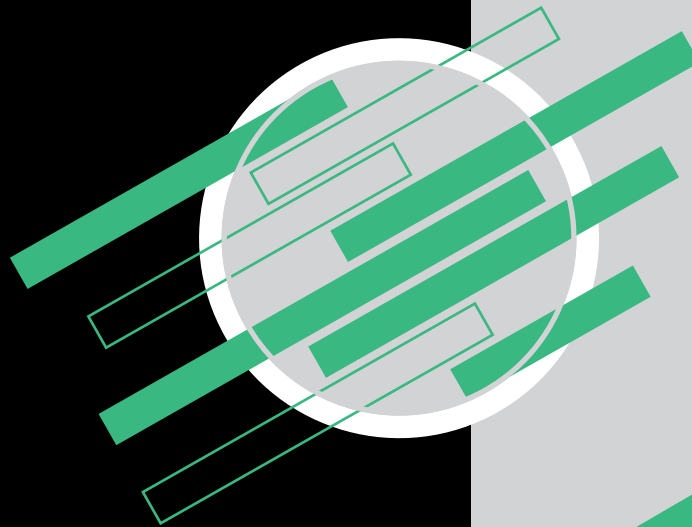


A Forrester Consulting
Thought Leadership Paper
Commissioned By Ivalua

June 2020

Collaborate To Win

Procurement's Strategic Value Hinges On
Enhanced Collaboration With Business Units And
Suppliers



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Table Of Contents

- 1** Executive Summary
- 2** Collaboration Will Power The Next Wave Of Procurement Transformation
- 3** Procurement Must Improve Across Multiple Vectors
- 5** Physical Separation And A Lack Of Tools To Overcome It Inhibit Collaboration
- 9** Effective Collaboration Elevates Procurement's Role In Innovation
- 13** Key Recommendations
- 14** Appendix

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Executive Summary

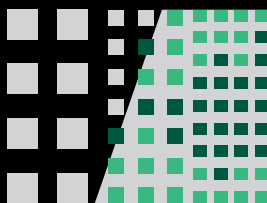


The global pandemic has sharpened focus on the importance of procurement in almost all industries, with collaboration across supply chains proving to be particularly crucial. In leading organizations, the procurement function has evolved to deliver greater agility, innovation, and efficiencies through strategic collaborative processes. Collaboration isn't only about reducing risk and saving money, which is more important than ever; chief procurement officers (CPOs) and procurement teams also need to work seamlessly with internal stakeholders across business units, and with their entire network of suppliers, to create new products, react quickly to unprecedented changes in demand, and prepare for the intensely competitive markets that will exist while economies recover.

In January 2020, Ivalua commissioned Forrester Consulting to evaluate the role of procurement in supporting business innovation through enhanced collaboration with internal stakeholders and external suppliers. Forrester conducted an online survey of 425 global finance, procurement, supply chain and sales decision makers in Europe and North America to explore this topic. We found that decision makers consider procurement a strategic partner that adds value, but there is room for improvement in collaboration with business units and suppliers. Enhanced collaboration built on openness and transparency, technology for improved information sharing, and aligned incentives all pave the way for greater supplier willingness to share innovation.

KEY FINDINGS

- › **Procurement is a strategic business partner that collaborates with business units and suppliers.** Most procurement professionals believe that their colleagues consider them to be a key business partner contributing significant strategic value (67%), especially in manufacturing (77%). Procurement leads the way for effective collaboration with suppliers (85%) and collaborates effectively with business units internally. However, there is room for improvement.
- › **A major barrier to enhanced collaboration is the lack of tools to overcome physical and cultural divides.** Respondents rate physical and time zone gaps as the top obstacle to collaboration with business units (50%) and strategic suppliers (43%). Lack of mechanisms to collaborate well is the top barrier to collaboration with the wider supply base (42%). Performance goals and KPIs that emphasize greater collaboration (76%), technology that enables better information sharing (63%), and communication (56%) are key elements to improving collaboration.
- › **Relationships, transparency, and incentives enable closer collaboration that unlocks innovations from suppliers.** Enhancing collaboration with business units and suppliers enables procurement to unlock new sources of value in areas such as sustainability/corporate social responsibility (CSR), margins and cash flow, and innovation. Payments visibility (88%), improved relationships (77%), and digital maturity (75%) are factors within procurement's control that are critical to unlocking innovation from suppliers.



Collaboration Will Power The Next Wave Of Procurement Transformation

The COVID-19 crisis has battered businesses and economies around the globe, resulting in unprecedented restrictions on the flow of people and goods across international and domestic borders. Businesses are starting to see glimmers of hope, such as slowing infection rates and the easing of lockdowns — but when this will all be over remains unclear.



