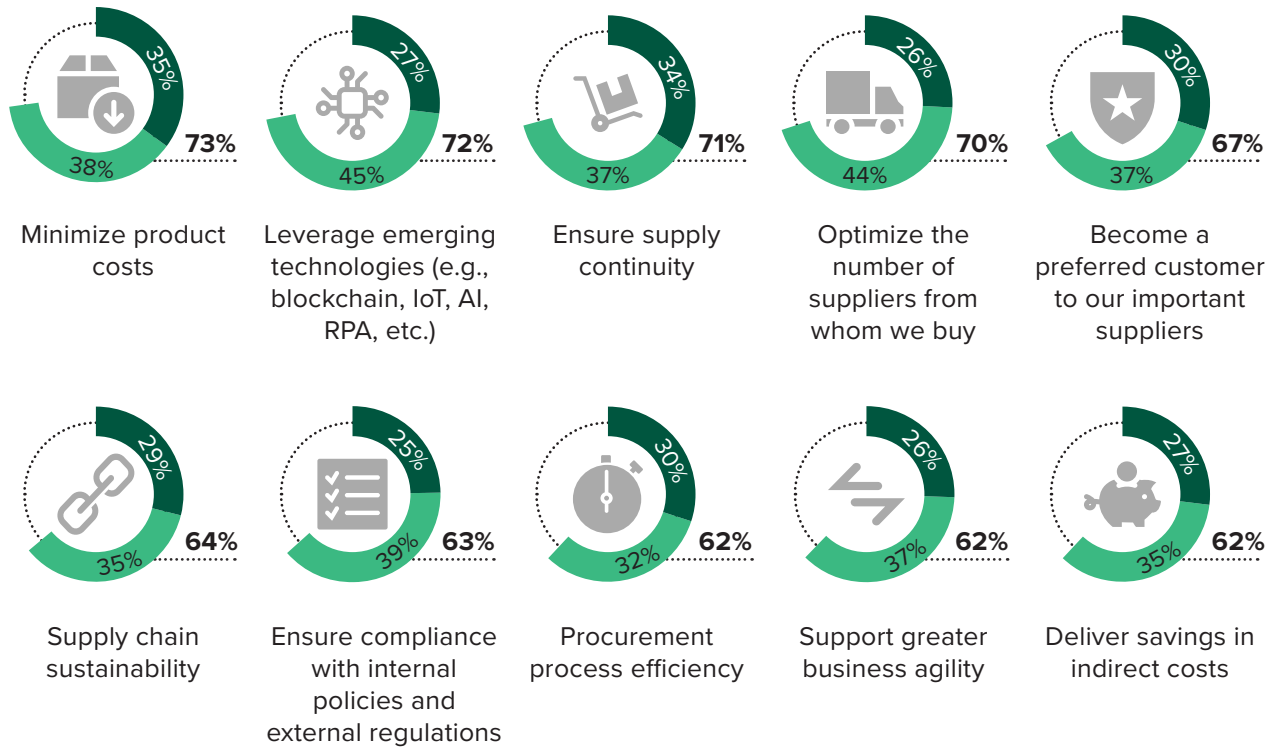


91% of Leaders **consider suppliers to be a source of value.** 64% of Intermediates and 61% of Beginners think the same.

Figure 1

“Which of the following are the highest priorities for your company’s procurement function for the current year?”

- Crucial priority, which we need to improve this year
- Important, and it is one of many areas we would like to improve



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Note: Showing top 10.

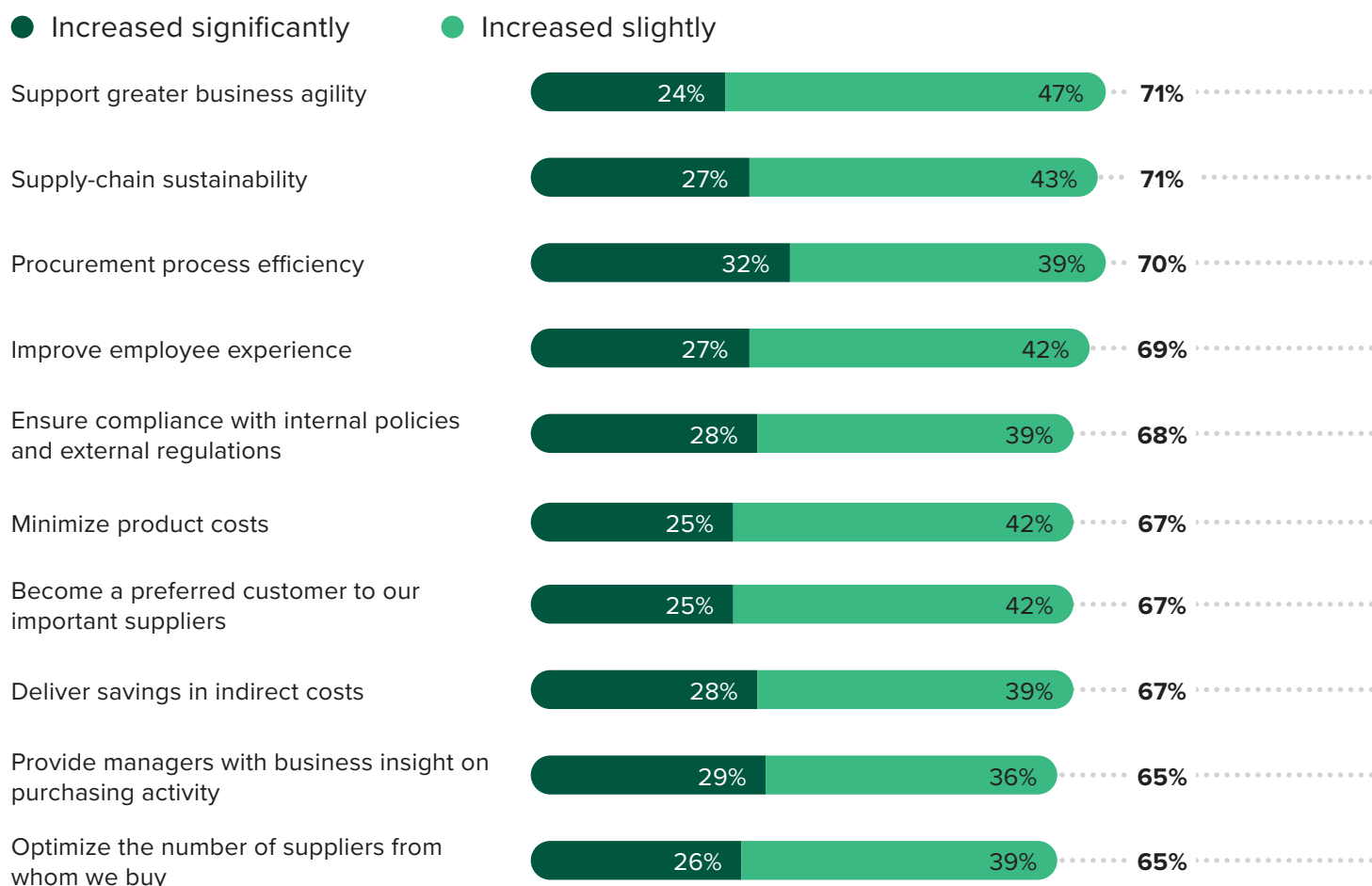
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

