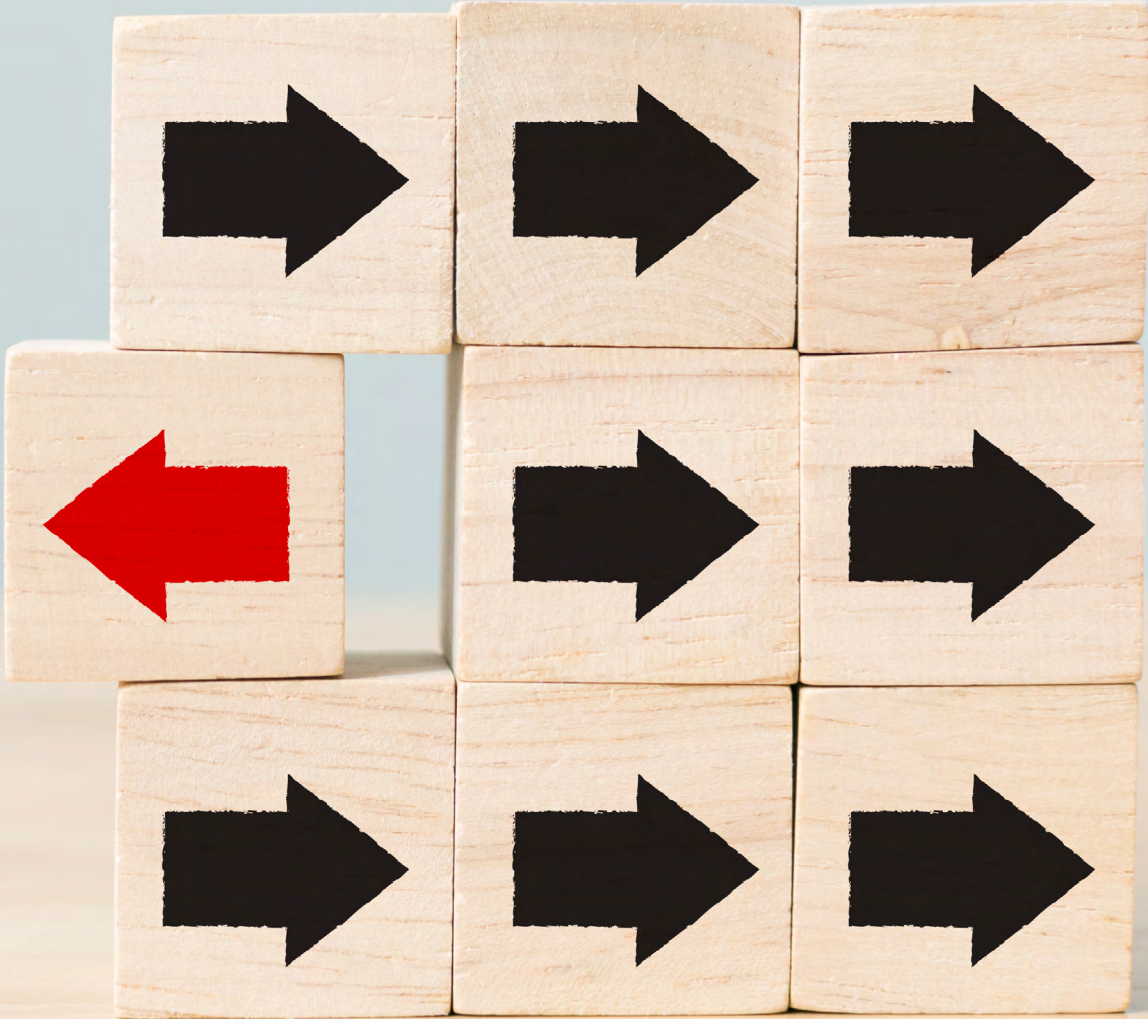


The Transformation Mindset: Procurement's Role in Delivering Business Value



As midsize businesses grapple with heavily disrupted supply chains, soaring operating costs, and rising demand for sustainable products and services, procurement leaders are expected to shift their focus beyond aggressively pursuing savings. They must also address a more complex set of goals, ranging from mitigating supply chain risk by expanding vendor diversity and flexibility to forecasting short- and long-horizon needs more accurately. More important, opportunities that strengthen operational resilience and business value must be identified and addressed proactively.