One area the pandemic has brought into sharp focus is the importance of procurement and supply chain management. The procurement function has evolved to deliver greater efficiencies through automated processes for formal, document-based interaction with suppliers, including purchase orders, advanced shipping notices, and invoices. The next focus for improving collaboration is in the less formal processes that currently rely on emails, phone calls, and physical meetings. COVID-19 has increased the criticality of collaborating, both internally and externally, on:

- › **Late changes to production and delivery schedules.** The unprecedented events have made demand forecasts wildly inaccurate. Buyers have struggled to communicate effectively with suppliers about urgent changes to requirements and priorities. Similarly, suppliers have been unable to adequately warn customers about possible late deliveries due to their own capacity constraints.
- › **New product introduction.** Manufacturers have had to pivot their organizations to make completely new (to them) products, including switching from vacuum cleaners to ventilators, whiskey to hand sanitizer, and electronic systems to face masks.¹ This requires agile, iterative cocreation with suppliers, in addition to the traditional RFx (request for x) response: award-winning style of sourcing.
- › **Rapid onboarding of new suppliers.** Inefficient, overly risk-averse supplier validation processes have prevented hospitals from buying desperately needed personal protective equipment (PPE) from local suppliers that had inventory. At the same time, many companies have bypassed normal due diligence only to find that they have wasted money on defective equipment. Better collaboration between the users who need equipment and the potential suppliers of that equipment would enable procurement to achieve the right balance between speed and safety.



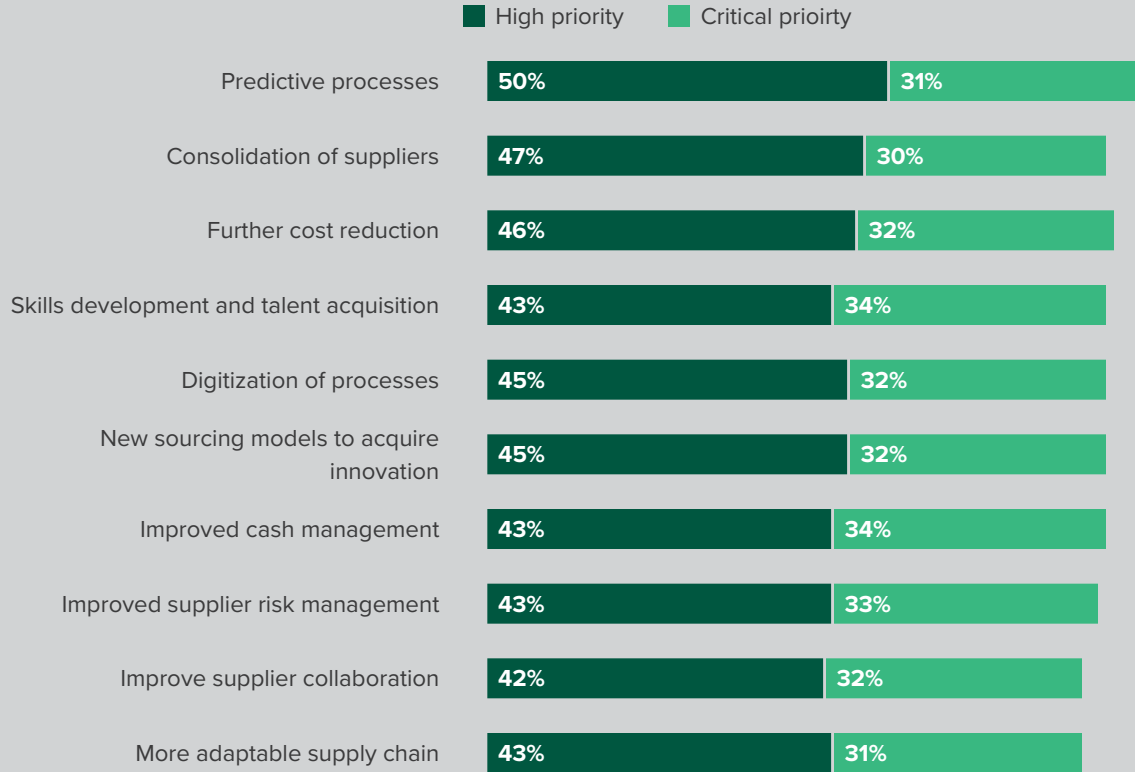
Procurement Must Improve Across Multiple Vectors

This new emphasis on collaboration is in addition to procurement’s existing goals, such as helping the organization reduce risk and save money, which are more important now than ever due to the current pandemic and the recession it has caused. Procurement functions can better address these varied objectives if they can work together with others in the same sector, forming groups and sharing information about the markets and suppliers within those sectors. Our study found that over the next 12 months, procurement will prioritize analytics, consolidation of suppliers, and skills development and talent acquisition (see Figure 1):

- Analytics will become crucial to the way procurement operates.** Predictive processes (81%), a top priority for the procurement function in the next 12 months, will help organizations identify the impact of spend categories, suitable sourcing strategies, and future performance of suppliers and their potential fulfillment risk.

Figure 1

“Which of the following are the top priorities for your company’s procurement function over the next 12 months?”
 (Showing top 10 only; sales function did not answer this question)



Base: 325 global finance, procurement, and supply chain decision makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020