- **To ensure business continuity and resilience, effective supplier assessment is needed.** Seventy-one percent of respondents said improving supply-chain continuity is a high priority. This requires effective supplier assessment, which is difficult if you have too many suppliers. That’s one reason 44% of respondents regard optimizing the supplier portfolio as a crucial priority that requires urgent action.
- **To keep pace with the changing nature of supply chains, businesses are embracing emerging technologies.** Tomorrow’s supply chains look to be intelligent, predictive, and self-correcting; they’ll collect data

from an ever-increasing array of sensors, cameras, and applications using automation and advanced machine-learning algorithms. Given the importance of supply-chain management and the rapidly evolving technology market, organizations are looking to leverage emerging technologies (72%) and develop strategies and programs that continuously enhance their workforces. In turn, by leveraging powerful technologies like AI algorithms or automation tools like robotic process automation (RPA), organizations can better support greater business agility to introduce new products faster and respond to changes in customer demand (62%).

Figure 2

“How has each of the following procurement priorities in your organization evolved since COVID-19 began?”



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Note: Showing top 10; total percentages may not equal separate values due to rounding.

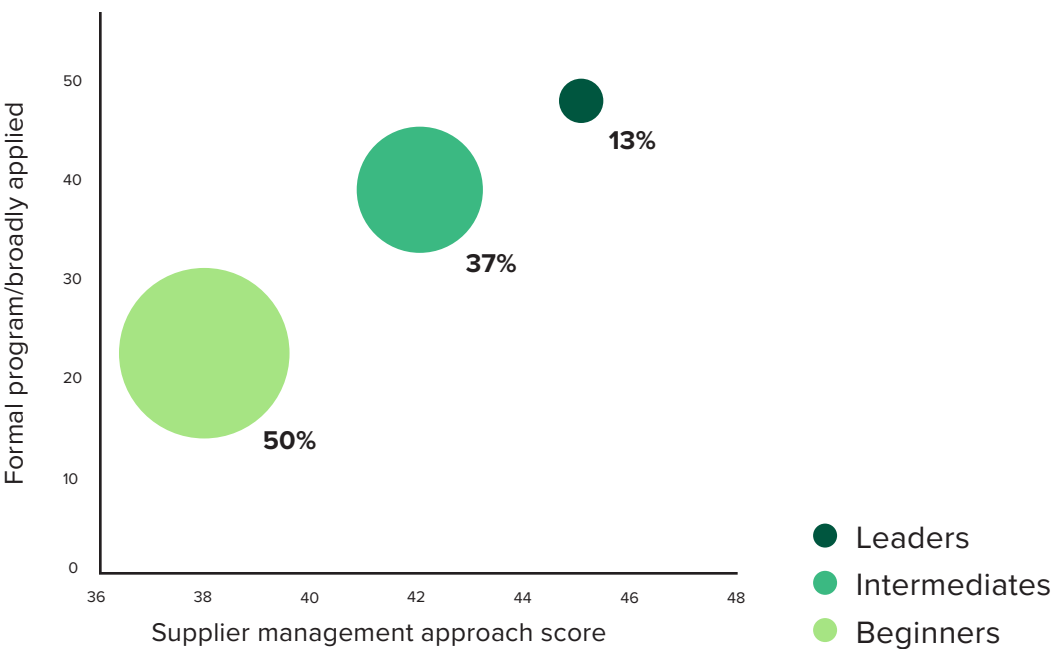
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

Most CPOs Overestimate Their Department's Maturity

For each one of the above priorities, more than 70% of respondents think their organization performs better than its competitors, with 30% claiming to be significantly better (see Figure 3). That's statistically impossible. Most are clearly overestimating what represents average performance, with many organizations that believe they're above average actually performing worse than their peers.

To assess the maturity level of an organization, Forrester explored the richness and depth of organizations' procurement functions across the three key dimensions of people, process, and technology, and the extent to which their systems are aligned with the overall business. We asked respondents to rate their organizations' supplier management approaches across several criteria, including business alignment, flexibility, use of modern technology, and supplier collaboration.

Figure 3
The Current State Of Procurement Maturity

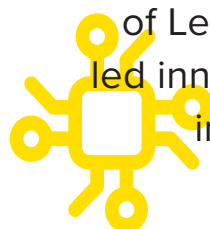


Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

MOST ORGANIZATIONS ARE FORMALIZING SUPPLIER MANAGEMENT, BUT SIGNIFICANT IMPROVEMENT IS NEEDED

As an organization grows and matures, the race to increase supply-chain value through people, processes, and technology requires skillful navigation and forward thinking.

Our survey found that most procurement leaders are proactively working with their organizations' suppliers to monitor progress, meet common goals, and provide suppliers flexibility while also sharing company strategy goals (see Figure 4). However, we found considerable room for improvement — particularly in sustainability, data, and technology.