The factors involved in setting procurement priorities rarely change – for example, optimizing profitability and growth, increasing efficiency, and mitigating risk. However, a new survey from the SAP Insights research center shows that procurement leaders of midsize companies are adjusting their approach to achieve those priorities in a more volatile and dynamic market landscape. Survey participants revealed how they view current and emerging priorities, opportunities, and risks and how they transform their processes to elevate their company's future growth, profitability, and competitiveness.

Setting off revenue growth with a focus on sustainability concerns

When asked to rank their top three priorities for now and beyond the next 12 months, respondents reported that they see introducing new products or services as the most important. Increasing the sustainability of offerings and boosting sales to existing customers ranked second and third, respectively. These priorities are likely to retain their primacy; respondents did not expect them to shift significantly beyond the one-year horizon (see Figure 1).

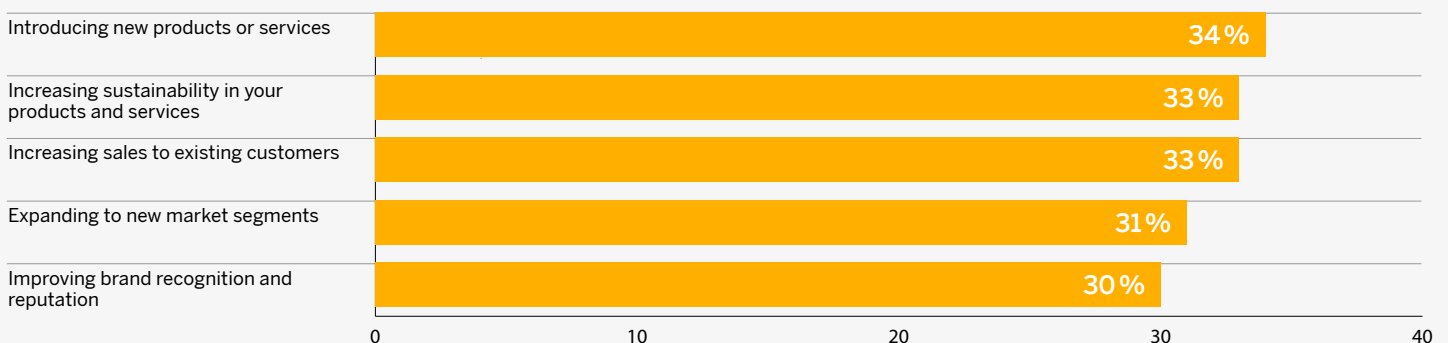
While introducing new products or services does improve revenue growth, increasing sustainability of existing offerings is another way to appeal to new and existing customers. In return, businesses are better positioned to boost sales, attract and retain customers, and replace competitors.

The procurement function can support these priorities by aligning sourcing and buying activity and contracts with what the organization is trying to achieve. If the organization is trying to showcase sustainability to its customers, procurement can align with this objective by ensuring the suppliers selected share those same strategies.

For example, a direct-to-consumer business model may require proof that products are environmentally sustainable, socially responsible, ethically sourced, and equally accessible to everyone. Procurement can respond to that expectation by locating vendors that transparently prove that their raw materials, manufactured components, or packaging materials meet requirements while delivering the right quantities at the right time, place, and price.

Figure 1
Top Three Priorities for Improving Revenue Growth

What are your organization's top three priorities to improve revenue growth?



Sustainability Rises as a Top Procurement Priority

Now that sustainability has emerged as a top priority in the agenda of most midsize companies, our survey shows that procurement functions are challenged to incorporate the same mindset and expectations into their entire supply base. Across the board, midsize companies are incorporating sustainability directly into the strategies they create and the decisions they make to drive revenue growth, increase efficiency, and mitigate risk. This represents an important shift in priorities.

Survey respondents view sustainability as a revenue driver on equal footing with traditional goals, such as increasing sales to existing customers, creating new products and services, and enhancing customer experiences. Leaders are also prioritizing operational sustainability, along with conventional methods such as improving cost control and spend management and automating processes, to make their businesses run more efficiently. In addition, business leaders are connecting sustainability

to their overall risk mitigation strategy and prioritizing the reduction of reliance on scarce resources.