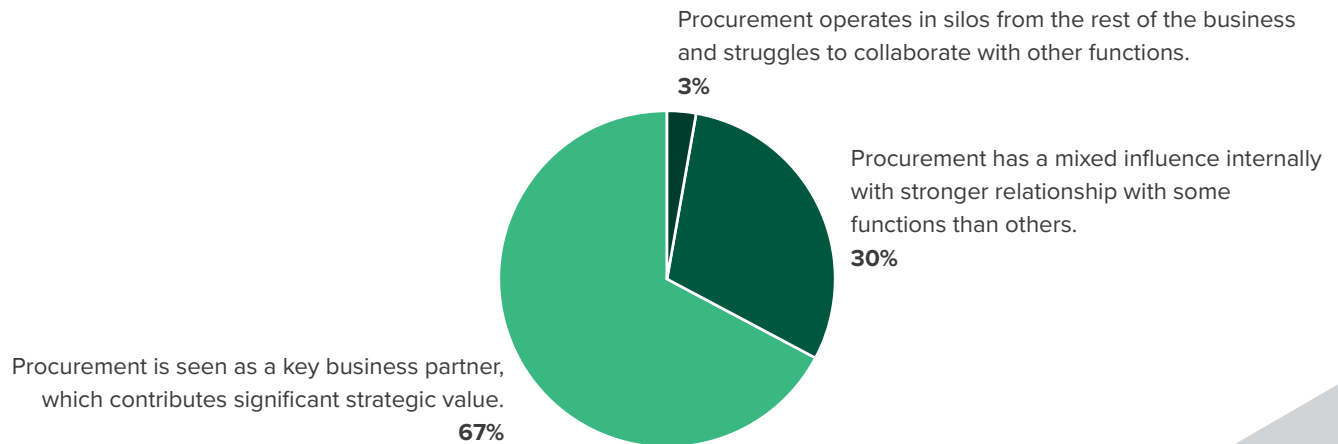
- › **Consolidation of suppliers remains key to cost reduction.** Successful vendor relationships are not merely transactional but a close, collaborative partnership, an increasingly difficult task to sustain with so many suppliers on the books. The extra time, effort, and workload required to manage multiple suppliers is taxing; thus, organizations must find and qualify suppliers to maintain quality standards and a stable, reliable supply chain. Seventy-seven percent of surveyed decision makers say they are prioritizing this over the next 12 months, which will further reduce costs (78%).
- › **Skills development and talent acquisition is about nature and nurture.** Seeking talent is one aspect of success, but enabling and developing that talent to succeed ranks in the top five priorities for surveyed decision makers (77%). Training or skills development instills knowledge in a wide array of procurement competencies and evolves the procurement transformation initiative.

PROCUREMENT IS CONSIDERED A STRATEGIC PARTNER

Sixty-seven percent of respondents say procurement is seen as a key business partner contributing significant strategic value (see Figure 2), especially in manufacturing (77%). Most (85%) also state that procurement leads the way for effective collaboration with suppliers. There is also broad consensus that procurement collaborates effectively with other parts of the business, such as finance (55%). However, our study also revealed several ongoing challenges and areas for improvement.

Figure 2

“How do you think your organization views the procurement function?” (Sales function did not answer this question)



Base: 425 global finance, procurement, and supply chain decision makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020



Physical Separation And A Lack Of Tools To Overcome It Inhibit Collaboration

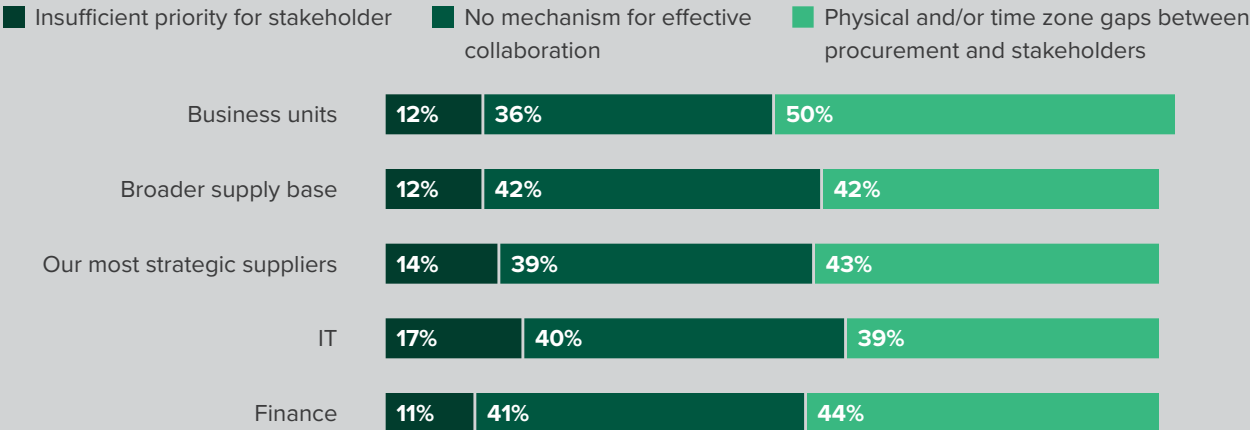
Despite the overarching view of procurement as a strategic partner within the business, around 70% of decision makers admit that firms often view procurement as a bottleneck, suggesting room for improvement in collaboration between procurement and suppliers.

With a significant portion of workforces now working remotely, the ability to operate virtually and enable workers to collaborate on digital platforms is a primary concern for most firms. For procurement leaders, these factors pose challenges now more than ever when it comes to collaborating with business units and suppliers, especially (see Figure 3):

- Physical and time zone gaps.** Half of decision makers say that such gaps limit collaboration with business units. This is slightly less of an issue for collaborating with finance (44%) and IT (39%) specifically, but it is still significant. Over 40% report physical and time zone gaps hinder collaboration with their most strategic suppliers and the broader supplier base.
- Lack of mechanisms for effective collaboration.** Roughly 40% of decision makers highlight this as a top challenge when it comes to procurement’s collaboration with finance, IT, and suppliers. A lack of sufficient digital tools for remote collaboration, along with unclear processes and communications, are likely inherent issues that procurement leaders are facing at a greater intensity in the current environment. Collaboration tools are now vital, since procurement can no longer travel around to form and build relationships with remote colleagues and suppliers.