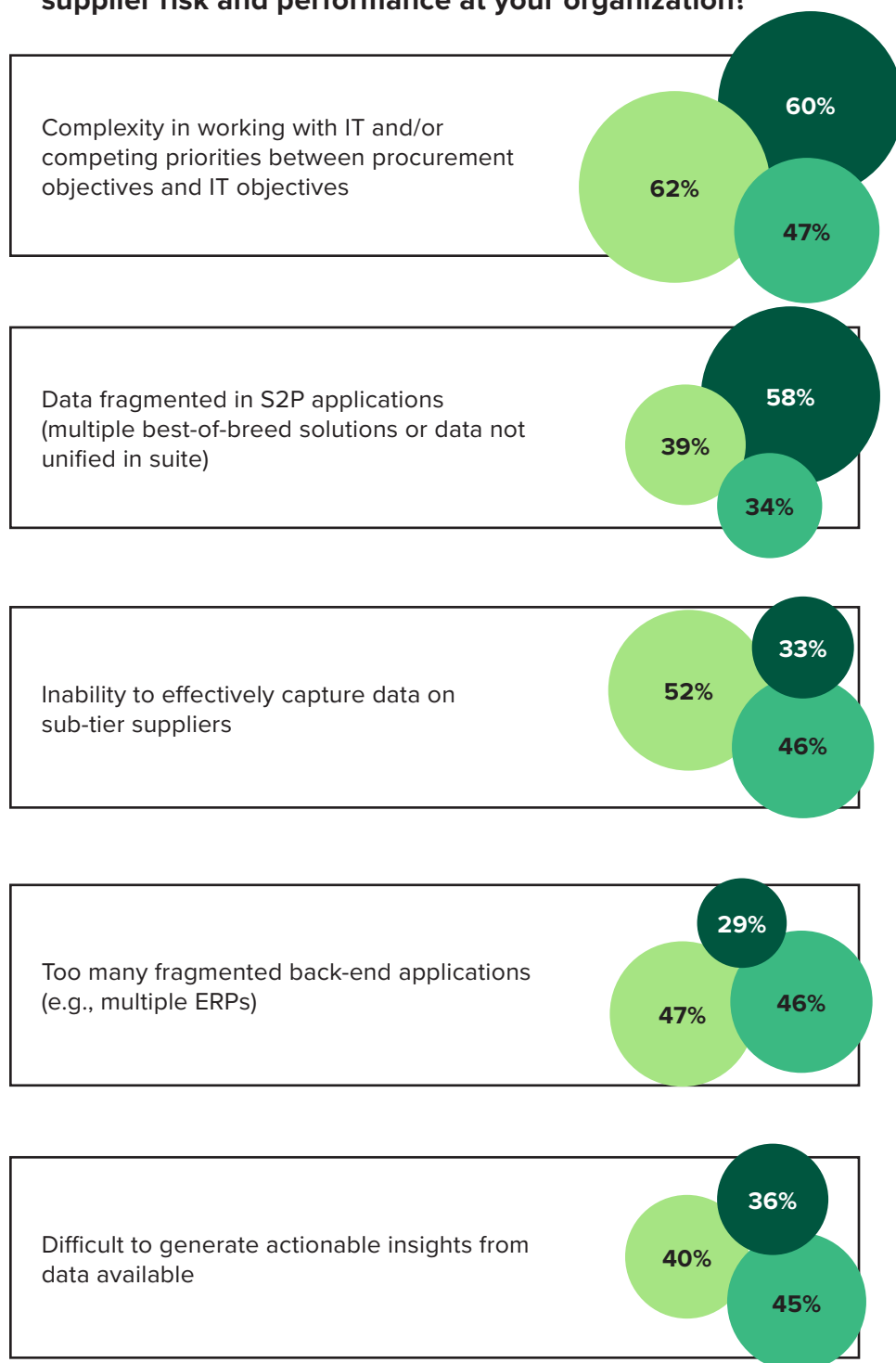
95% of Leaders say supplier-led innovation is the most important objective.

- **Only 13% of respondents are considered Leaders.** Leaders broadly apply key supplier management tactics with a formalized program across a range of processes and approaches. They have technology-enabled, data-powered, and insight driven approaches to supply chains, some of which are fully automated. They'll offer flexibility and define improvement plans with suppliers and monitor progress. For leaders, supplier-led innovation is the objective that increased the most (95%).
- **Thirty-seven percent of respondents are considered Intermediates.** Intermediates broadly apply key supplier management tactics with a formalized program across some of their processes and approaches. They encourage, share, and work to establish themselves as the customer of choice. They lack a 360-degree view of suppliers.
- **Half of respondents are considered Beginners.** Beginners struggle to broadly apply key supplier management tactics with a formalized program across their processes and approaches. They particularly struggle with assessing suppliers on a regular basis, and they have poor data-integration practices. Yet, for each procurement priority, two-thirds of Beginners still believe their organization is performing better than its competitors.

Figure 3

“What are significant hurdles to effective visibility into supplier risk and performance at your organization?”

- Leaders
- Intermediates
- Beginners



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Note: Showing top 5.

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

Procurement And IT Need To Partner Better

Procurement leaders face a challenging task when assessing supplier risk and performance: The business is mainly responsible for execution on strategies and tactics, and it plays a critical role in translating business priorities to IT, which often has competing priorities that lead to overall misalignment (see Figure 4):

- **IT collaboration is the top and most common challenge to overall supplier management.** Enhancing collaboration with business units and IT elevates the role of procurement as a strategic partner by unlocking new sources of value beyond traditional areas like costs. However, our survey revealed that when different lines of business work with IT, they're more likely to experience increased complexities and/or competing priorities that obstruct productivity. For example, it's no surprise that Beginners (62%) struggle the most because their approach toward supplier management is not formalized or mature. Yet 60% of Leaders said they experience the same issue, which highlights the importance and need for collaboration.
- **Fragmented source-to-pay (S2P) applications hinder a firm's ability to assess supplier risk and performance.** Most procurement functions lack the modern software applications they need if they are to raise their maturity and address their many priorities. Half of Beginners and Intermediates cited fragmented ERP instances as an obstacle to effective supplier management. Only 29% of Advanced organizations did the same, suggesting that they're using specialist S2P tools instead of ERP. However, 58% are unhappy with the level of integration between the various tools their organization uses, with data fragmented among best-of-breed solutions or suites that lack unified data. The implication is that procurement leaders at all maturity levels need to become more digitally sophisticated and accelerate their organization's progression toward a unified S2P software portfolio, being careful to consider data implications when planning its technology strategy.
- **Businesses struggle with managing and making sense of data.** Advanced organizations are better at managing, processing, and

acting on data insights while less mature firms struggle with combining data from various sources to inform business decisions. For example, Intermediates (45%) and Beginners (40%) said it's difficult to generate insights from data available. And Intermediates (46%) and Beginners (52%) struggle to capture data on sub-tier suppliers.

89%

of Leaders said they will optimize the number of suppliers from whom they buy compared to 69% of Intermediates and 67% of Beginners.



