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2021 Key Issues Study

Procurement results

December 2020

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- Enterprise Context and Priorities
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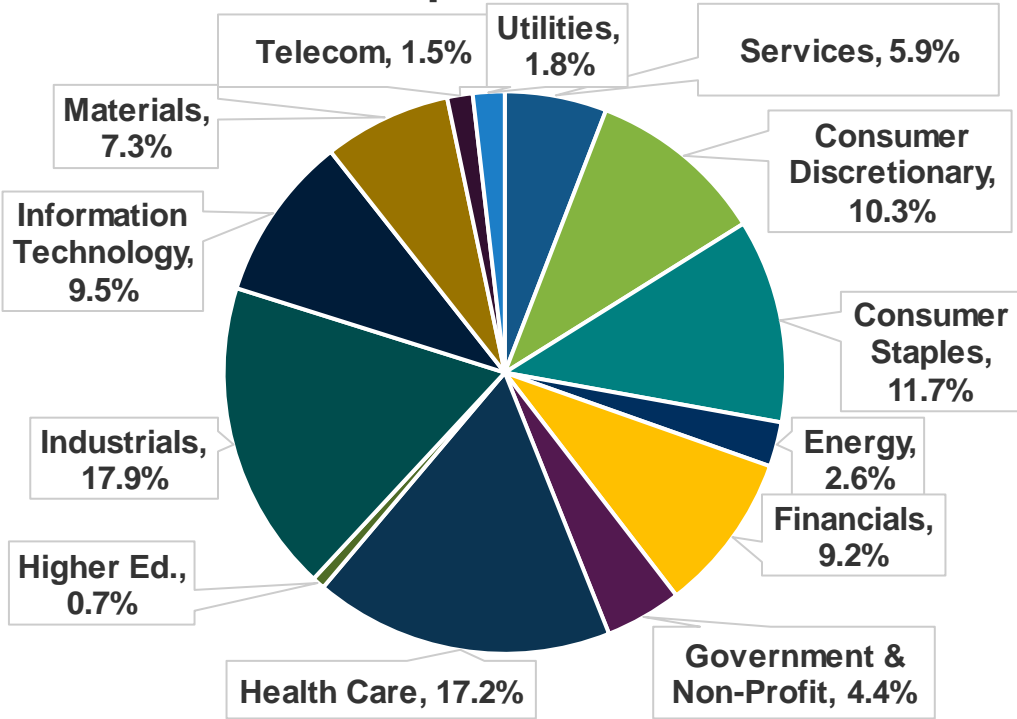
About this study: Demographics

For the 2021 edition of The Hackett Group’s annual Key Issues Study, executive management and leaders of finance, human resources, information technology, procurement and GBS organizations at a global set of mid-sized and large enterprises were asked in late 2020 about their strategic priorities and initiatives for the coming year.

Additionally, each function was asked to respond to questions about enterprise priorities and the general business environment.

This report analyzes enterprise priorities and business conditions and presents findings for common issues based on consolidated responses to common G&A and GBS questions.

Overall respondent industries



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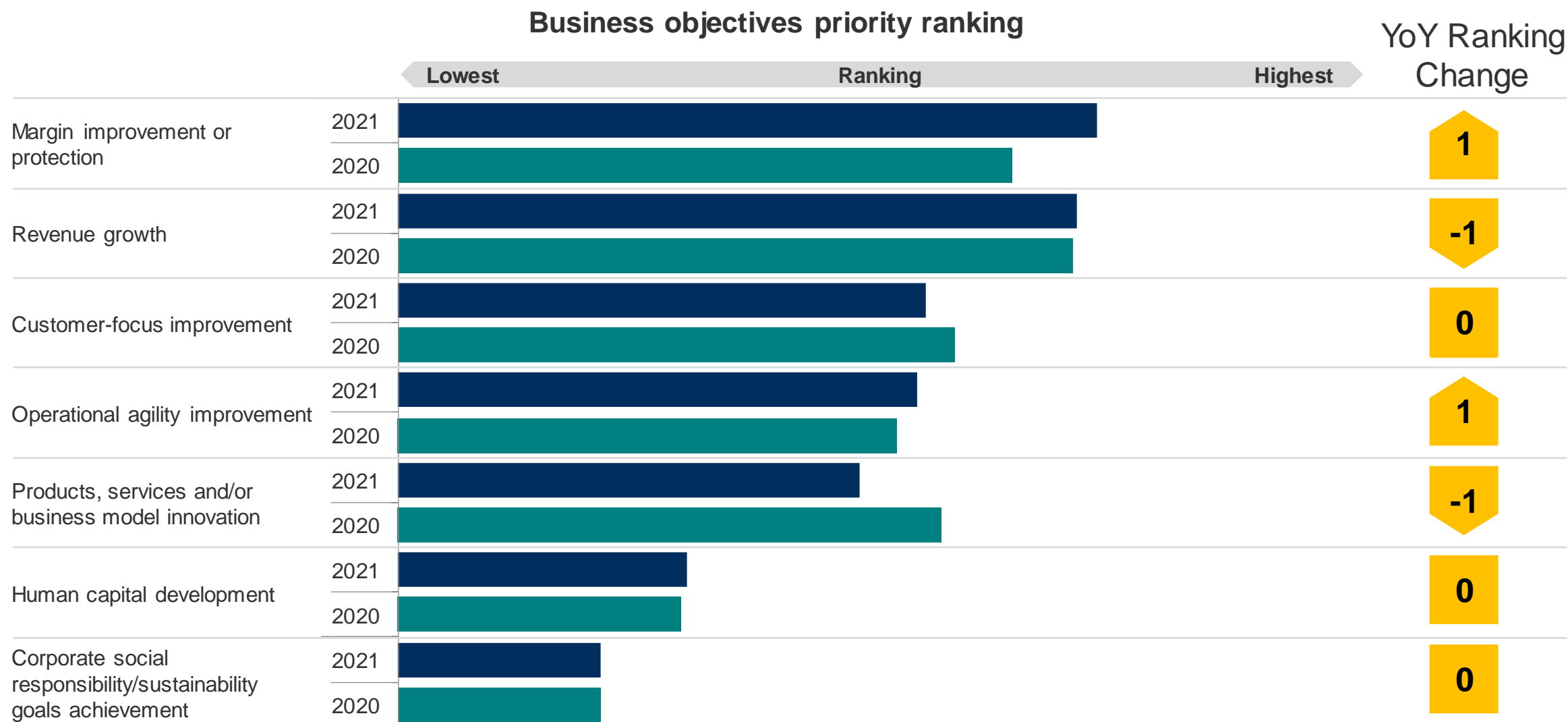
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Enterprise key findings