Figure 3

“For each stakeholder, what is the primary factor limiting collaboration with procurement?”



Base: 425 global finance, procurement, and supply chain decision makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020

Additionally, finding the right strategic suppliers is a challenge for nearly a third of decision makers (see Figure 4). Reasons for this include higher-than-expected prices (27%), lack of trust (26%), insufficient communication (26%), and lack of relevant data about aspects of the relationship (24%). A resistance to change and a bias toward the status quo are also barriers to finding the right strategic suppliers: Over a fifth of decision makers report issues such as an inability to adapt to market changes, overdependency on a few suppliers, and traditional approaches.

Figure 4

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



Base: 425 global finance, procurement, and supply chain decision makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020

Furthermore, there are inconsistencies in behavior regarding suppliers. On the positive side, a large majority (84%) agreed that procurement regularly encourages suppliers to offer innovative solutions rather than dictate precise requirements (84%). However, 77% agreed that cost still dominates supplier selection for most sourcing projects. If suppliers are ultimately selected based on cost, it is difficult to establish and nurture collaborative relationships.

PERFORMANCE GOALS AND TECHNOLOGY ARE KEY FACTORS IN IMPROVING COLLABORATION

Decision makers suggest that the top factors that would be effective in improving collaboration are (see Figure 5):

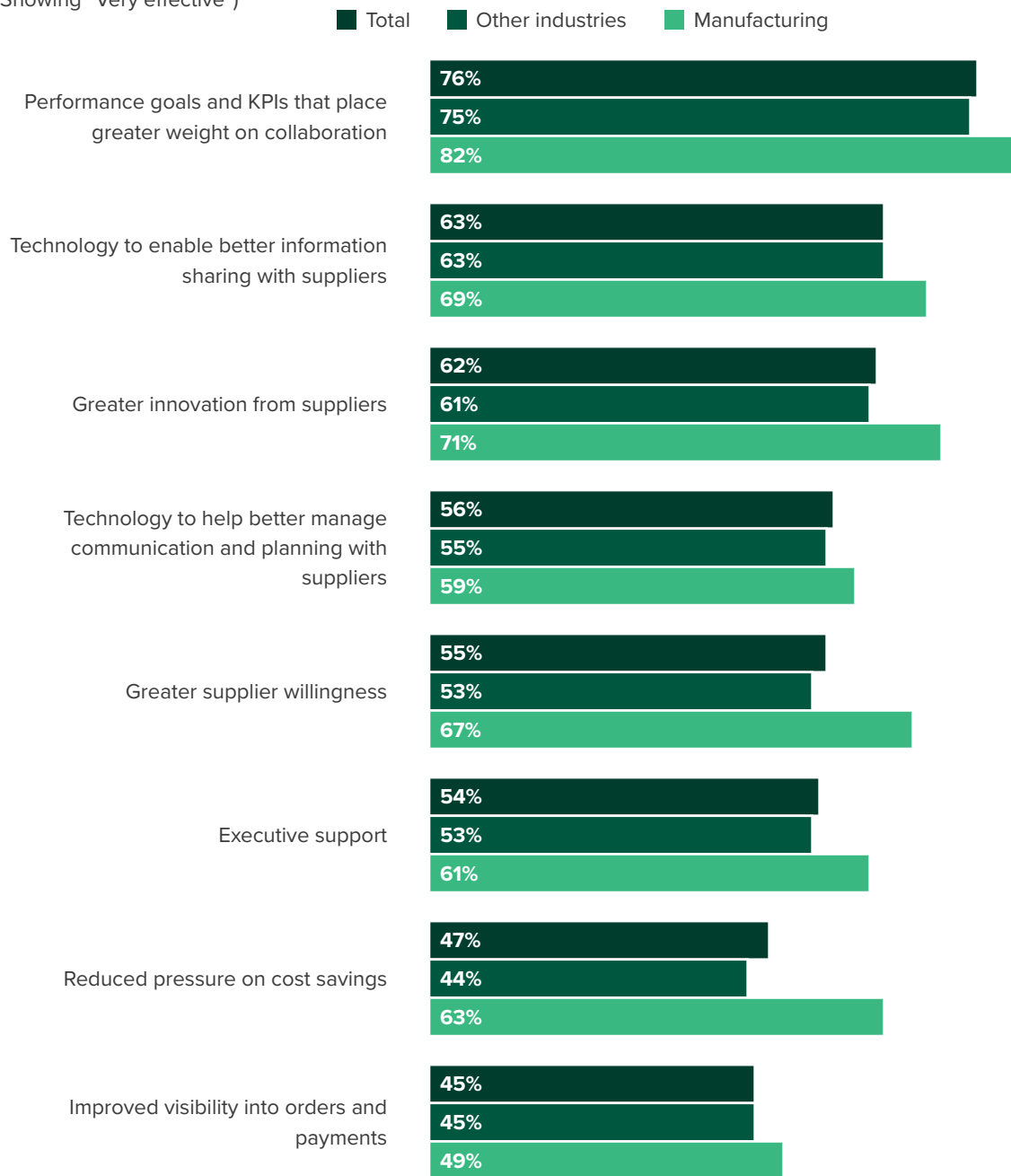
- › **Updated performance goals and KPIs.** Placing greater weight on collaboration within performance goals and KPIs is the most effective way to improve collaboration between procurement and suppliers, as highlighted by 76% of decision makers, but especially those in manufacturing (82%). These goals should focus on outcomes rather than activity. For instance, measure lead times to produce new products and their market success rather than the number of collaboration sessions that it took to develop them.
- › **Better software for information sharing and communication.** Technology that enables better information sharing with suppliers (63%) and improves management of communication and planning (56%) is a top factor to improve collaboration. An easy flow of relevant data such as proposed design changes, revised forecasts, and customer feedback can replace less effective communication methods. Technology is a critical enabler for this, whether the data sharing is person to person or computer to computer. Forrester calls the software category that enables this information sharing supplier value management (SVM).²
- › **Greater supplier innovation and willingness.** Procurement looks to suppliers for greater innovation (62%) and willingness (55%). This is especially important for manufacturing firms, which emphasize supplier innovation (71%) and willingness (67%) more than firms in other industries.