The bottom line: Sustainability is now an essential element of the bedrock activities of growing revenue, increasing efficiency, and mitigating risk. Procurement teams can seize this moment by helping to ensure that sustainability is central to their strategy. As a result, procurement and sustainability both play a vital role in the business's long-term growth and success.

Driving efficiency beyond traditional cost control

While 44% of respondents ranked improving cost control and spend management as top priorities, procurement leaders in our survey also listed an array of strategies that are equally important to them to improve operational efficiency. They are renewing their focus on fundamentals by strengthening processes with more automation and emphasizing the benefits of supplier and partner networks.

However, outsourcing and offshoring are no longer considered reliable options. Procurement leaders are instead applying lessons learned from supply chain disruptions experienced during the COVID-19 pandemic to root out massive inefficiency in sourcing processes, vendor agreements, and buying behaviors.

Sustainability has also joined the ranks of crucial drivers of efficiency. Respondents are slightly more likely to prioritize making operational processes more sustainable (36%) than ensuring their supply chains are more dependable (34%) or bringing them closer to markets (32%) (see Figure 2 for the top five priorities). This finding highlights the importance of treating sustainability as a

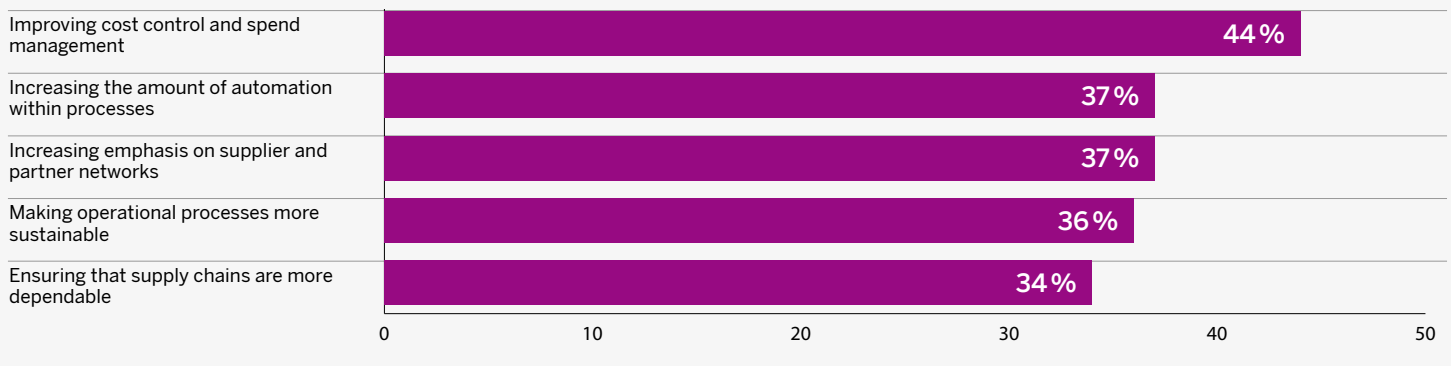
brand value that must be delivered as consistently, seamlessly, and profitably as possible.

Respondents also cited obstacles that prevent process changes needed to achieve corporate goals. Among them was the need to improve scalability to meet demand and increase flexibility to adapt better to change. Furthermore, respondents reported that process improvements are hindered by a lack of speed and limited ability to monitor and analyze operations in real time.

For one-third of procurement leaders, a lack of interconnectivity was identified as a cause of process inflexibility. This issue is particularly prevalent in interactions with third-party suppliers, as well as internal departments such as asset and facilities management, finance, sales and marketing, product and service development, supply chain, and service delivery. As a result, procurement functions cannot access and leverage the data they need to make informed and intelligent decisions on, for example, suppliers to onboard or offboard and identification of compliant products and vendors.

Figure 2
Top Three Priorities for Improving Efficiency

What are your organization's top three priorities to improve efficiency?



Evolving perspectives on risk

It's no longer enough for procurement teams to think only about traditional areas of risk, such as burdens posed by regulations, entry of new suppliers, customer status, and the fluctuating financial health of new and existing vendors. While these factors of brand recognition and reputation are still important, other challenges – such as supply chain fragility, resource scarcity, cybersecurity attacks, and internal talent shortages – have been given higher priority (see Figure 3).