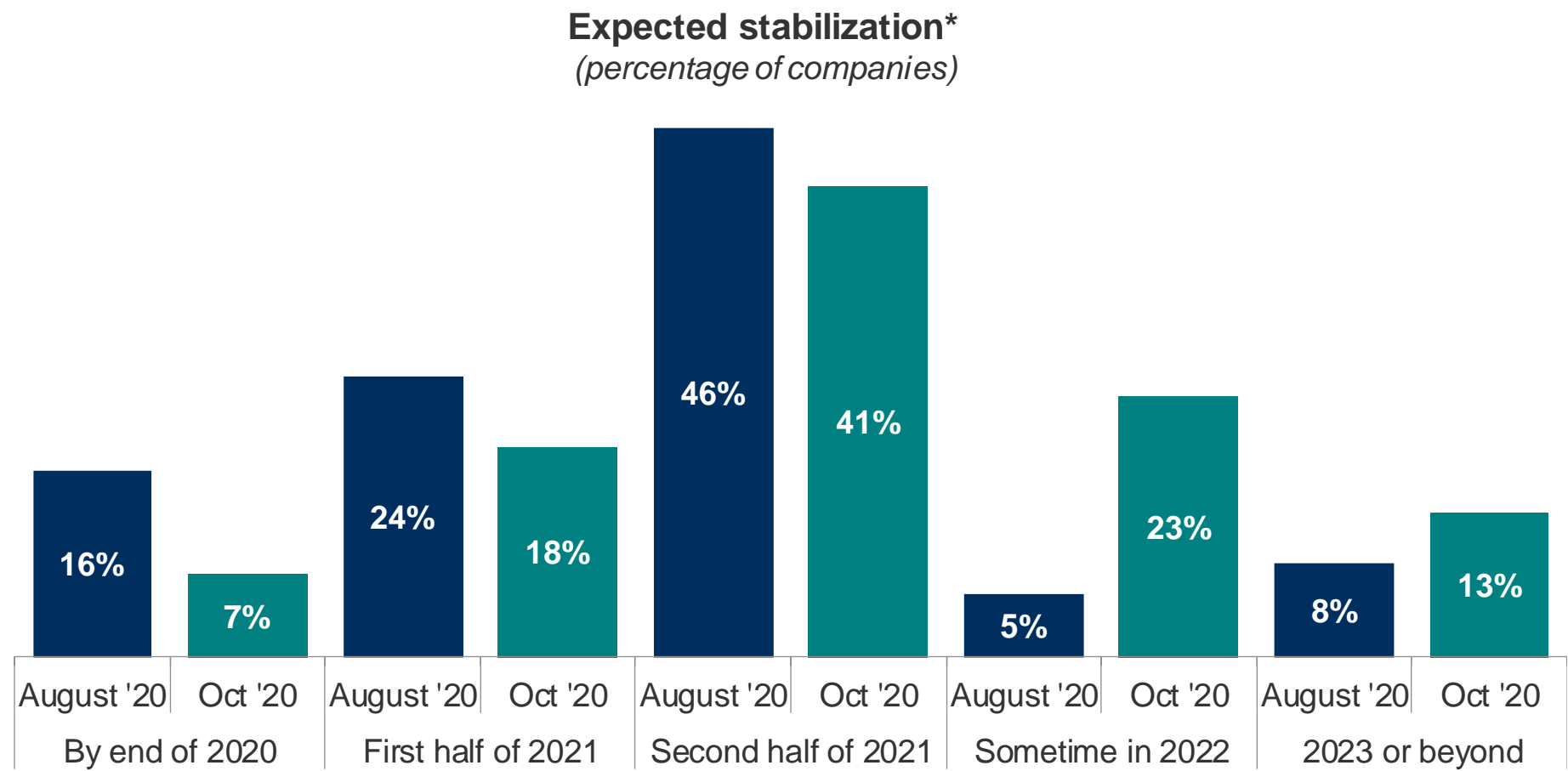
Covid-19 is shaping 2021 business environment	The Covid-19 pandemic and its fallout will continue to shape business priorities in 2021 and beyond: 41% of respondents expect conditions to stabilize by the second half of 2021, but 36% believe it will take longer. Only 23% expect stability sooner.
Dramatic shift to virtual work	Before the crisis, 4% of general and administrative (G&A) staff worked primarily from home and 13% had a hybrid arrangement between working from home and the office. Post-crisis, these percentages are projected to rise to 25% and 33%, respectively. This transition presents a major operational challenge for G&A functions.
Skills profiles and talent management must evolve	The large-scale transition to virtual work will require significant reskilling and innovation of management techniques. Companies can and will tap into an increasingly global talent pool. Performance management will evolve from measuring activity and task-based productivity to business outcomes based on teamwork and collaboration. Further, diversity and inclusion has become a top priority for many companies.
Elevated risk across the board	2021 will see a major increase in perceived business risks across the board - from cybersecurity to regulatory change, the economic implications of prolonged pandemic-related restrictions, and supply chain disruption. All parts of the organization, including business functions, will feel the effects of this high-risk business environment and need to factor this into their 2021 transformation agenda.
Digital acceleration	Digital maturity was a major factor in companies' ability to respond to the crisis, creating competitive differentiation. Most companies have taken the lessons to heart and plan to accelerate enterprise digital transformation. Accelerated technology innovation is the most prevalent enduring change expected from the crisis, and 60% of companies have a major digital transformation initiative on the 2021 enterprise agenda, more than any other initiative.

Protecting the bottom line is the chief enterprise objective for 2021

Revenue growth slips but remains near the top of the agenda



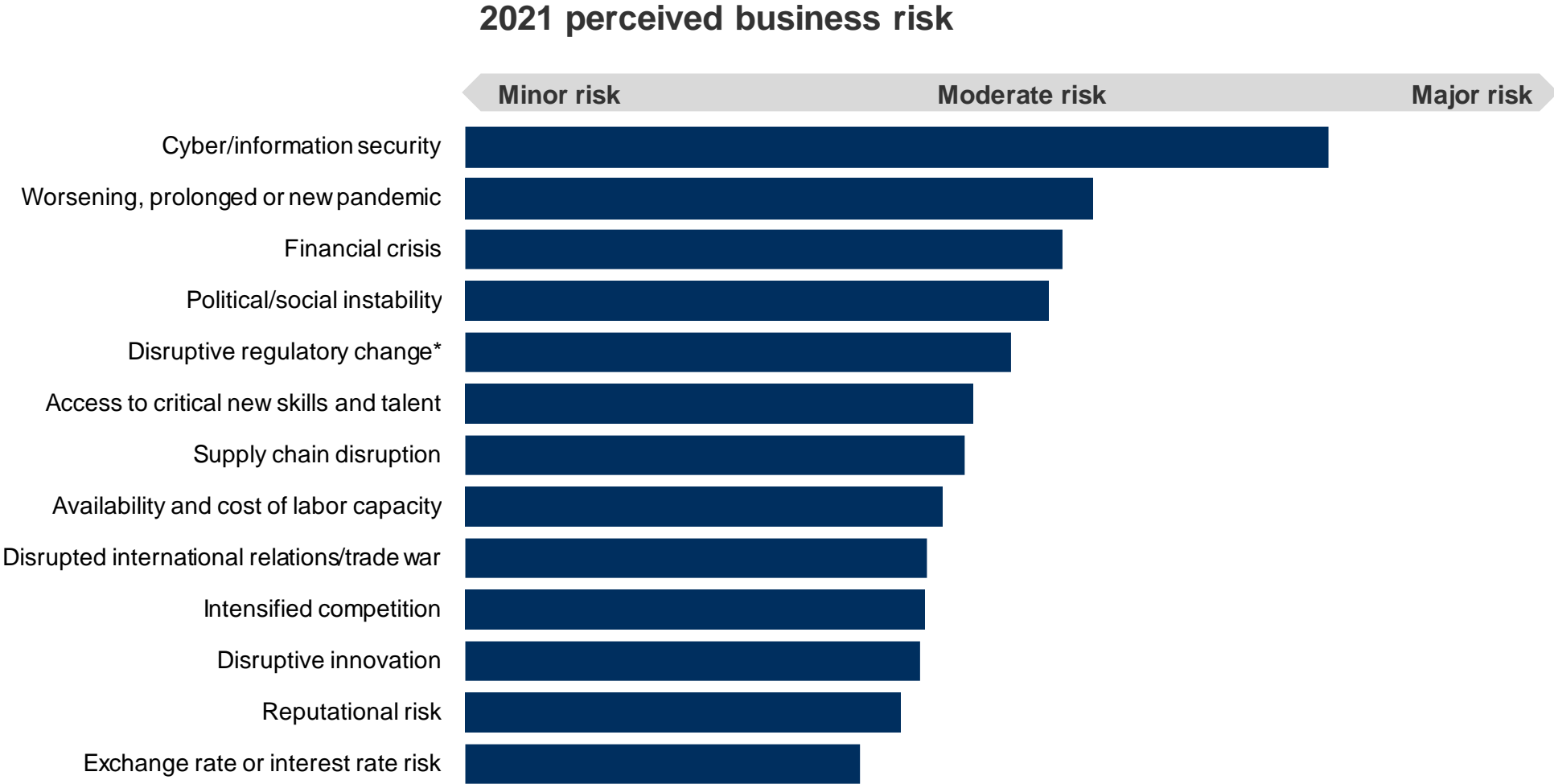
Most companies expect business conditions to stabilize by the end of 2021, but optimism has declined significantly over the past few months



* Stabilization: Return to predictable business conditions allowing for resumption of planning and operations based on assumptions with typical levels of uncertainty.