However, firms cannot make any of these improvements without executive support, which 54% of decision makers highlight as important for enhancing collaboration between procurement and suppliers.

Figure 5

“How effective would these factors be on improving collaboration between procurement and suppliers?”

(Showing “Very effective”)



Base: 425 global finance, procurement, and supply chain decision makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020



Effective Collaboration Elevates Procurement’s Role In Innovation

Enhancing collaboration with business units and suppliers elevates the role of procurement as a strategic partner in the business by unlocking new sources of value beyond traditional areas like cost. The greatest potential for procurement to extract new benefits comes from (see Figure 6):

- › **Sustainability and CSR.** This is the top area identified by respondents where procurement can unlock value by enhancing collaboration with colleagues and suppliers. With the growing impetus on companies to ensure sustainability in operations, procurement plays a key role.
- › **Margins, costs, and cash flow.** Improving margins by decreasing direct costs lands near the top of the list of areas where enhanced collaboration can increase the value provided by procurement. Respondents also point to improving cash flow and cash management.
- › **Innovation and efficiency in operations.** Decision makers expect procurement to be able to increase the level and pace of innovation through enhanced collaboration and optimize operational efficiencies.

Figure 6

“Where do you think is the greatest potential for procurement functions to unlock value by enhancing collaboration with colleagues and with suppliers?”



Base: 425 global finance, procurement, and supply chain decision makers
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020

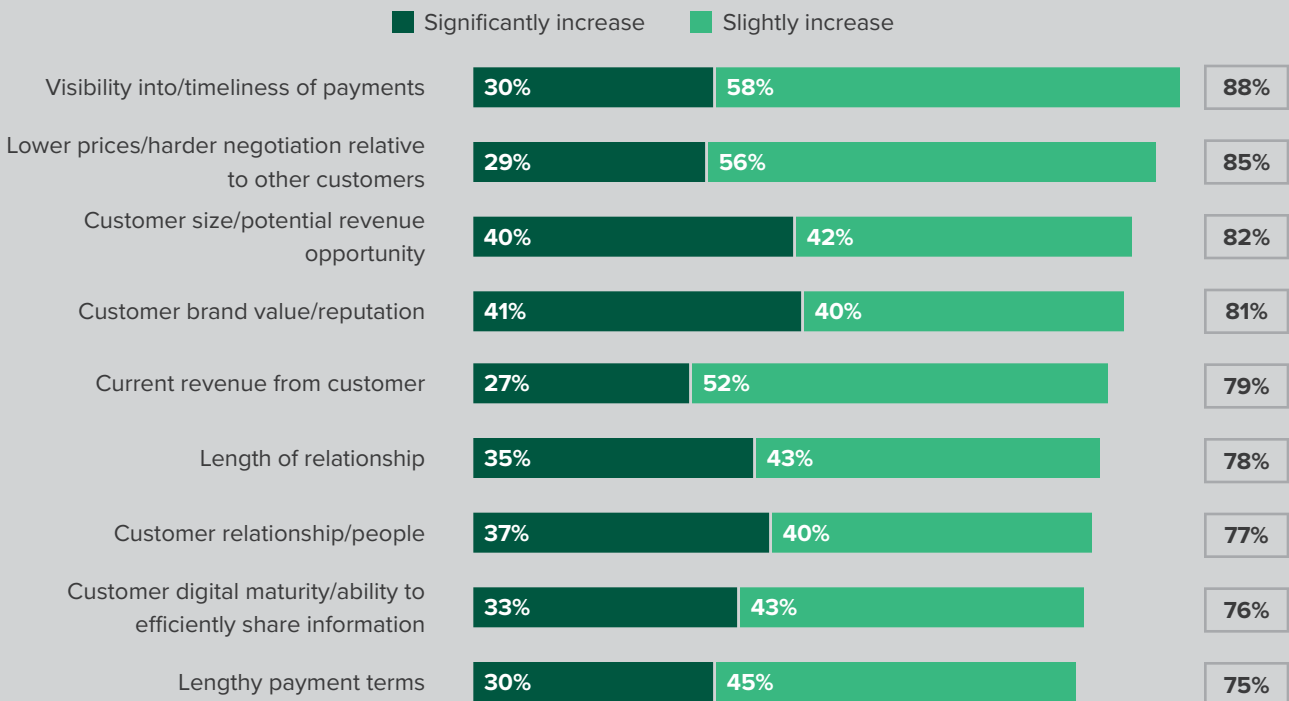
PAYMENTS VISIBILITY, RELATIONSHIPS, AND DIGITAL MATURITY ARE CRITICAL TO UNLOCKING INNOVATION FROM SUPPLIERS