EVEN WITH STRATEGIC SUPPLIERS, MULTIPLE CHALLENGES HINDER COLLABORATION

Collaboration with suppliers is key to addressing most top priorities. Organizations naturally have closer relationships with their more strategic suppliers, yet collaboration is still limited by a range of obstacles (see Figure 5):

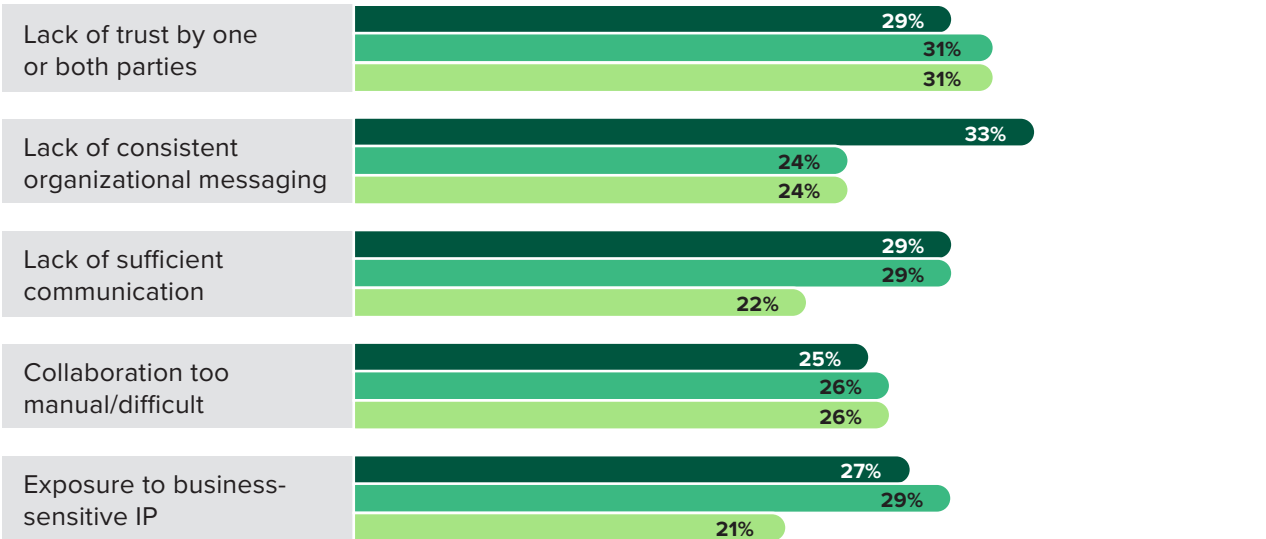
- **It can be difficult to collaborate due to a lack of trust between suppliers and businesses.** Winning trust and confidence of supply-chain partners is particularly critical to improving resilience and unlocking innovation. Successfully managing a partnership requires procurement leaders to develop the right approach to take to have the most positive impact. Interacting with business partners this way ensures your business leaves a good impression when communicating supply chain's value, plans going forward, and success metrics. Leaders (29%), Intermediates (31%), and Beginners (31%), all rated lack of trust as the top barrier when working with strategic suppliers.
- **Developing inconsistent organizational messaging and poor communication slows meaningful partnerships from forming.** Operational disruption has been a key feature during the past 24 months, which is why it's even more critical to remain consistent with brand messaging and/or to communicate upcoming changes with

partners and supply chains. Yet, Leaders (33%), Intermediates (24%), and Beginners (24%) selected this as the second-highest barrier when working with partners. Additionally, poor communication also hinders businesses when developing relationships with key partners.

- **Identifying collaboration is too manual to keep up.** Having an ethical, trusted network means embracing digital platforms that enable visibility and collaboration. Yet, Leaders (25%), Intermediates (26%), and Beginners (26%) all pointed to collaboration as being too difficult or manual even when working with the more limited number of strategic suppliers.

Figure 5

“What are the barriers/risks involved when working with strategic suppliers?”



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Note: Showing top 5.

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

Leading procurement organizations are selecting the best suppliers, collaborating with them, and mitigating risk. A true partnership between procurement leaders and supply chains includes understanding each other’s strategic objectives, and **this is key in driving business innovation.**

Procurement Has Plans To Improve Collaboration Efforts

Procurement leaders have taken note of the importance of supplier collaboration and the limits today, with a broad set of changes planned during the next 24 months in how they approach relationships (see Figure 6):

- **Collaboration will extend to more suppliers.** A majority (51%) of leaders plan to collaborate with a broader set of suppliers because recent disruptions have demonstrated that vulnerabilities exist beyond simply direct, strategic suppliers.
- **Greater efforts are planned to encourage suppliers to collaborate.** Supplier collaboration is a two-way street, with effort and commitment required from both sides. Fifty percent of respondents said their organization plans to give suppliers more flexibility in how they meet requirements, and nearly as many (46%) said their organization plans to launch or bolster a customer-of-choice program. And 49% said their organization expects to make longer-term commitments.
- **Deeper collaboration is planned.** To support procurement's widening set of objectives, the type of collaboration is growing as well. Nearly half of respondents said their organization is planning to improve forecast/planned order information sharing (49%) and more closely collaborate on joint product development (46%).

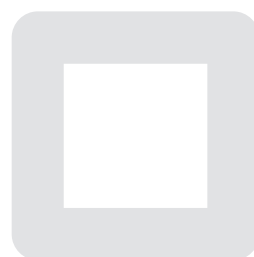
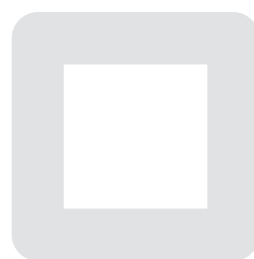


Figure 7

“When thinking about your relationship with suppliers, how do you expect to change your approach over the next 24 months?”

(Select all that apply)

Collaboration with a broader set of suppliers

51%



Increase flexibility in our requirements to encourage innovative solutions

50%



Better forecast/planned order information sharing

49%



Longer-term commitments on both sides

46%



Launch/bolster a formal customer of choice program

46%



Closer collaboration on product innovations with select suppliers

46%



Enabling competitive advantage for both parties

46%



Treating supplier employees as our own

44%



Reduce our total number of suppliers

41%



Transparent/open-book commercials

40%



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

Risk Assessment Is The Major Obstacle To Improved Supply Continuity

Supply disruption has become the top risk to business success in many industries. Pandemics, geopolitical tensions, and climate change are among the top factors, suggesting disruptions are more likely to become the norm than temporary issues.

Organizations face various barriers when ensuring supply continuity, with information as a common thread. Assessing exposure and the options to adapt will be critical to success. The top three challenges impeding resilience are (see Figure 7):

- An inability to access supply risk across a particular category (30%). Supplier data remains dispersed in most organizations, with too few having clear visibility across all suppliers from which they purchase. Additionally, dependencies between suppliers (e.g., poor visibility into sub-tier dependencies) are often unknown, which prevents an accurate view of risk exposure.
- Inadequate systems for identifying and triggering a response to supply-chain disruptions (26%). Supply disruptions are often not known until the impact is felt. The growing range of factors impacting supply is one factor, as is the lack of systems to proactively notify stakeholders of likely disruptions.
- An inability to assess the risk of individual suppliers (26%). Despite significant efforts at supplier risk management, leaders still struggle to full assess the risk of individual suppliers. The breadth of factors involved is a

Figure 7
“What have been the top barriers at your organization to better ensure supply continuity?”