Cybersecurity again is the top business risk

The pandemic, political/social instability and disruptive regulatory change debut in the top 5 on the risk list



* e.g., taxation, environment, healthcare

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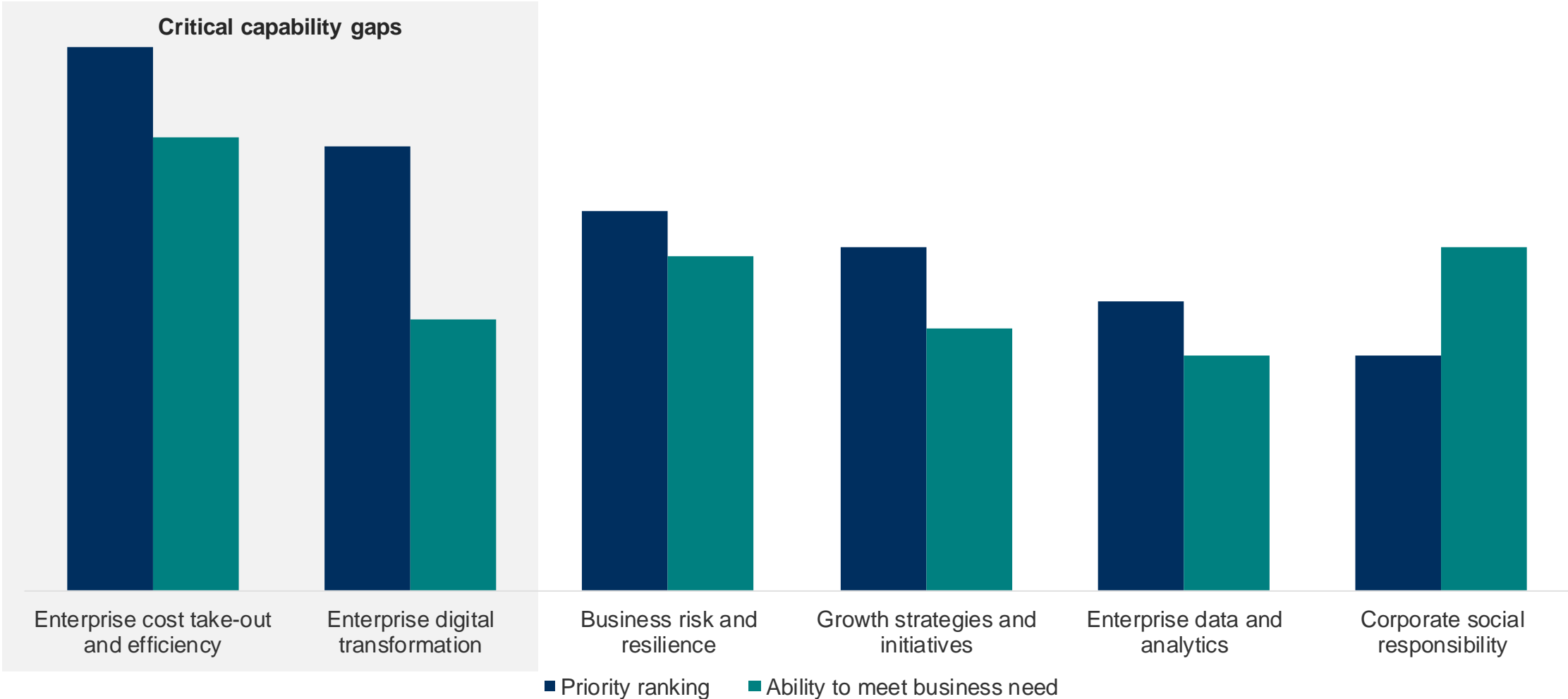
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Procurement Results: Key Takeaways

Reassessing priorities	Volatility and uncertainty are expected to continue into 2021 and companies will look to procurement for financial stability and risk mitigation; the top two key issues for procurement are spend cost reduction and reducing supply risk. Reflecting expectations of a prolonged stretch of uncertainty, the function must work closely with the businesses as trusted partners to enable a strong transition into the next normal.
Third-party risk management	2020 brought risk management to the forefront of business agendas around the world and supply chains are a critical component. While procurement feels confident in its risk-related capabilities, there is still much work to be done. Most importantly, procurement and supply chain organizations will need to work together to increase visibility across the supply chain.
Digital transformation	Procurement will push forward or even accelerate the adoption of digital technologies in 2021 to eliminate manual work, develop new capabilities and advance data analytics. Cloud-based applications and user portals are among the most frequently planned for adoption, indicating a need for user-friendly processes. To enhance specialized areas of focus and build greater analytics capabilities, executives also project a significant increase in the implementation of best-of-breed tools, advanced analytics and data visualization solutions.
Corporate social responsibility	For the first time, sustainable procurement has shown up in procurement's top ten key issues, indicating a major shift at the executive and board level. Many procurement organizations are now incorporating both sustainable procurement and supplier diversity into their 2021 strategies.

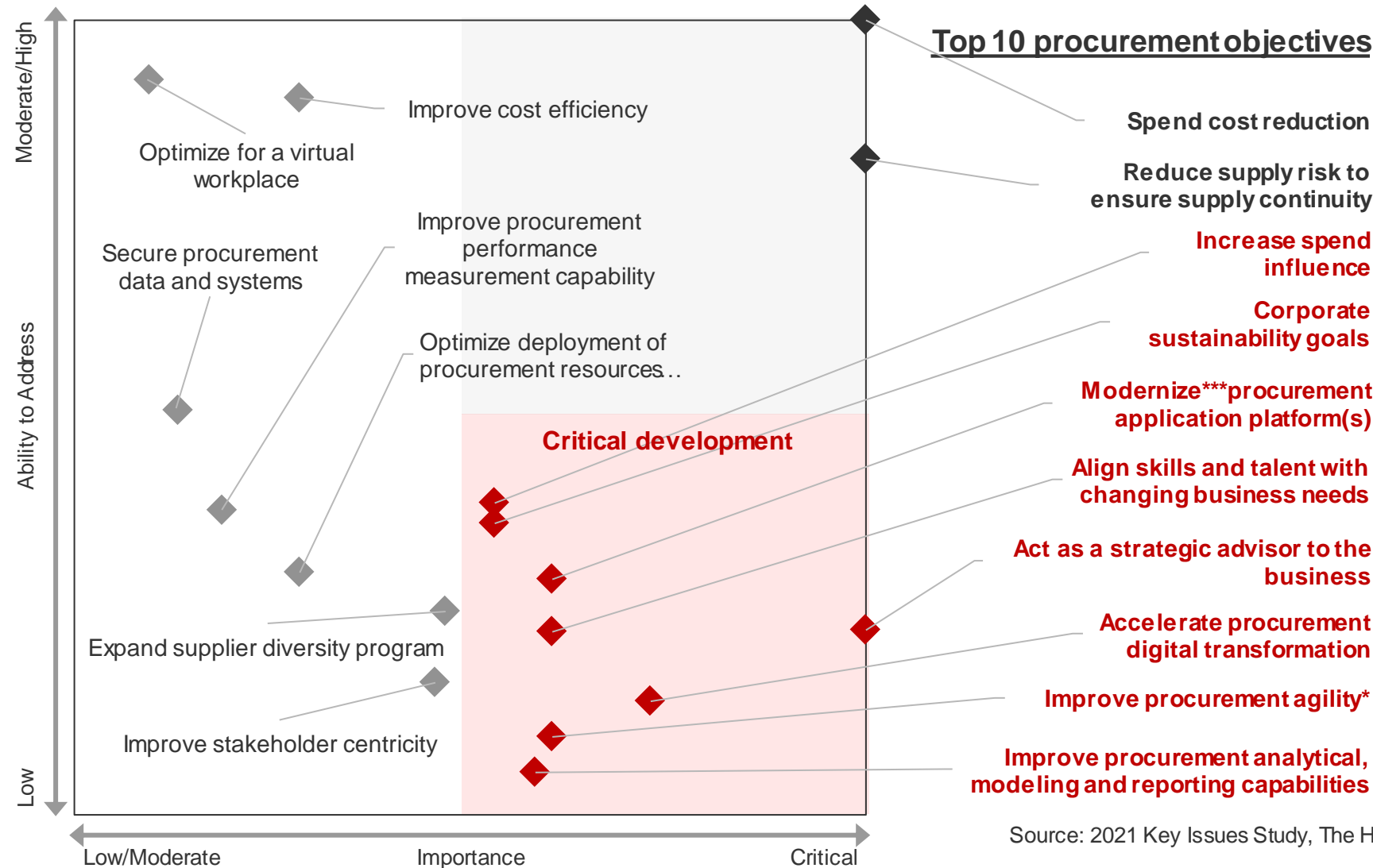
Procurement’s most critical enterprise support objectives are also the ones with the largest capability gaps: cost efficiency and digital transformation