Becoming a customer of choice is critical to unlocking supplier innovation. Factors that impact suppliers' willingness to collaborate with and share innovations include a number of elements outside of procurement's control, such as customer size (82%), brand reputation (81%), and length of relationship (78%) (see Figure 7). However other important factors also impact supplier willingness to share innovations, such as:

- › **Visibility and control of payments.** Suppliers want a large customer that pays quickly. Most (88%) believe that visibility into payments and the timeliness of payments will impact their willingness to collaborate and share innovation with customers. Previously, many large companies had bullied suppliers into accepting extended terms, but many are now paying smaller suppliers on time, if not faster. This isn't merely virtue signaling; they also want to reduce the risk of supplier failures and ensure preferential treatment when demand exceeds supply.
- › **Customer relationship/people.** Seventy-seven percent of decision makers name this as one of the top areas to impact willingness to share innovations that procurement can control; 37% see this as having a significant impact. Building the relationship with suppliers and engendering two-way trust is key to sharing innovation and enhancing ongoing collaboration.

Figure 7

"How do each of these factors impact your willingness to collaborate with and share innovations with a specific customer?"



Base: 425 global finance, procurement, and supply chain decision makers
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020

- › **Digital maturity.** Three-quarters of respondents highlight the ability to efficiently share information as having an impact on supplier willingness to share innovations. Because a lack of appropriate mechanisms and technology is a top hindering factor to effective collaboration between procurement and suppliers, decision makers prioritize digital maturity to increase collaboration.

PROCUREMENT TRIES TO IMPROVE SUPPLIER RELATIONSHIPS BY RADICALLY CHANGING ITS APPROACH

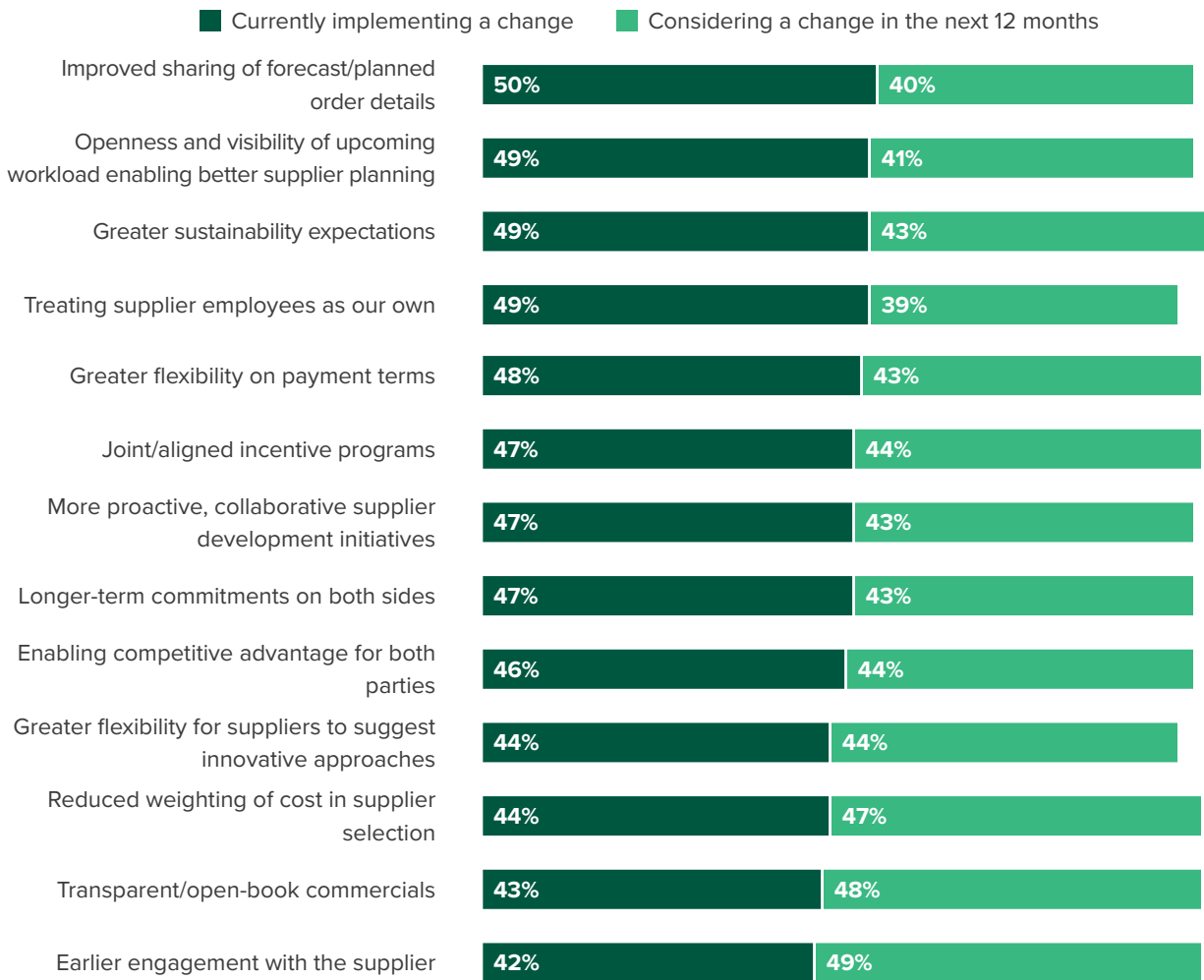
Surveyed decision makers are changing substantial elements of their approaches to supplier management. Indeed, they are implementing or considering every one of the 13 options included in our survey. Transparency and openness, improved information sharing, and aligned incentives are all factors that impact supplier relationships and therefore are critical to improving collaboration with suppliers. Procurement professionals in our study report they are already acting on these areas and changing their approaches with suppliers in the following ways (see Figure 8):