(Select top 3)

Inability to effectively assess the overall risk across suppliers in a category



Inadequate systems for defining and triggering our response to supply-chain disruption



Inability to effectively assess the risk of individual suppliers



Unusually high incidence of disruption events (e.g., Suez Canal blockage)



Inability to collaborate/communicate effectively with suppliers



Base: 1,032 director and higher data program decision-makers at global companies with 500 or more employees
Source: A commissioned study conducted by Forrester Consulting on behalf of Tableau, November 2021

factor, as is sub-tier visibility and trust in the data available. Additionally, data is often in multiple systems (e.g., there's one technology for ESG, another for financials, and another for performance details).

LEADERS MUST WORK TO ADDRESS DATA CHALLENGES, ENSURING THE BREADTH AND DEPTH OF VISIBILITY REQUIRED TO MAKE QUICK, INFORMED DECISIONS

This presents a challenge but also an opportunity as nimbler companies have an opportunity to gain share against larger, more rigid competitors.

Successful organizations will empower leaders to make decisions based on insights obtained and defining and applying effective supply chain strategies. How?

First, they'll do so by gaining control of enterprisewide supplier data. Procurement can then consolidate the breadth of information required at the supplier and category level and use systems to collaborate with suppliers to map sub-tier dependencies in an efficient, automated manner.

With the right visibility, leaders can then focus on effectively executing key supply-chain strategies. Interestingly, our survey revealed that Leaders apply fewer strategies than Intermediates or Beginners, but they do so more effectively (see Figure 8). Leaders have focused on implementing automated risk-monitoring solutions, increasing onshoring/nearshoring, increasing inventory, and rationalizing the supply base, whereas others have adopted a much broader set of strategies to less effect. Focus seems to be a key to success when it comes to supply-continuity strategies.

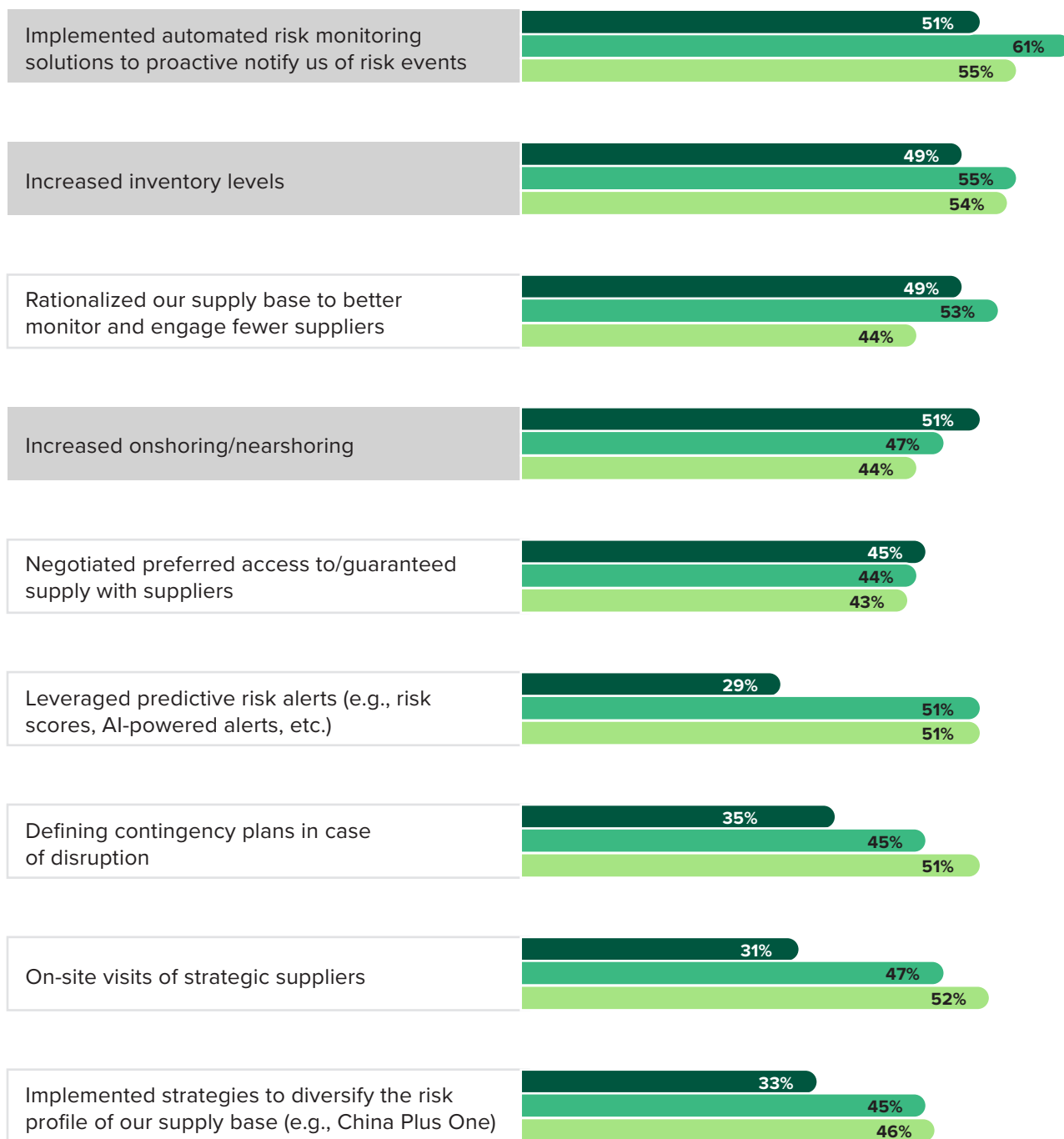
- **Invest in technology tools to amplify supply-chain assessment.**
Organizations that look to evaluate their digital processes and leverage pointed technology will remove friction from the supply chain and improve decision-making, increase awareness, and minimize disruptions. For example, Leaders (51%), Intermediates (61%), and Beginners (55%) implemented automated risk monitoring solutions that proactively notify the business of any risk events. Yet only 29% of Leaders said their organization is leveraging predictive risk-alerts based on AI-algorithms compared to 51% Intermediates and Beginners. Leaders seem to have found that risk monitoring has more of an effect than leveraging currently available predictive risk scores.

Figure 8

“When thinking about your relationship with suppliers, how do you expect to change your approach over the next 24 months?”

(Select all that apply)

- Leaders
- Intermediates
- Beginners



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

- **Shift the global supply-chain model in the name of business continuity.** Increasing inventory levels, rationalizing the supply base to better monitor suppliers, and even defining contingency plans in the event of disruptions showcases the breadth of tactics procurement leaders use to ensure business continuity prevails. Survey respondents revealed that their organizations are rerouting where they source and manufacture their goods to bring production closer to consumers by increasing nearshoring. To further minimize disruption to consumers, Leaders (49%), Intermediates (55%), and Beginners (54%) all said they're also increasing the inventory levels of products and other goods.
- **Addressing supply-chain disruptions reveals the changing mindset from offshore to onshore/nearshore.** Many organizations may think they lack the capability to change tried and tested operations, but they're clearly posing a risk to business continuity. By changing their approach, business leaders are looking to increase onshoring/nearshoring capabilities.