Procurement enterprise objectives priority and rankings



Nearly half of procurement's priorities fall in the critical development area, indicating high importance with limited ability to address the objective

Procurement functional priorities and critical development focus



* The ability to anticipate or sense disruptive business events and changes in business conditions, and to swiftly make and implement effective decisions in response to these changes.

** BU, corporate, GBS, COE

*** Consolidate, upgrade, migrate

2021 Procurement Key Issues

1

SPEND COST REDUCTION

Reducing purchasing costs has consistently been a top priority for procurement organizations, indicating that providing core services is a basic requirement for success.

2

REDUCE SUPPLY RISK TO ENSURE SUPPLY CONTINUITY

Following the early impacts of Covid-19, procurement's ability to assure supply was a critical capability. In 2021, procurement must continue to invest and reinforce third party risk management.

3

ACT AS A STRATEGIC ADVISOR TO THE BUSINESS

Top-performing procurement organizations recognize that a strong relationship with business partners enables early involvement and greater spend influence.

4

ACCELERATE PROCUREMENT DIGITAL TRANSFORMATION

Adoption of modern digital tools will allow procurement to make drastic improvements across its entire suite of services, from customer-centricity to predictive analytics to process efficiencies.

5

IMPROVE PROCUREMENT AGILITY

Becoming an agile enterprise is increasingly important for businesses, but that means developing agile behavior at the functional level.

6

MODERNIZE PROCUREMENT APPLICATION PLATFORMS

Modernizing technology provides several benefits to procurement, including improved agility, customer-centric processes and cost efficiencies.

7

ALIGN SKILLS AND TALENT WITH BUSINESS NEEDS

Organizations increasingly understand the need for top talent. For procurement, this means leveraging cross-training and investing in developing talent.

8

IMPROVE ANALYTICAL AND REPORTING CAPABILITIES

The potential of analytics is increasing quickly. Organizations should prioritize leveraging external data, optimizing dashboards and adopting predictive and smart analytics.

9

CORPORATE SUSTAINABILITY GOALS

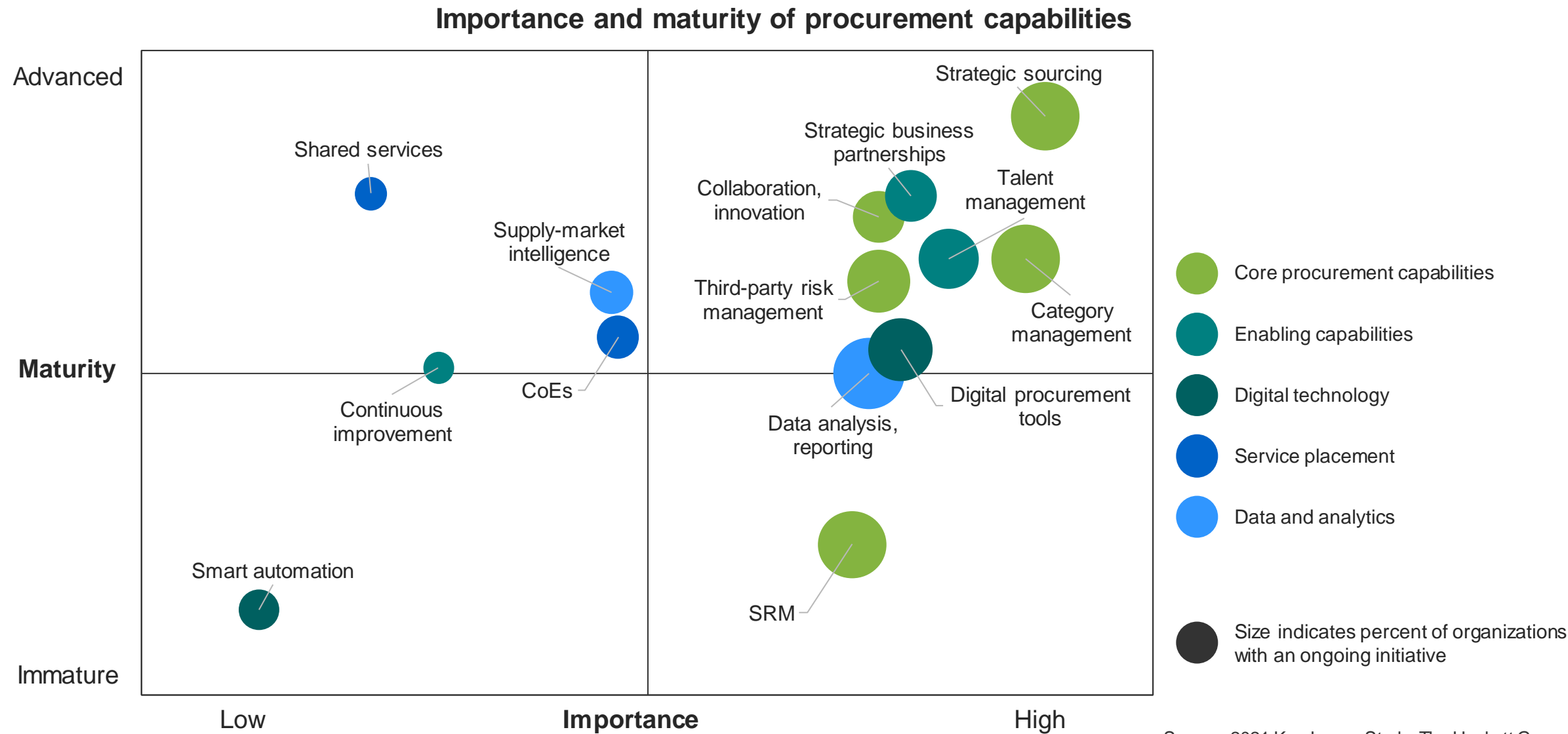
Corporate social responsibility is climbing the ranks of priorities at many companies in 2021. Sustainable procurement is among the most critical areas in which procurement can make a big impact.

10

INCREASE SPEND INFLUENCE

Spend influence is among the top measurements of procurement's performance, leading to reduced purchasing costs, improved quality and better strategic outcomes like product innovation.

