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2023 Key Issues

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To thrive amid uncertainty, technology and digital transformation will be key

Executives expect 2023 to be another difficult year as they confront an unprecedented confluence of factors – a progression of the global economic downturn due to recession, high inflation, continued geopolitical turmoil and talent shortages driven by long-term demographic shifts. Their concern about these risks is evident in The Hackett Group's 2023 Key Issues Study. Approximately two-thirds of respondents across all business functions cited the potential for economic downturn and/or recession to be the top risk during the coming year, while over one-half expressed concern about the risks of talent shortages and inflation. Notably, more than one-quarter of study participants said the inability to successfully transform the business and related functions is of key concern.

To prepare for economic downturn or potential recession, organizations are changing their spending patterns to improve margins and find cash flow to fund potential recessionary challenges. It is clear that executives are looking to technology as they consider how to address these pressing enterprise risks: 45% of executives said they are accelerating digital transformation (automation, advanced analytics and modeling) in preparation for a downturn – more than any other response measured, including capital spending and cost reduction programs. The cloud has moved to the forefront as the platform organizations must leverage for agility, growth and transformation. In the study, 42% of enterprises reported having legacy solutions that must be replaced. For many of these applications, cloud solutions are now the only game in town. But organizational disconnects hold back many companies from achieving the transformation they are targeting.

2023 procurement priorities

With this unprecedented environment as a backdrop, procurement executives shared their priorities and planned improvement initiatives for 2023 (**Fig. 1**).

FIG. 1   2023 priorities and planned improvement initiatives

Ranking of procurement priorities*

1	ENSURE SUPPLY CONTINUITY
2	COMBAT INFLATIONARY PRICE INCREASES
3	REDUCE SPEND COST
4	PURSUE PROCUREMENT DIGITAL TRANSFORMATION AND MODERNIZE LANDSCAPE
5	IMPROVE ANALYTICS AND INSIGHTS CAPABILITIES
6	STRENGTHEN THIRD-PARTY RISK MANAGEMENT VISIBILITY AND CAPABILITY
7	ACT AS A STRATEGIC ADVISOR TO THE BUSINESS
8	IMPROVE STAKEHOLDER-CENTRICITY
9	IMPROVE PROCUREMENT AGILITY (I.E., ADAPT QUICKLY)
10	EMBED RESPONSIBLE PROCUREMENT

Ranking of planned procurement improvement initiatives**

TALENT MANAGEMENT	68%
DATA ANALYTICS AND REPORTING	65%
STRATEGIC SOURCING	60%
CATEGORY MANAGEMENT	59%
SUPPLIER RELATIONSHIP MANAGEMENT	54%
RESPONSIBLE PROCUREMENT (ENVIRONMENTAL, SOCIAL, GOVERNANCE – EXCLUDING SUPPLIER DIVERSITY)	54%
LEARNING AND DEVELOPMENT	50%
THIRD-PARTY RISK MANAGEMENT	49%
CORE PROCUREMENT TECHNOLOGY	44%
SUPPLIER PERFORMANCE MANAGEMENT	41%

* By weighted average level of importance (i.e., low/moderate/high/critical) for the top 10 procurement priorities selected by respondents
** By percentage of companies with a planned initiative

Source: Key Issues Study, The Hackett Group, 2023

2023 procurement priorities (con’t)

Three of the key issues – supply continuity, spend cost and digital transformation – remain among the top five this year. Given the economic environment, it is not surprising that combating inflationary price increases soared to No. 2. Improving analytics and insights and capabilities also rose several spots as organizations realize the importance of being able to support more predictive, prescriptive, and intelligent decision-making to tackle challenges like inflation and supply continuity.

While many of the top 10 planned improvement initiatives mirror the priorities, some are not as well aligned. Interestingly, talent management does not feature in procurement’s top priorities for 2023, yet it is the function’s No. 1 improvement initiative planned for 2023. Executives view talent management as a relatively mature capability area, which most likely explains its absence from the top 10 priorities. On the other hand, leaders view the maturity to be lower for one-half of the priority improvement initiatives – including supplier relationship management, responsible procurement, third-party risk management, core procurement technology and supplier performance management – making these critical areas for development.

priority

1

Ensure supply continuity

Supply continuity has retained the top position for the second year in a row. Supply issues have remained top of mind for many teams due to the additional disruption caused by the Russia- Ukraine conflict in 2022. Reducing supply disruption is critical to protect revenue and profitability.