- › **Improving openness and transparency.** Half of decision makers are improving the sharing of forecasts and planned order details, with another 40% planning to in the next 12 months. Similarly, around half (49%) are implementing greater openness and visibility of upcoming workloads to enable better supplier planning, with another 41% planning to make changes in the next year.
- › **Aligning expectations and incentives.** Creating clear expectations, for example around sustainability (49%), and creating joint/aligned incentive programs (47%) are also top changes firms are implementing in their approaches to suppliers, with over 40% planning to make changes here in the next 12 months.
- › **Enabling innovation through collaboration and flexibility.** Most decision makers say their firms are currently implementing (47%) or planning to implement (43%) a more proactive/collaborative model for supplier development. Many also say their firms are also enabling greater flexibility for suppliers to suggest innovative approaches (44%) or are planning to within the next year (44%).



Figure 8

“When thinking about your relationship with suppliers, how do you expect to change your approach?”



Base: 315 global finance and procurement decision makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020



Key Recommendations

Forrester's in-depth survey of global finance, procurement, and supply chain decision makers in Europe and North America, combined with Forrester's broader research, has yielded several key recommendations for CPOs and procurement teams. We found that procurement professionals can create competitive advantage for their organizations by improving collaboration between their teams, business colleagues, and suppliers.

To do this at your firm, you should:



Set improved collaboration as one of your team's top priorities. Devote more management attention to the parts of your teams' function that most matter to customers — such as building better products and ensuring all suppliers are ethical and reliable. Commit to increasing the quality and quantity of collaboration that supports these goals, including product coinnovation using agile or iterative methods, and supplier development programs to reduce risk and improve performance.



Define KPIs that will measure outcomes, not merely activity. Try to measure the business benefits of improved collaboration, not merely the fact that it occurred. For instance, have you reduced the time-to-market of new products? Did those products generate the expected incremental revenue? Survey suppliers to check that your efforts to be a better customer produced the desired result.