Core procurement capabilities are, as expected, procurement's biggest priorities; though SRM lacks in maturity relative to the others



Stakeholder resistance to change and procurement staff deficiency remain the two largest hurdles for the second year

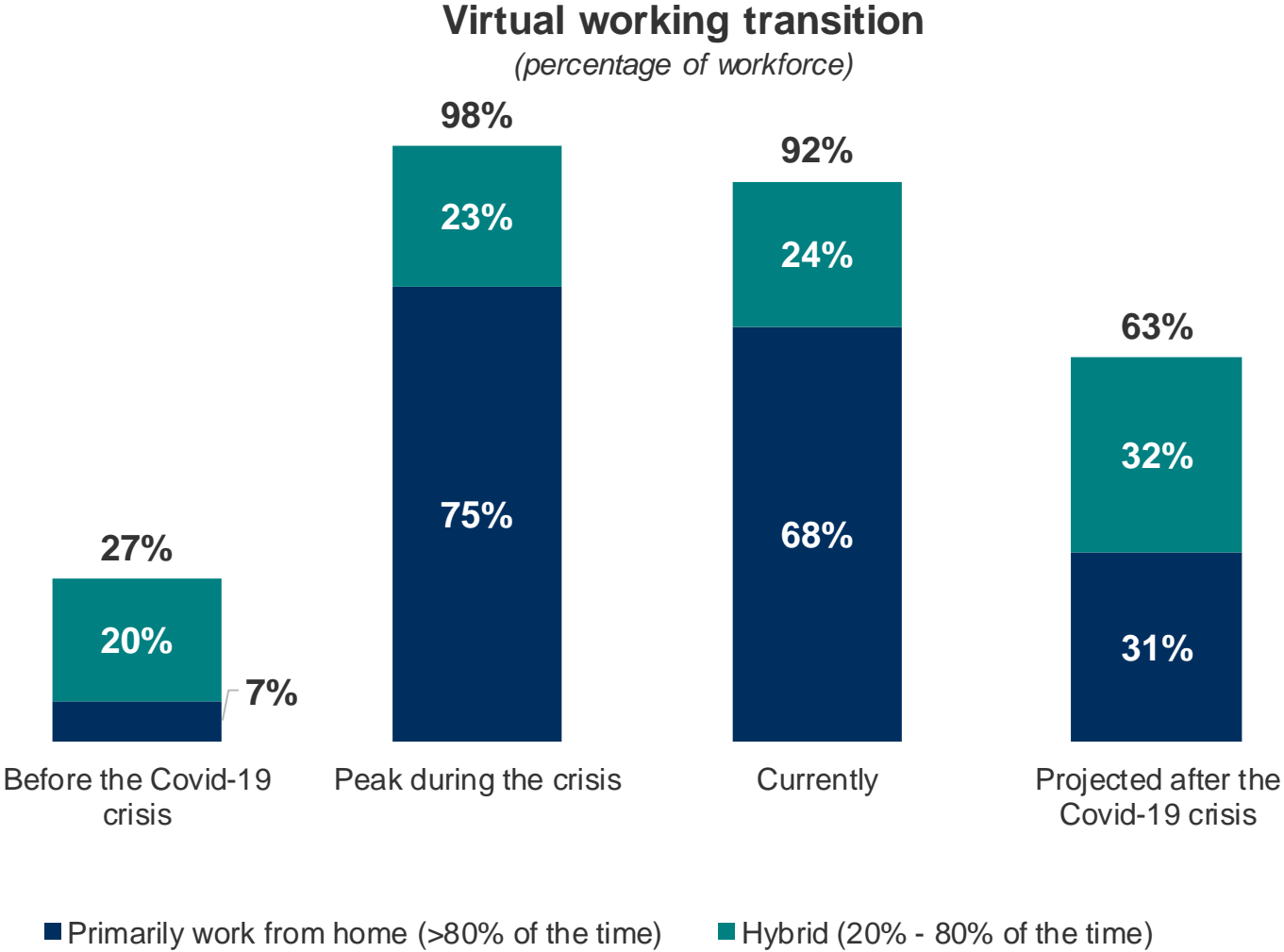
2021 transformation progress hurdle importance ranking

1	Stakeholder resistance to change
2	Procurement staff deficiency in critical skills*
2	Organizational complexity
4	Overcommitment of initiatives
4	Data-related issues (e.g., poor data quality, security or governance)
6	Inadequate funding and resource allocation
7	Process complexity
8	Lack of commitment from enterprise executives

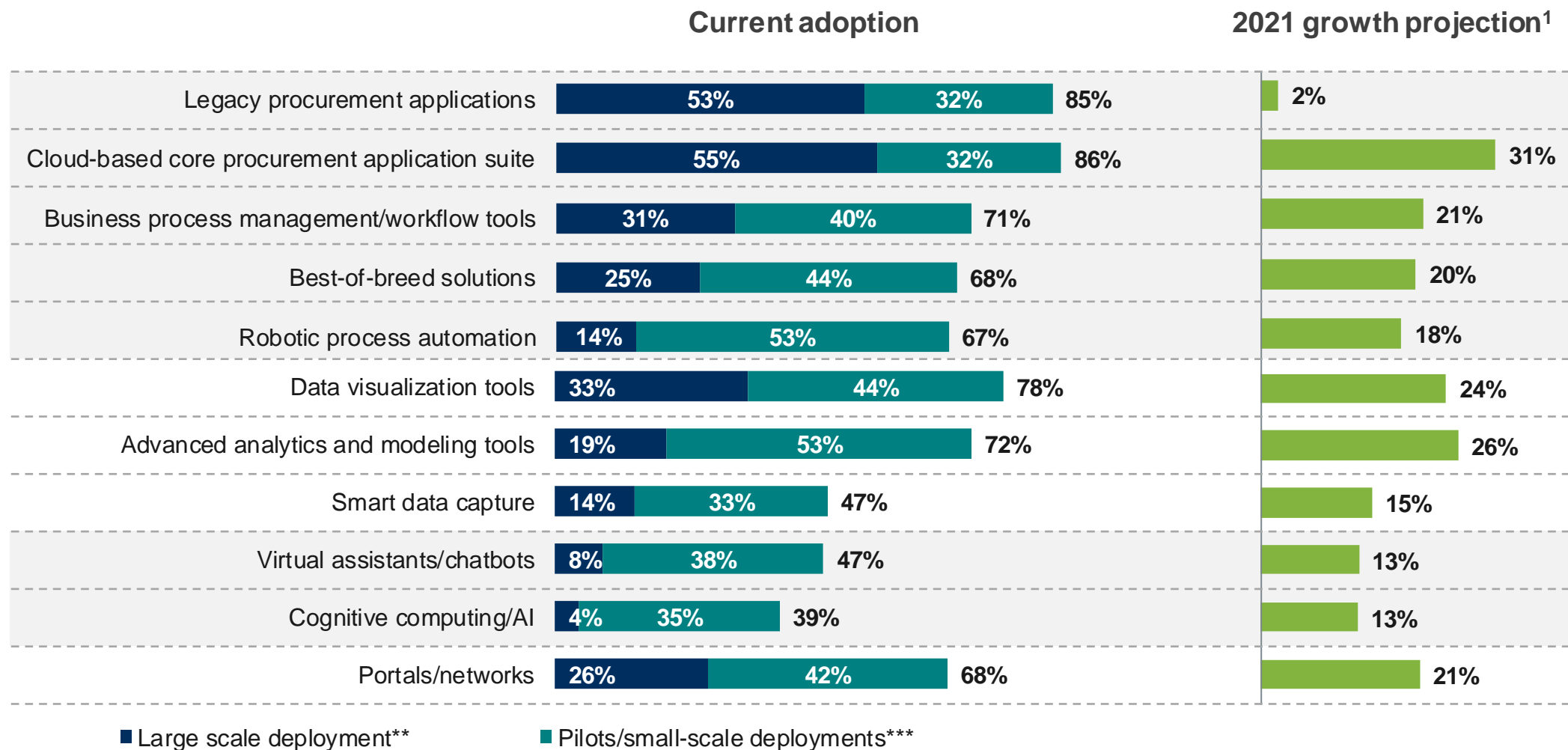
* E.g., analytics, emerging technologies, process redesign, design thinking, change management

Source: 2021 Key Issues Study, The Hackett Group

Adaptation to the crisis is expected to result in a dramatic increase in virtual working