A wide range of future geopolitical risks is also top of mind for procurement leaders. Respondents reported that they are focusing first and foremost on countering economic stagnation (43%). Furthermore, they are watching for ripple effects from a landscape of economic and societal concerns, including employment and livelihood crises (36%), global natural resource shortages (34%), climate change (32%), and unequal access to technology (29%). Meanwhile, cybersecurity breakdown (34%) and adverse outcomes of advanced technologies (32%) remain top of mind (see Figure 4).

The survey data is an exceptional reflection of how the nature of risk has been forever altered. Compared to their larger competitors, midsize companies have little buffer to absorb inflationary pressures, supply shortages, and lost sales opportunities. Procurement functions that cannot get ahead of these risks will see their company's production capacity lag behind market demand, squeezing profit margins and tarnishing a once-stellar brand reputation. Furthermore, the failure to get ahead of a breach in supplier data or systems, no matter how small or short lived, can shut down operations across all facilities.

Figure 3
Top Three Priorities for Reducing Risk

What are your organization's top three priorities to reduce risk?

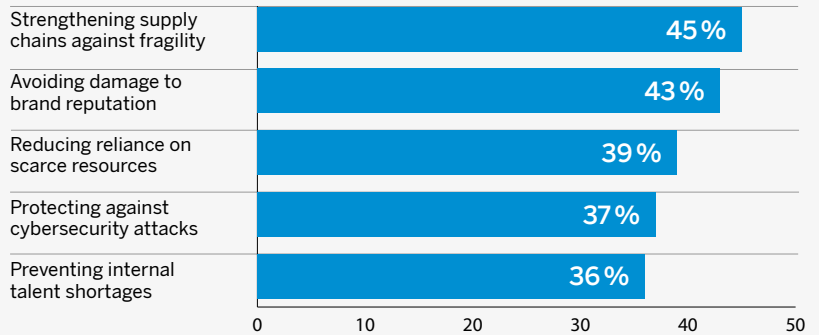
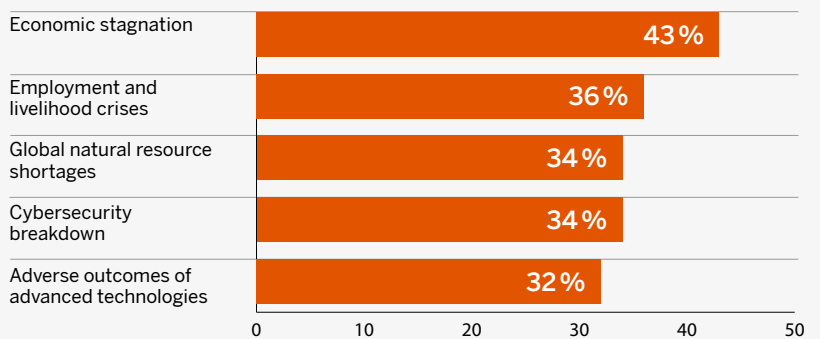


Figure 4
Future Global Risks for Which Organizations Must Prepare

Which of these future global risks will your organization need to prepare for?



Procurement leaders are applying lessons learned from supply chain disruptions experienced during the COVID-19 pandemic to **eliminate inefficiency** in sourcing processes, vendor agreements, and buying behaviors.

Driving process innovation is a matter of what to improve, not when

Perhaps one of the most surprising results from this survey was the lack of consensus on processes that need improvement or implementation and the required capabilities. Only a 6% differential separated the process requiring the most attention and the one needing the least (see Figure 5 for the top five responses). Our respondents

also prioritized many tasks that are needed to improve these processes (see Figure 6).

The results of this survey question validate what most procurement leaders already know – there is no one-size-fits-all approach to process innovation. Depending on their industry and automation maturity across

different processes, companies must identify mission-critical areas for improvement based on their requirements, operational gaps, and strategies. This holistic approach gives procurement leaders the flexibility to prioritize the innovations necessary to move the business forward effectively.

Figure 5
Top Process Improvement Priorities

To achieve your organization's business objectives, which of the following processes must be improved?