Supply-chain transparency aligns performance management within organizations rather than each department following its own measure of success.

Procurement leaders show a willingness to increase visibility, with 79% of survey respondents saying their organization records, measures, and reports on performance-affecting disruptions.

ESG Priorities Are Broadly Considered Very Important, But They Lack Formal Policies And Targets

ESG, also known as corporate social responsibility (CSR), has become an increasingly hot topic in recent years. Consumers want to see businesses commit to sustainability targets through action. Integrating assurance into procurement and sustainability strategies and disclosing facts that align to meaningful, verifiable, and ongoing measures adds weight in the eyes of the consumer. Increasingly, regulations require it, and employees expect it.

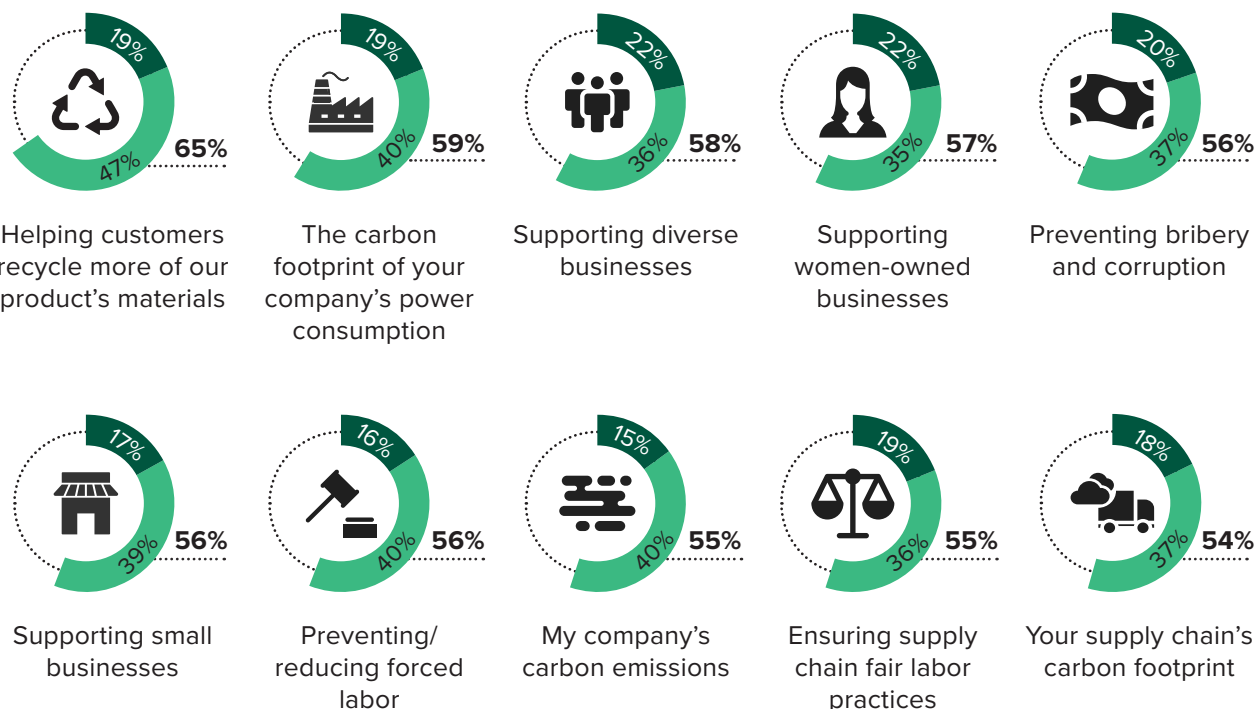
Our survey revealed that businesses that demonstrate ESG principals underpin rapid stabilization techniques, and that it's viewed as a competitive advantage to help companies stand out from the crowd. However, most firms don't have actual targets and formalized policies to really drive ESG initiatives to the next level, which suggests a level of greenwashing is still in place. We asked decision-makers to reveal their organizations' top ESG priorities, and they include (see Figure 9):

- **Helping customers recycle more products.** Companies must refocus their priorities away from traditional risks to a new environment where controls substantiate a company's commitment to sustainability. One of the top initiatives is helping customers recycle more of their products. However, only 19% of respondents said this is very important with official targets and policies. Another 47% said it's very important, but that their organization has not put any official targets or policies in place.
- **Overall energy conservation.** Only 19% of respondents reported that lowering the carbon footprint of their own company's power consumption is considered very important with official targets and policies. On the other hand, 40% said it's very important, but that their organization doesn't have any targets or policies in place. Similarly, only 18% said their organizations are looking to lower the supply chain's carbon footprint.
- **Most programs focus on social aspects but without any targets or policies in place.** As consumers place more demand on the companies they do business with, businesses are responding by actively supporting small, diverse, and women-owned businesses. However, most of these initiatives lack a formal target or official internal documentation.

Figure 9

“How much of priority is each of the following specific ESG priorities at your organization?”

- Very important with official targets/policies
- Very important but no official targets/policies



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Note: Total percentages may not equal separate values due to rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

LACK OF SYSTEMS IS IMPEDING SUSTAINABILITY GAINS

Organizations want to create a positive mindset and value to achieve its purpose with trust and integrity for a sustainable and resilient future. However, the success of the business is largely dependent on technology and how it is harnessed.

Our survey revealed that systems rather than buyer or supplier willingness are core issues (see Figure 10). Organizations lack the systems to enable efficient/scalable collaboration with suppliers to improve (43%). Moreover, firms also struggle with being able to monitor and measure progress (41%) coupled with an inability to assess and compare the sustainability

of different suppliers, which adds even more complexity. An inability to engage the sub-tier is the other top challenge (40%), which technology can support by allowing suppliers to directly enter dependencies for transparency.

ORGANIZATIONS NEED DIVERSE STRATEGIES TO ACHIEVE SUSTAINABILITY GOALS

During the coming years, sustainability will continue to rise to the top of the most pertinent organizational priorities. Why? Because sustainability is critical to surviving and capitalizing on a new wave of business disruption. To improve sustainability initiatives, organizations are adopting a broad set of strategies, including (see Figure 11):

- **Increased weighting of sustainability in supplier selection.** Organizations are increasing their minimum thresholds for suppliers to meet sustainability requirements. By increasing the weighting in supplier selection, organizations are making it known that sustainability is an important priority. Leaders (49%) are paving the way in this approach. But Intermediates (38%) are lagging and Beginners (47%) are tactically incorporating the approach into their supplier selection processes to onboard sustainable organizations early.
- **Being more flexible about how suppliers meet sustainability.** Collaborating with suppliers is among the important elements to optimize and reduce overall emissions, and by providing greater flexibility on how they meet sustainability requirements, organizations can

Figure 10

“What have been the top barriers when improving sustainability at your organization?”