There is a significant investment in cloud-based suites and data technologies across source-to-pay, while legacy on-premise solutions are being phased out



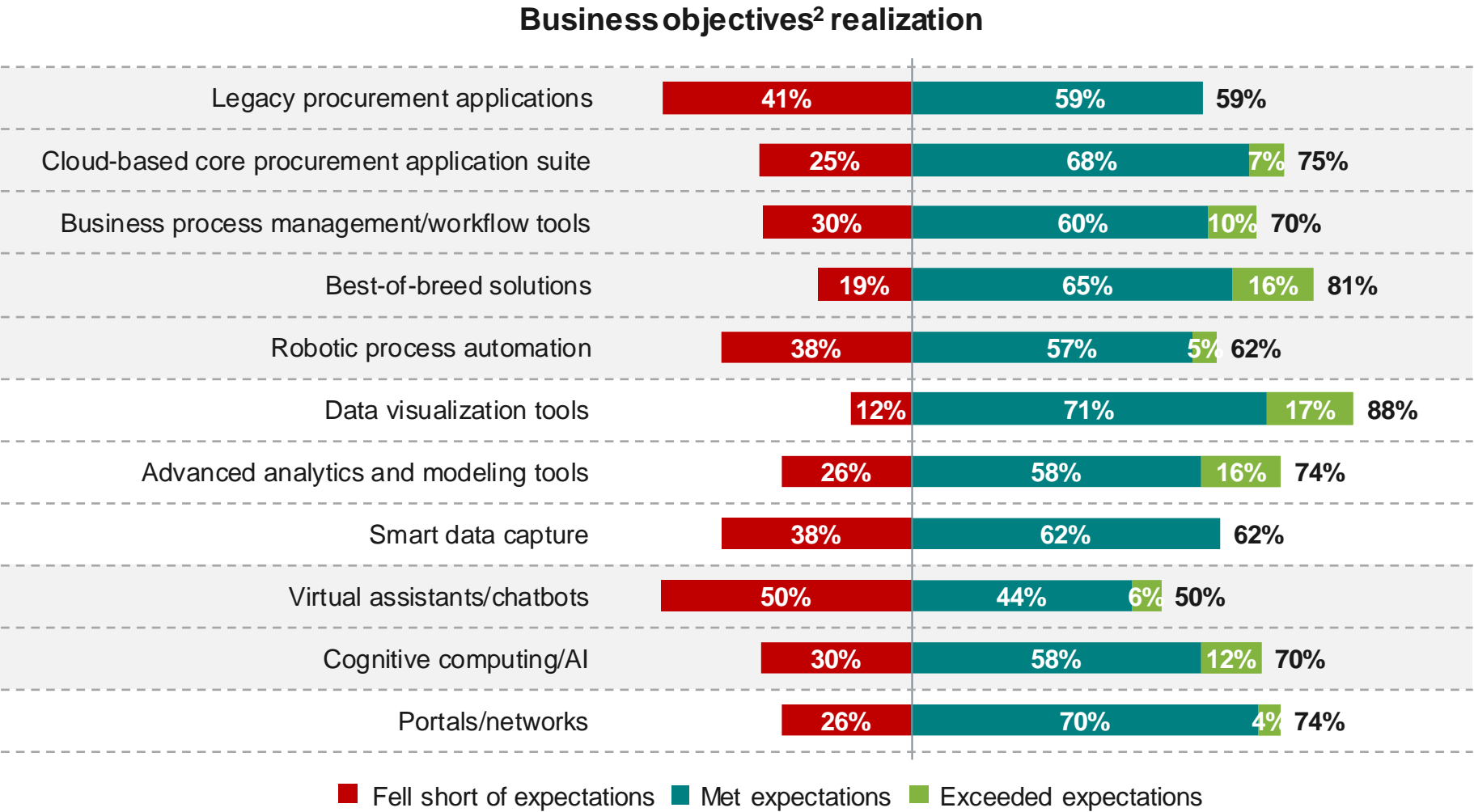
* The technology is used on a limited scale in isolated use cases

** The technology is used at scale in applicable use cases

¹ Year-on-year percentage change in applicable adoption metric for each technology

Source: 2021 Key Issues Study, The Hackett Group

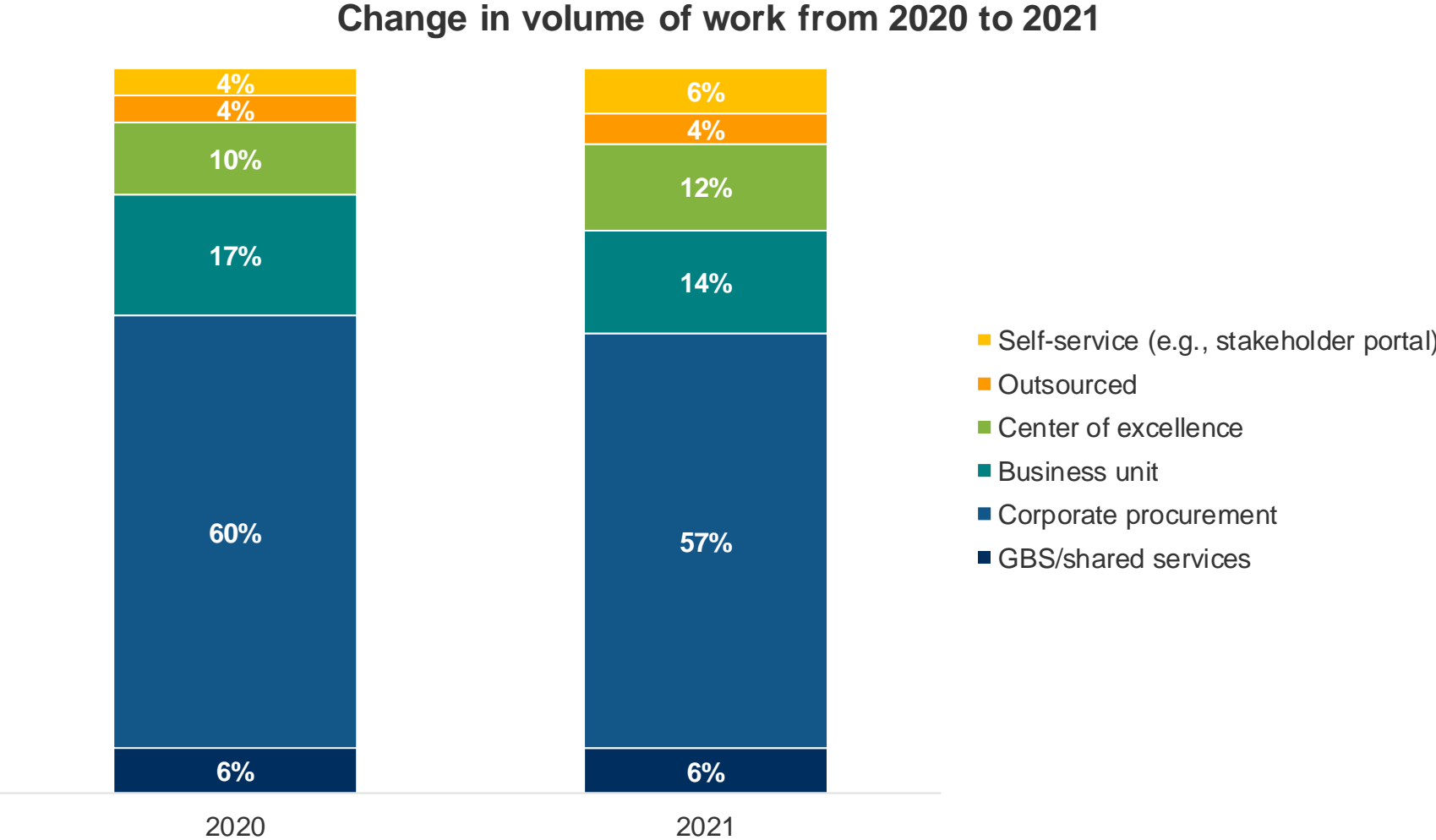
Procurement and P2P are struggling in some technology areas, such as smart data capture and chatbots, likely due to mismanaged expectations of the technologies