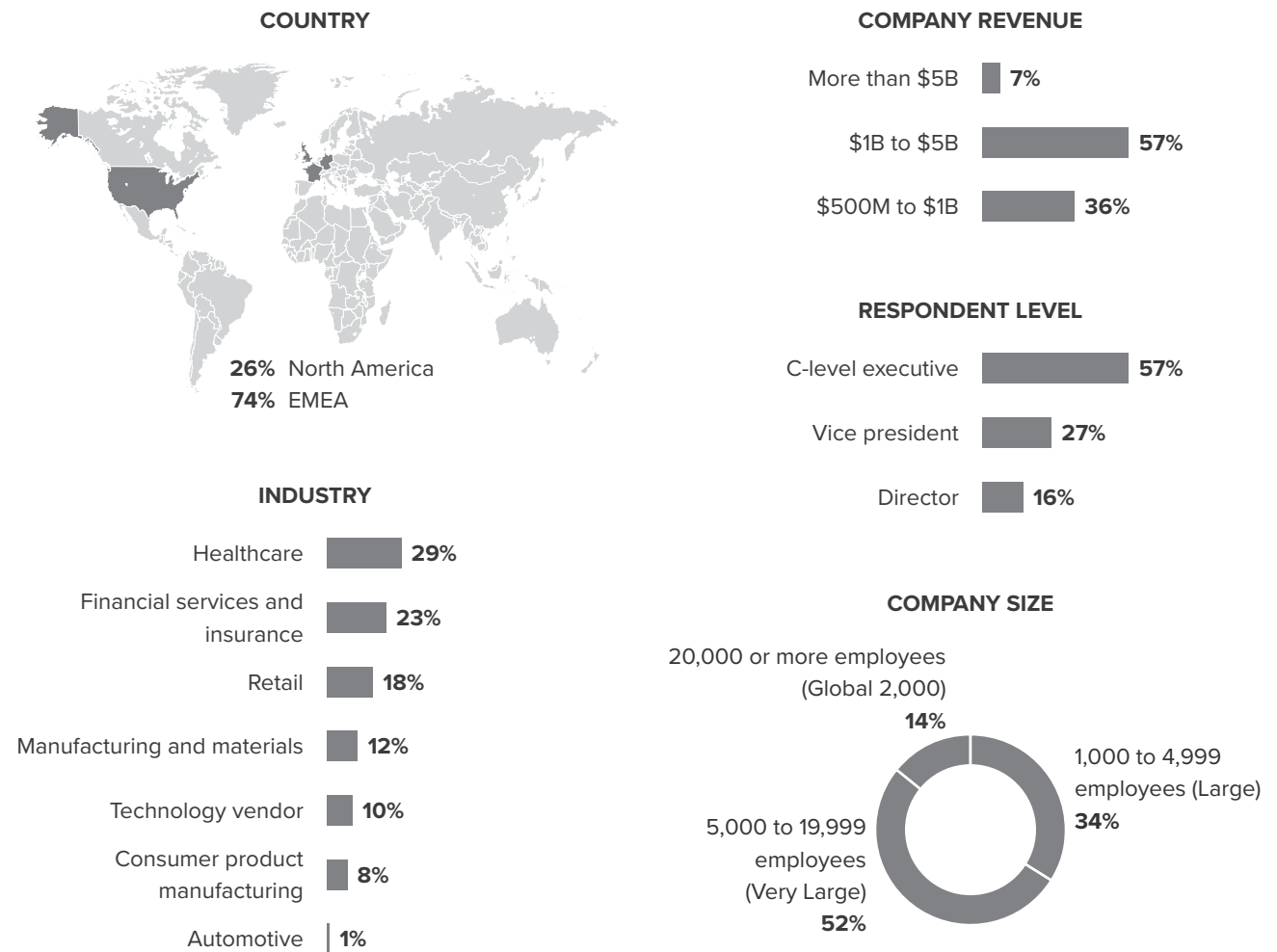


Implement supplier value management software to digitize collaboration. You need modern software that is easy for procurement to use and that facilitates collaboration with suppliers. Exchange and processing of formal documents such as purchase orders and invoices should be fully digital; this is table stakes if you want suppliers to want to collaborate with you. In addition, your SVM software should streamline the flow of other types of information, such as schedule changes, revised delivery dates, and invoice queries.

Appendix A: Methodology

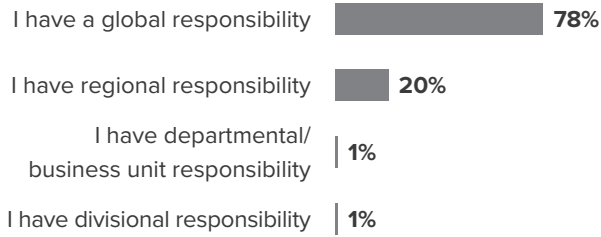
In this study, Forrester Consulting conducted an online survey of 425 global finance, procurement, and supply chain decision makers in Europe and North America to evaluate the role of procurement in supporting business innovation through enhanced collaboration with internal stakeholders and suppliers. Questions provided to the participants asked about current views of procurement within the business and the challenges with collaborating with business units and stakeholders. The study began in January 2020 and was completed in May 2020.

Appendix B: Demographics

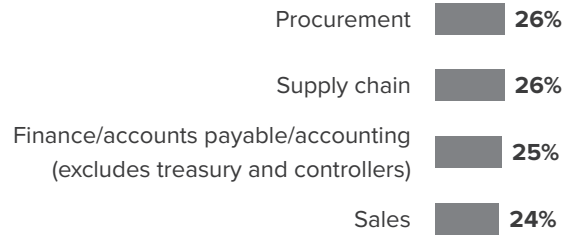


Base: 425 global finance, procurement, and supply chain decision makers
 Note: Percentages may not total 100 because of rounding.
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020

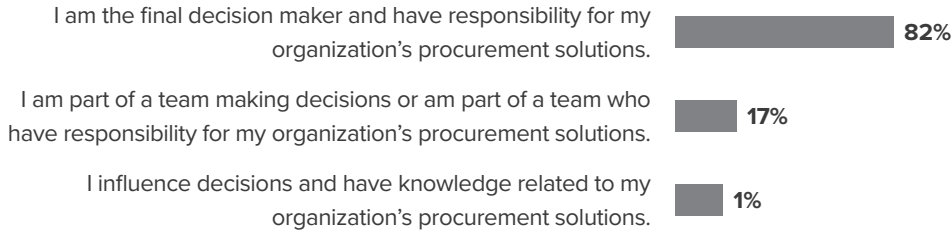
LEVEL OF RESPONSIBILITY FOR PROCUREMENT



CURRENT POSITION/DEPARTMENT



“What is your level of responsibility when it comes to the choice of procurement solution(s) at your organization?”



Base: 425 global finance, procurement, and supply chain decision makers

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, May 2020

Appendix C

ENDNOTES

¹ Source: Chris Martin, “Honeywell Expands Face Mask Production In Europe With New Manufacturing Line In The United Kingdom,” Honeywell, May 14, 2020 (<https://www.honeywell.com/en-us/newsroom/pressreleases/2020/05/honeywell-expands-face-mask-production-in-europe-with-new-manufacturing-line-in-the-united-kingdom>).

² Source: “Supplier Value Management Software Supports Suppliers As Business Partners,” Forrester Research, Inc., May 7, 2020.