The mandate is clear that procurement must accelerate and enhance capabilities for ensuring supply continuity. This means engaging risk monitoring across a broader set of risk exposures at earlier stages of the supplier life cycle – during the beginning of the sourcing process – and continuing to monitor and mitigate risks using real-time data and insights through the full supplier life cycle. Visibility and timelines are key. Procurement must use the proper digital tools to maximize visibility through the supply chain, and leverage market intelligence data from multiple internal and external sources.

In the 2023 Key Issues Study, several capabilities necessary for ensuring supply continuity, including supplier relationship management and third-party risk management, were among the critical development areas – considered critically important but in which executives have lower confidence in the ability to deliver. Surprisingly, only about one-half of procurement organizations have 2023 initiatives planned to address these areas.

priority

2

Combat inflationary price increases

Against the current inflationary economic environment, it is not surprising to see combating inflationary price increases high on the priority list. While inflationary pressures have eased in some spend categories, they remain a concern in other areas. Teams need to manage this closely with suppliers and keep abreast of commodity price movements.

More than ever in an inflationary environment, procurement functions must ensure they have visibility of category-level price increases, with processes in place to manage pricing – especially with critical suppliers. Therefore, it must strengthen commercial acumen to minimize price inflation and mitigate contract exposure – while also managing key supplier partnerships proactively to find solutions for curtailing price surges and mitigating supply disruption risks.

priority

3

Reduce spend cost

The top-line indicator for most procurement organizations is the ability to drive cost reduction savings. Not surprisingly, spend cost reduction remains a core priority for procurement organizations in 2023. This will force them to balance between managing inflation and taking advantage of buyer-advantaged opportunities to reduce costs, leveraging more traditional sourcing techniques.

From benchmarking analysis, The Hackett Group has found that procurement organizations in the top quartile in both business value and operational excellence – what we call Digital World Class™ – enjoy a 90% advantage compared to peers on this key metric alone. Looking beyond this to procurement's return on investment (i.e., spend savings over the total cost of procurement), the performance gap widens, with Digital World Class procurement organizations achieving a 2.4 times advantage over peers. Based on these metrics, most procurement organizations have significant opportunity for improvement.

priority

4

Pursue procurement digital transformation and modernize landscape

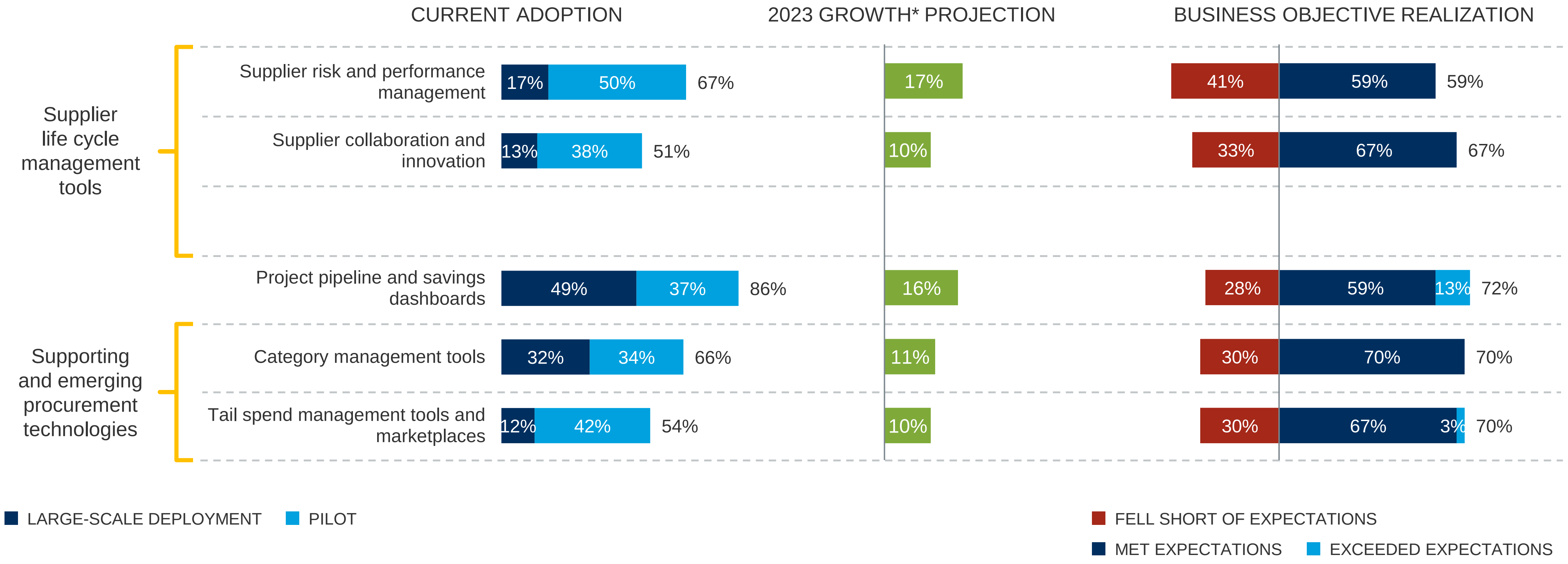
Digital transformation continues to be an essential enabler of procurement organizations' ability to do more with less through better intelligence and increased speed, customer-centricity, and competitive advantage.