(Select top 3)

Lacking systems to enable efficient/scalable collaboration with suppliers to improve

43%

Lacking ability to measure/monitor progress

41%

Suppliers' inability to engage the sub-tier

40%

Inability to assess and compare the sustainability of different suppliers

40%

Procurement KPIs not aligned to improving ESG

37%

Cost-dominated supplier selection

37%

Supplier resistance or inability to improve

36%

Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

pave the way for more innovative approaches. This can also minimize any trade-off with higher costs.

- **The establishment of a sustainability department.** Trust is the new currency of the sustainable economy. By establishing a sustainability department, organizations reinforce their stance on sustainability. Leaders are incorporating this strategy into the business. In fact, sustainability departments can often initiate the redesign of products to improve sustainability.

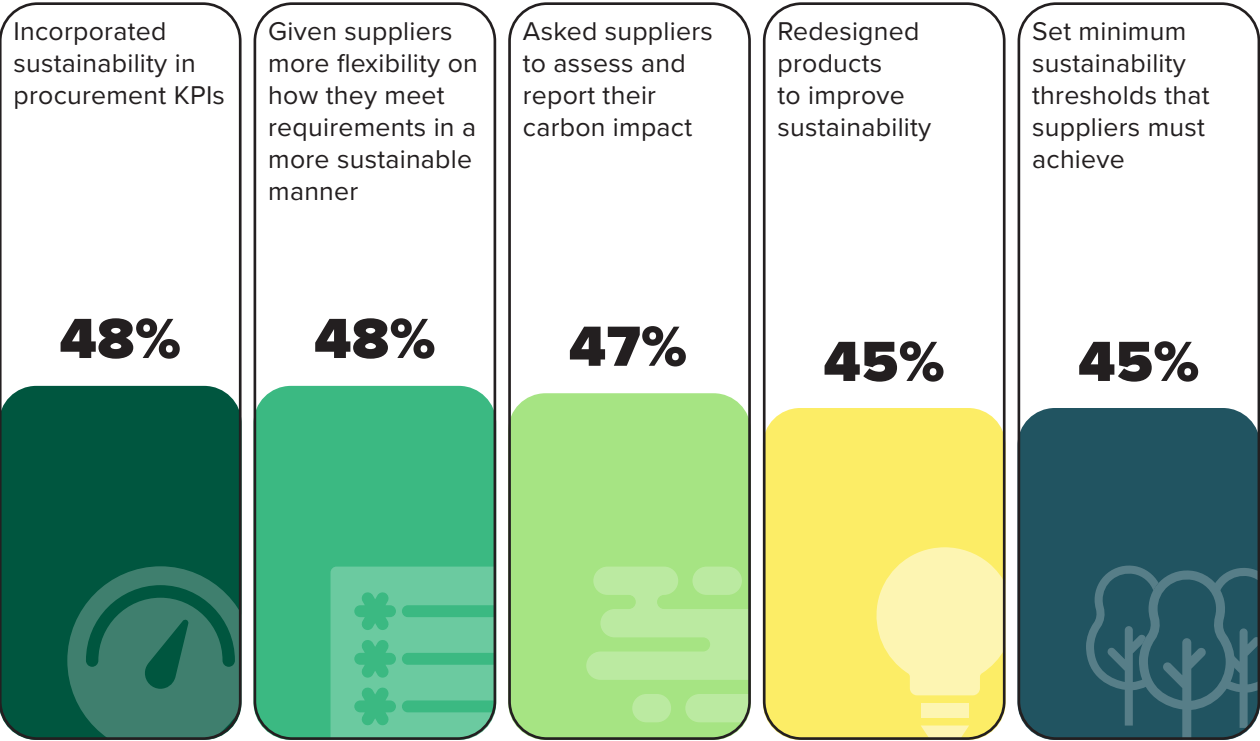
49%

of Leaders cited the lack of systems to enable efficient/
scalable collaboration with suppliers to improve
compared to Intermediates (36%) and Beginners (47%).

Figure 11

“Which strategies has your organization adopted to improve sustainability?”

(Select all that apply)



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Note: Showing top 5.

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

Systems, Data, And Supplier Willingness Are Hindering Supplier-Led Innovation

The supply chain is about far more than supply; it's about new, integrated, end-to-end value from demand planning to sourcing to manufacturing to shipping to customer engagement. Each touchpoint represents a potential area for insights, efficiencies, and growth opportunities.

Organizations recognize the integral role supply chains play in the value creation process and they are often seen as a critical driver of performance. For many organizations, the future will be about more than managing disruption; it will be about getting ahead of disruption, planning for it, and taking advantage of the opportunities for value that it can bring. Supplier management leaders identified increasing supplier-led innovation as the priority that increased the most since the pandemic (71%). Yet, our survey revealed that organizations of all maturity levels identify key barriers in supplier-led innovation (see Figure 12):

- **Organizations fail to assess supplier capabilities (48%).** Being able to assess a supplier's capabilities during selection grants buyers and suppliers the opportunity to share in the value generated, access resources, and jointly generate value above what each firm could produce in isolation. It is important to provide suppliers the ability to highlight and explain their potential.
- **Collaborate effectively to scale up with suppliers.** The lack of systems to effectively collaborate with supply-chain partners is a major obstacle (45%). Collaboration is a fundamental process of increasing visibility, traceability, and transparency by collecting and sharing information throughout the supply chain and clearly communicating to authorized personnel to better gain insights, learn, and act on information to make better-informed decisions. It is especially critical in areas such as co-innovation in new product introductions. Without it, collaboration is inefficient and difficult to scale across categories and suppliers.
- **Lack of supplier willingness to share innovations (46%).** Driving innovation and partnership across the supply chain can act as a key lever to deliver step change to companies. There are challenges that cannot be solved by companies individually, but that need to be driven

by a collaborative innovation effort. These joint innovation initiatives need transparency, and they create transparency within the value chain. Yet survey respondents said the opposite is happening. Leaders (53%), Intermediates (44%), and Beginners (45%) all cited a lack of supplier willingness to share innovations.

The strategies that are being most effectively employed to improve supplier-led innovation focus on addressing the motivational and system challenges. Implementing systems to improve collaboration is the top strategy employed (58%), followed by incorporating innovation in procurement KPIs (57%) to create the right internal incentives and giving supplier more flexibility in how they meet requirements to foster more innovative proposals (56%).