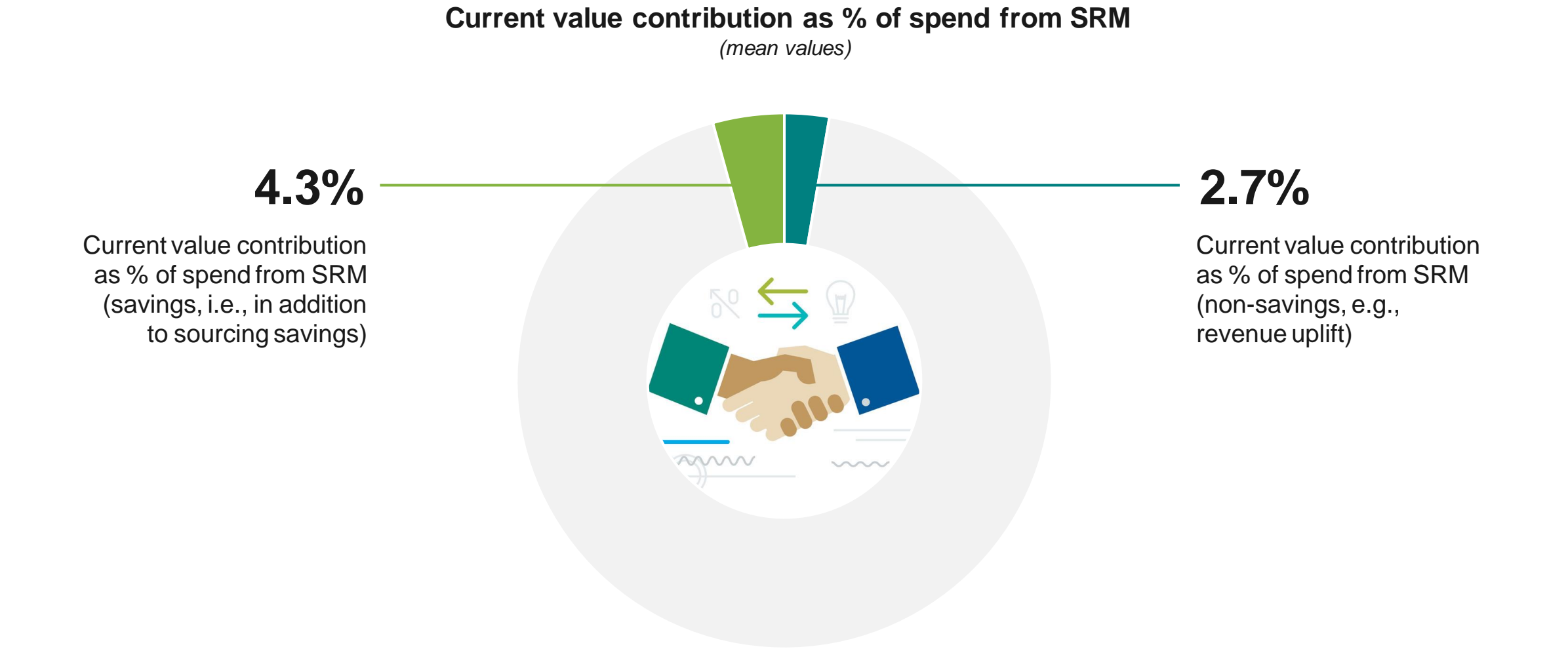
² E.g., ROI, Payback, cycle time improvement, quality of service improvement, customer experience improvement

Source: 2021 Key Issues Study, The Hackett Group

Only moderate shifts in work location are expected in 2021, which reflect a move toward COEs and self-service

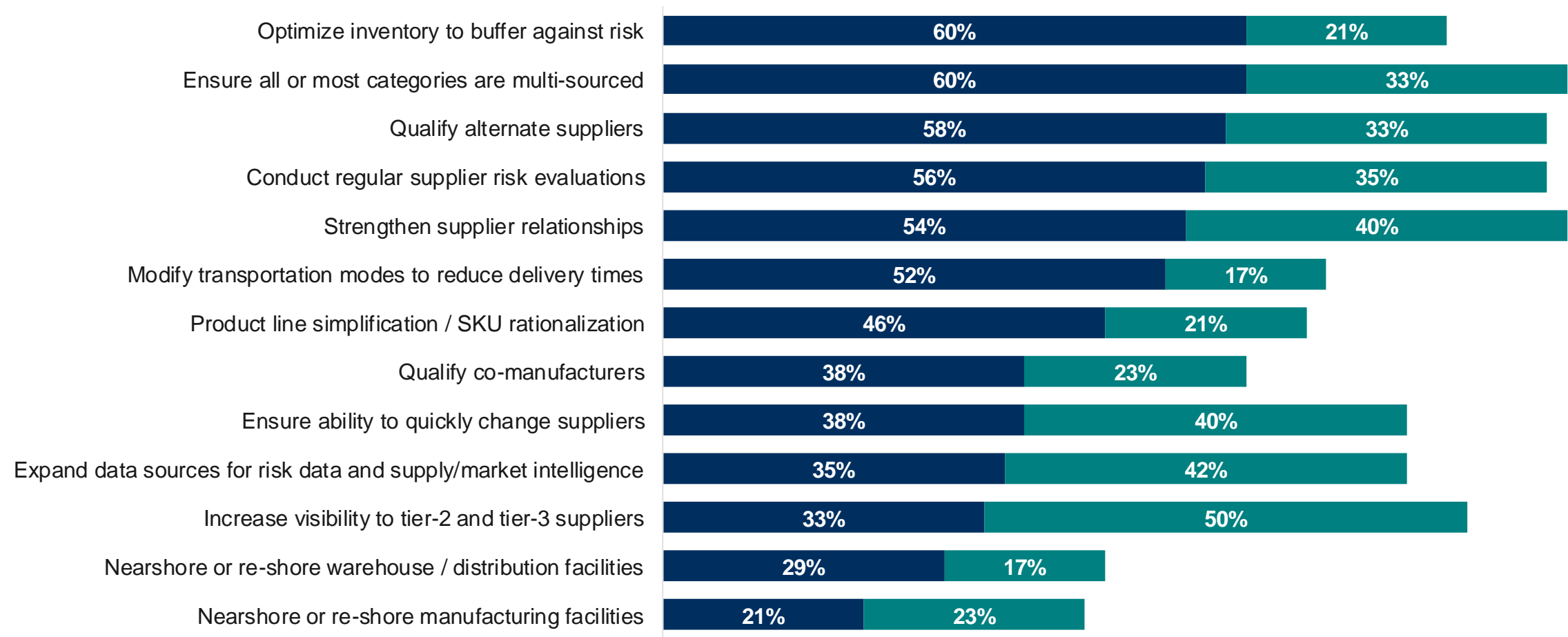


On average, SRM programs provide an additional 4.3% of savings, with mature programs capturing maximum benefits



Supply chain and procurement leaders in manufacturing organizations prioritize inventory optimization and multi-sourcing in supply risk mitigation efforts

Risk mitigation initiatives used to ensure supply continuity (manufacturing organizations)