Procurement organizations have a high level of adoption of end-to-end and core procurement technologies, and growth projections for 2023 demonstrate the perceived importance of technology enablement. Procurement teams are starting to move beyond the core to implement functionality to support supplier life cycle management, as well as other supporting and emerging technologies (**Fig. 2** on page 9).

While large-scale deployment of these technologies is still limited, with project pipelines and savings dashboards being highest at 49%, there is an exciting level of piloting for supplier risk and performance management tools, as well as tail spend management solutions. Most organizations are sourcing this functionality through point solutions, which is indicative of ongoing development in these solutions. As this functionality matures over time, we expect it to become incorporated into source-to-pay suites.

Procurement teams are starting to move beyond the core to implement functionality to support supplier life cycle management

FIG. 2 Current and projected technology adoption levels



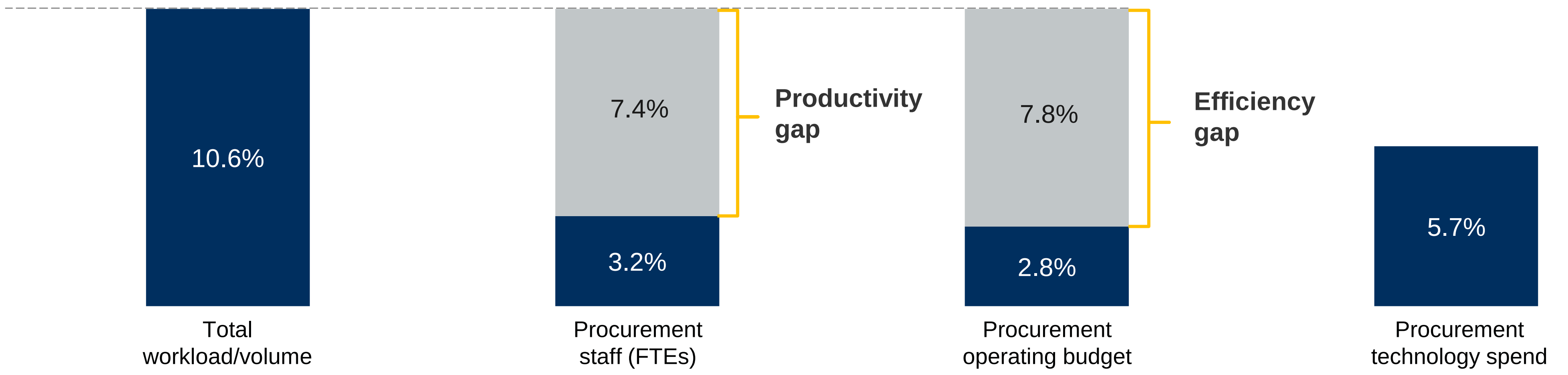
*Year-on-year percentage change in applicable adoption metric for each technology

Source: Key Issues Study, The Hackett Group, 2023

Procurement's increased workload will continue to create productivity and efficiency gaps