70%

When asked about the greatest opportunities when collaborating with suppliers, **improving innovation to better differentiate products and services** was the top-ranked choice among survey respondents.

Figure 12

“What have been the top barriers at your organization to improving supplier-led innovation?”

(Select top 3)

Inability to assess supplier capabilities during selection

48%

Lack of supplier willingness to share innovations

46%

Lacking systems to enable efficient/scalable collaboration with suppliers

45%

Cost dominated supplier selection

44%

Transactional relationships with suppliers

43%

Procurement KPIs don't incentivize

40%

Lack of executive support

35%

Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

Organizations Are Incentivizing Procurement And Enabling Better Collaboration

Improving supplier-led innovation and partnerships across the supply chain can act as a key lever that can deliver step change to companies. Why? Because when different groups successfully collaborate, they realize value across key business units and functions. For example, developing a bird's-eye-view transparency strategy followed by the mapping of the end-to-end supply chain will open new opportunities to identify key pain and trust points, gaps that lead to risks, opportunities, and long-term solutions.

Our survey respondents are showing exactly this willingness to collaborate and are incentivizing organizations by being more flexible on how supply-chain partners meet their requirements because (see Figure 13):

- **Increasing flexibility in meeting business requirements will encourage innovation.** Resilient organizations absorb shocks in day-to-day, end-to-end supply-chain operations, and they aim to remove friction. Survey respondents said one tactic their organizations widely use is increasing business flexibility when it comes to supply-chain partners meeting their requirements. This tactic is being used to foster innovation. Leaders (42%), Intermediates (49%), and Beginners (53%), all cited using this tactic.
- **Collaborating with a broad set of suppliers mitigates risk and scales benefits.** Leaders (38%), Intermediates (47%), and Beginners (47%) also said their organizations are increasing their longer-term commitments with partners, which showcases a pledge to foster an ecosystem of resilience and trust. With this synergy of flexibility coupled with collaboration, organizations can unlock new ways to gain control of their supply chains.
- **Not planning is planning to fail.** Survey respondents recognize the importance of digital technology and the opportunities that come with it. Resilient supply chains rely on smart platforms and systems that can

Business resilience is the capacity to absorb business stress, recover critical functions, and thrive in varied circumstances.



integrate processes in a seamless way. In response, Leaders (38%), Intermediates (50%), and Beginners (50%) are planning to better forecast/improve order information sharing with their suppliers, which reinforces stabilizing.

Figure 13

“Where do you view the greatest opportunities to increase value to your organization by better collaborating with suppliers?”

(Select all that apply)

- Leaders
- Intermediates
- Beginners



Base: 462 procurement decision-makers at companies with 1,000 or more employees across multiple industries
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2022

Key Recommendations

Procurement leaders have emerged as key influencers, collaborators, and partners in the new normal. If your organization's procurement function is currently at the Beginner or Intermediate level, then your firm needs to quickly catch up with Leaders. Firms that are considered advanced must go further to pave the way. Our survey revealed several important recommendations:

Assess your actual performance against strategic priorities and customers' perception of it.

CPOs who overstate their team's performance against the strategic objectives of innovation, resilience, and sustainability (as most do) are unlikely to invest sufficiently in people, processes, and tools. Objective comparison would be ideal, but it is hard to calculate objective KPIs, and it's harder still to find out how peers are doing. One alternative is to survey customers and internal, customer-facing colleagues in sales and service to find out how well your organization is doing in their eyes. Address poor scores by asking them what your competitors are doing that your organization isn't and by communicating better what you are doing to improve against these imperatives.

Update your sourcing strategies to optimize your organization's supplier ecosystem across other criteria beyond cost.

Procurement teams' institutional obsession with price is incompatible with a modern supplier ecosystem, but it is impossible to change while category managers believe that their job security and progression depends only on achieving savings targets. Consistent messaging is vital, but your organization needs to support that with individuals' goals, performance evaluations, and training plans. Insist that they demonstrate how their proposed strategies will balance cost with resilience and sustainability before you approve it for formal release. Monitor compliance with approved category strategies not as an end in and of itself, but as the best way to ensure your firm meets its customers' expectations.

Demand the modern, smart supplier value management (SVM) software that your team needs to be effective.

There's too much for procurement to do to rely on progress through manual effort alone. It's also vital that you meet and enable suppliers' expectations of frictionless and fully digital collaboration. Own your software application strategy. Don't use fragmented and outdated ERP or point systems as an excuse, and don't leave it to IT to decide which tools to give you. Build a roadmap towards an integrated solution, but don't try to implement everything at once if the organization isn't ready for that. Instead, start by implementing an enterprisewide solution in one high-priority area, such as supplier risk assessment and monitoring or user-driven procurement. But be sure that you keep the long-term vision and requirements in mind. Solutions should extend to address the full supplier lifecycle processes over time while enabling collaboration across all supplier activities and the quality of data and insights needed to effectively assess suppliers and categories. Ensure that your chosen solutions make life easier not only for your organization's buyers but also for its suppliers.



Appendix A: Methodology

In this study, Forrester conducted an online survey of 462 procurement leaders across the globe. Survey participants included decision-makers at the director level and above across a wide range of industries. Questions provided to the participants asked about their organizations' approaches to supplier management and how formalized their processes are. This enabled us to create a maturity model to identify and separate Leaders, Intermediates, and Beginners, and to analyze their behaviors and initiatives. The study began in January 2022 and was completed in May 2022.

Appendix B: Demographics

REGION	
Europe (33%)	14%
North America (34%)	16%
APAC (33%)	15%

NUMBER OF EMPLOYEES	
1,000 to 4,999 (36%)	25%
5,000 to 19,999 (34%)	25%
20,000 or more (30%)	30%

INDUSTRY	
CPG (18%)	25%
Retail (18%)	25%
Healthcare (16%)	30%
Financial services (14%)	16%
Telecommunication services (13%)	25%
Manufacturing and materials (10%)	25%
Technology services (6%)	30%
Construction (5%)	16%

POSITION OF RESPONDENT	
C-level executive (3%)	25%
Vice President (15%)	25%
Director (82%)	30%

RESPONSIBILITY	
Global responsibility (23%)	25%
Regional responsibility (61%)	25%
Divisional responsibility (16%)	30%

An aerial, top-down view of a multi-lane highway. The road is dark asphalt with white dashed lane markings. Several cars are visible, including a red car on the left, a green car in the upper middle, and a yellow car on the right. A large green truck is also visible. The highway is flanked by dense green trees and foliage. A white crosswalk or barrier runs across the road in the upper right quadrant. The overall tone is slightly muted and artistic.

FORRESTER®