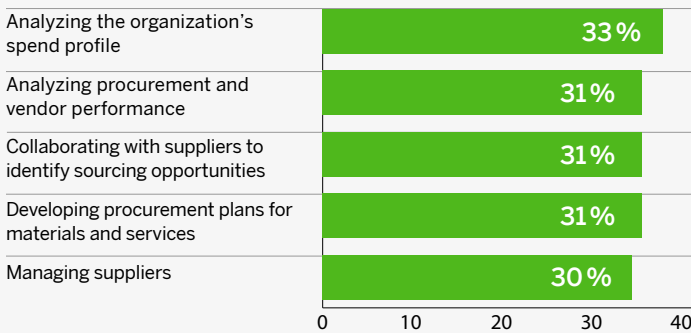
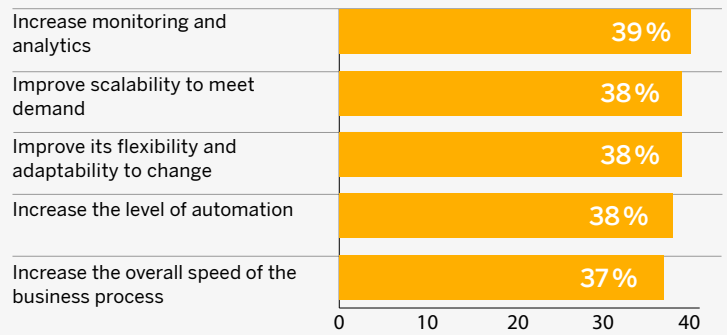


Figure 6
Improving the Business Process

What needs to be changed or implemented to improve the business process?



Progressing digital transformation

Surveyed procurement leaders recognize that their function's digital transformation is critical to improve performance today, better respond to future risks, and remain competitive. Approximately 90% of these leaders see a positive relationship between profitability and competitiveness and their function's business transformation.

Nearly half of respondents stated that they have progressed in transforming some planned areas, while 17% report that they've completed their journey as initially conceived. Furthermore, the survey findings portend that 50% of companies that haven't already started transforming will make some progress two years from now.

Looking ahead, survey respondents view technological innovation as their top priority in the next three to five years. Innovation of products and services, sustainability, digital experiences, and business models are also considered as highly critical.

The technologies most sought by businesses reflect the recent hardships of increasingly hybrid workplaces and cybersecurity incidents. Procurement leaders are investing in technologies such as cloud computing (82%), collaboration tools (78%), and cybersecurity infrastructure (77%) to transform their processes. Automated business intelligence dashboards (68%), business process intelligence (67%), application development platforms (64%), and data management architectures (62%) also rank highly.

Surveyed procurement leaders recognize that their organization's **digital transformation** is critical to improve performance today, better respond to future risks, and remain competitive.

Recommendations

To be successful, procurement functions should transform themselves with these priorities top of mind:

- Protect supply chain continuity by expanding the supplier network to flexibly switch to more optimal sources of materials, goods, and supplies without getting locked into long-term contracts
- Gain better control of all business data with a single, integrated platform to gain the full visibility and insight to make better decisions, help ensure continuity of operations, drive sustainability improvements, and mitigate risk proactively
- Respond immediately to emerging supply chain risks and opportunities with a more consistent, reliable, and faster approach to vendor collaboration
- Adopt cloud technologies that use enterprise data to assess planning scenarios intelligently, thereby enabling early, accurate, and strategic responses to supply chain risks
- Develop strategies for critical areas of supply to better understand structural cost, identify new opportunities, and ward off inevitable commodity-driven price increases

Sustainability has become a business priority for the procurement function because it has a direct connection to protecting and cultivating a company's brand. As more organizations seek to become sustainable businesses, procurement teams must also prioritize sustainability goals in the selection, evaluation, and monitoring of suppliers while further extending strategic value.

In a turbulent period of increased global risk, procurement leaders from midsize companies place high importance on boosting revenue and efficiencies and mitigating risks while improving brand recognition and reputation. Underlying these fundamental initiatives is sustainability, a new imperative that will become increasingly essential to procurement's core strategies. To make more progress on transformation, which is seen as critically linked to business performance, senior procurement leaders need to further improve business processes to increase flexibility and interconnectedness.

Contact your **SAP partner** to learn how SAP solutions can help your business transform.

About This Research

The SAP Insights Midmarket Senior Executive Priority study collected data from 10,507 executives from companies with annual revenues of less than US\$1 billion across 41 markets and 28 industries. Respondents possessed the highest level of line-of-business responsibility and oversight, with titles ranging from director to chief officer. The surveys were conducted from September 2021 through December 2021, with a 10-minute online survey used to collect the data.