Addressing these varied priorities will require resources. The Key Issues Study confirms and quantifies what procurement executives already know: They must find a way to do more with less. In 2023, the procurement workload is predicted to increase by 10.6%, reflecting the broadening of priorities, but with little increase in head count and operating budget (**Fig. 5**). This creates a productivity gap of 7.4% and an efficiency gap of 7.8%. After several years of reduced or flat levels of staffing and operating budgets, the modest projected increases in staff and budget shrink the magnitude of these gaps somewhat relative to last year's study (11.4% and 12.4%, respectively) – however, procurement executives still have a significant challenge in front of them. Increased technology spending – 5.7% – indicates a growing reliance on technology to increase procurement productivity, efficiency and effectiveness.

FIG. 5 Change in projected procurement workload, staffing, budget and technology spend



Source: Key Issues Study, The Hackett Group, 2023

Internal challenges that hinder growth

Organizations encounter many internal challenges to transformation and growth. While these challenges vary across and within organizations, it is important for procurement leaders to understand enterprise concerns and align their own strategies for success. For the most part, procurement executives' perceptions of top enterprise challenges are fairly consistent with concerns of executives across all business functions.

The bad news is that these internal challenges are, in large measure, being addressed and managed either ad hoc or at the functional level. These approaches have significant limitations and do not effectively address larger enterprise goals that require extensive cross-functional coordination, ownership, and accountabilities for achieving business objectives.

Comparison of enterprise and procurement top challenges

Overall Rank	Metrics	Procurement
1	Insufficient budgets and/or unrealistic project time frames for transformation	3
2	Competing and/or conflicting functional priorities	1
3	Inconsistent data management across operational and financial reporting	2
4	Lack of time to partner with the business due to daily transactional work volumes and/or responsibilities	4
5	Lack of the right talent to leverage technology and solve business problems	5
6	Lack of interdepartmental process coordination	9
7	Status quo ways of working and/or internal resistance to change	6
8	No clear road map or plan	8
9	Lack of change management maturity	10
10	Lack of collaborative planning and performance management	7

Source: Key Issues Study, The Hackett Group, 2023

Areas of focus for 2023

Economic and geopolitical disruption, along with other factors such as an unprecedented talent shortage, remain prominent features in the outlook for 2023. The typical reaction to a recession is to cut staff and cancel investments. However, in an economy that already has more open jobs than people looking for work and a shrinking future workforce, procurement organizations that discard employees risk the possibility of never getting them back. And those that halt or cut funding for business process automation will only find themselves further behind digital leaders.

Given today's unprecedented combination of threats, we believe procurement executives will need to adjust their priorities to ensure they are able to support their business stakeholders to be successful in the upcoming year. Here are a few areas of focus that are relevant to most procurement organizations:

Enhance team capabilities. Make sure your team is equipped to effectively manage inflationary pressures across the supply base by elevating capabilities such as strategic sourcing, commodity market price intelligence, cost modeling, total cost of ownership and contractual price variance management.

Architect your technology landscape purposefully. It is critical to get the right balance of the integration provided by the enterprise resource planning and suite solutions versus the more specialized functionality available from point solutions. Explore opportunities to digitize procurement processes that drive additional value such as negotiations enabled by artificial intelligence, category management tools and supplier collaboration/innovation solutions.

Areas of focus for 2023 (con't)

Automate core transactional processes. Continuously pursue digitalization of these processes to improve efficiency and accuracy, as well as to enable use of advanced analytics to provide insights necessary for making good and timely business decisions.

Embed and expand responsible procurement programs. This will support your organization's sustainability and diversity objectives. Procurement teams need to establish a robust set of policies, processes, and governance to support corporate ESG objectives by sourcing and managing suppliers in a responsible manner.

Invest in business partnering capabilities to elevate your function's stature as a strategic business advisor. Procurement teams need to strive to raise their performance levels to drive a competitive differentiation. Unlocking the full potential of procurement is only possible in lockstep with business stakeholders.

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- Talent management, skills and competencies, role definition, and career pathing
- E-procurement solutions strategy, blueprint, tool selection and road map
- Implementation and ongoing hypercare support
- Digital transformation strategy, tool selection and support
- Technology road map, cloud migration and modern architecture
- Master data management and architecture
- Spend management analytics
- Working capital and cash acceleration
- Sales, general and administrative cost optimization
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