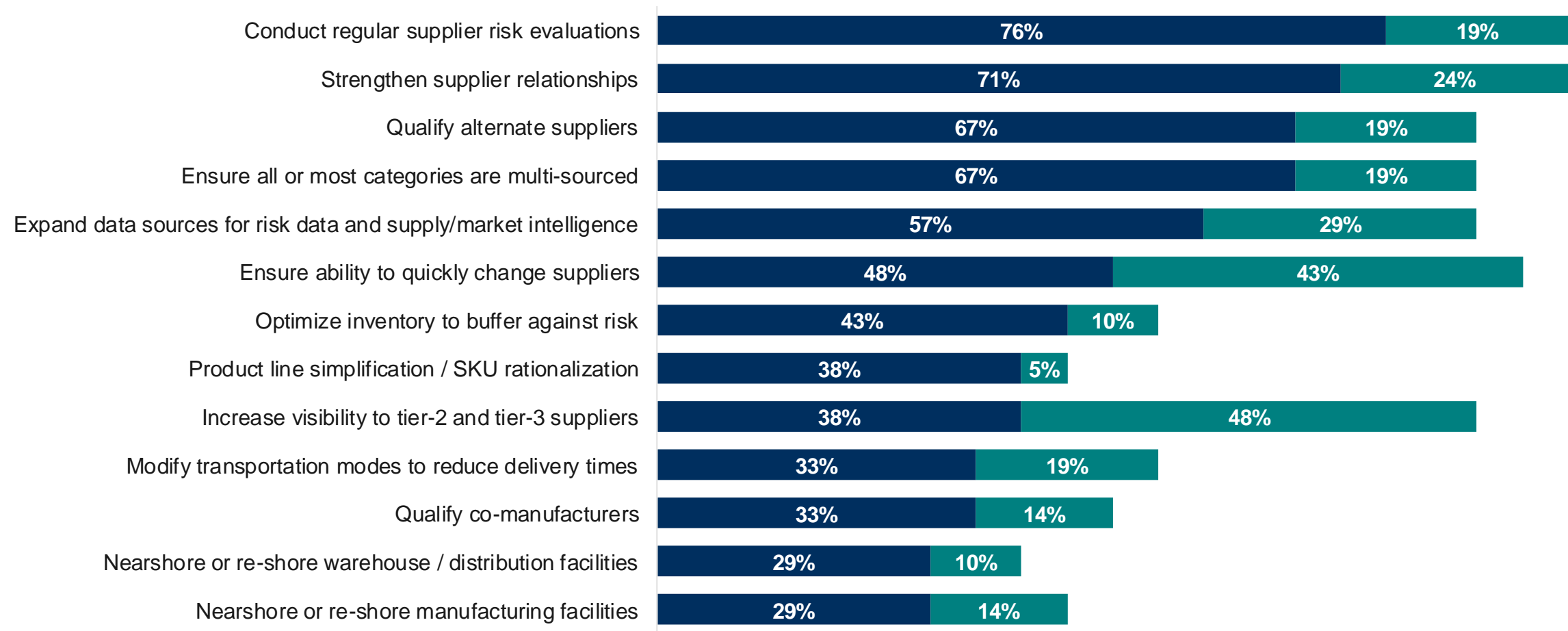


■ Currently practicing ■ Plan to implement in the next year

Source: 2021 Key Issues Study, The Hackett Group

Supplier risk evaluations and supplier relationship management are critical for mitigating supply risk in service organizations

Risk mitigation initiatives used to ensure supply continuity (service organizations)

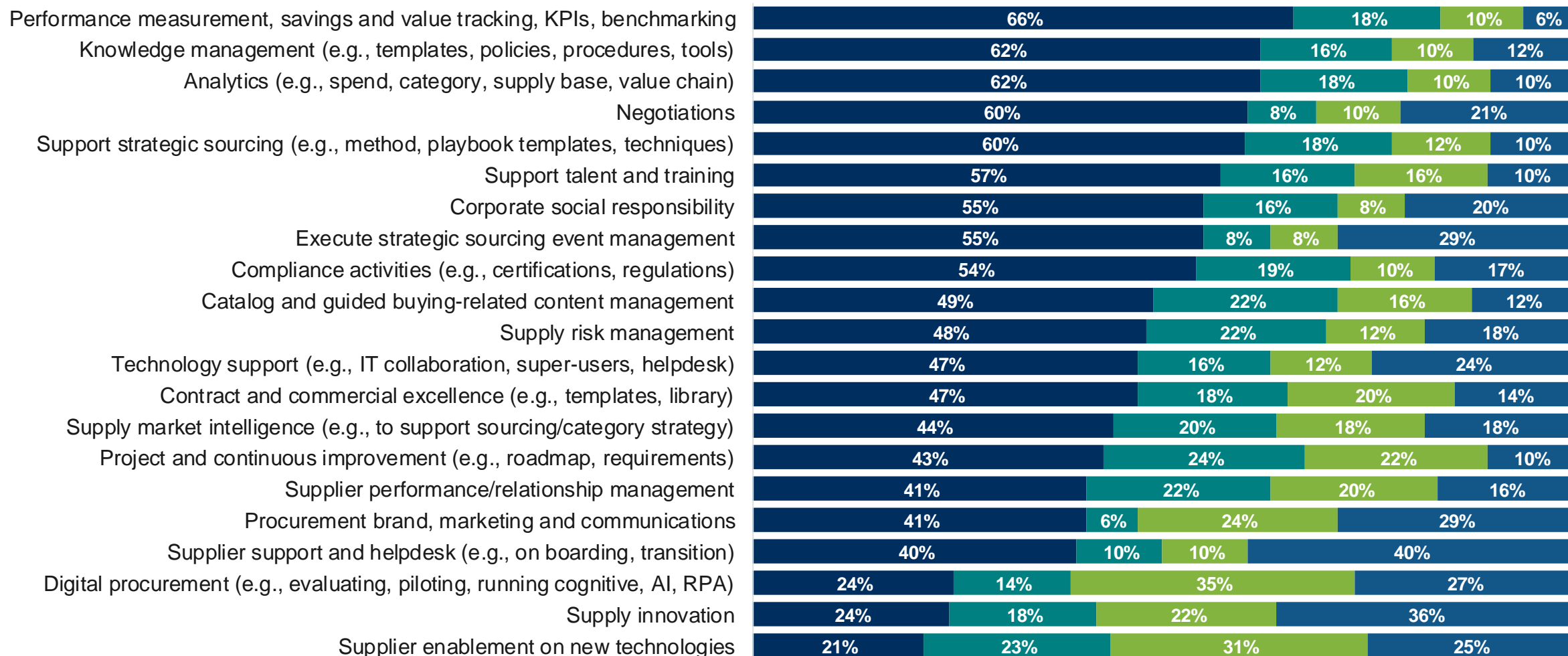


■ Currently practicing ■ Plan to implement in the next year

Source: 2021 Key Issues Study, The Hackett Group

Performance measurement and knowledge management are the most common COE activities

Activities provided by a procurement COE



■ Currently in place ■ Piloting ■ Planning/evaluating ■ None

Source: 2021 Key Issues Study, The Hackett Group

Recommendations for meeting the key challenges facing procurement in 2021

1. Stability	Support enterprise stability through ensuring continuity of core business operations with supply assurance and spend cost reduction.
2. Relationships	Elevate and upgrade the role of procurement business partners to one of business enablement leaders who can develop and maintain strong business relationships.
3. Modernization	Accelerate migration to cloud-based applications and platforms and adopt tools to effectively deliver new services in supply risk and performance.
4. Digital transformation	Employ smart automation and other emerging technologies to eliminate dependency on manual tasks and improve efficiency.
5. Skill gaps	Close skill gaps in stakeholder relationships, business acumen, change leadership, strategic thinking, data savviness and customer-centric design.
6. Operating model	Reinvent the procurement operating model to address bureaucracy, lack of collaboration and speed. Align high-level procurement business partners with business leaders.
7. Agility	Improve procurement agility through simplification, empowering decision-making and calculated risk-taking, deploying flexible teams, remote working, third-party staff augmentation, digital processes and streamlined governance.
8. Risk management	Enhance third-party risk management capabilities across a broader range of risk exposures, going deeper into the levels of the supply chain, and continuous risk monitoring throughout the supplier life cycle.
9. Data and insights	Develop a strong master data program and supporting company culture, employ the right tools to improve spend insight, access required analytical skills, and deploy required internal and external intelligence sources to provide predictive alerts and additional business value.
10. Influence	Develop capabilities that respond to business needs and enable the function to influence spend across the enterprise.

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