

ZYCUSTM

GLOBAL SOURCE-TO-PAY SOFTWARE SOLUTIONS

Part 2

PULSE

of Procurement 2018

INTRODUCTION

Dear Colleague,

Here we present Part 2 of our **Pulse of Procurement 2018** study report. For the first time in some 20 years, the procurement function is facing a sea change powered by rapid advancement and convergence among a number of disruptive technologies – Artificial Intelligence, Internet of Things, Blockchain, 3D printing, and more. With this year's study, we take an initial look at how procurement professionals around the globe see these technologies reshaping their function in the years immediately ahead.

On the more familiar subject of procurement-led business performance improvement, we find headwinds continuing to develop for procurement leaders and their teams. Market leverage appears to be shifting toward suppliers in general, making cost savings more difficult to achieve. With corporate revenues and profitability also on the rise, it becomes increasingly difficult for procurement leaders to win cooperation with their endeavors from top executives and SBU/functional leaders whose primary interests lie with generating business growth, innovation, and expanding market share. As such, this year's study finds a general lack of movement in the procurement performance and technology enablement benchmarks documented annually. For the near-term future at least, procurement leaders will need to be exceptionally creative in finding innovative ways to deliver additional value to their corporate enterprises. Perhaps the Big Technology trends discussed on pages 6-10 of our Part 1 report will provide inspiration.

We sincerely thank each of the 400-plus procurement professionals who took time to complete our in-depth annual **Pulse of Procurement** questionnaire. We hope you find the report useful and instructive as you assess your organization's progress and map your ongoing journey toward procurement-powered business performance improvement.

Aatish Dedhia
CEO, Zycus Inc.

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- EXPECTED IMPACT OF BIG TECHNOLOGY TRENDS**
 Artificial Intelligence (AI), Internet of Things (IoT), Blockchain,
 manufacturing robotics, automation, 3D printing, renewable energy,
 and advanced materials
- PROCUREMENT PRESENT**
 Pain points, 2018 budget trends, top priorities, cost-savings objectives
 for 2018, key current focus areas & objectives, strategic mandate, and
 strategic maturity assessments



400+ procurement professionals participated in this year's study:

REVENUE

>5 billion	24%
2 bil - 5 bil	14%
500 mil to 2 bil	25%
<500 million.....	20%
Don't know/privately held	17%

GEOGRAPHY

North America	36%
Europe	29%
Asia/Pacific	35%

JOB TITLE

CPO	6%
VP/Director.....	22%
Manager/Category Mgr	38%
Analyst/Specialist	27%
Agent/Buyer.....	3%
Other Staff.....	4%

EXECUTIVE SUMMARY

- **Lackluster showings on key procurement benchmarks** in this year's study reflect a global business climate in which corporate revenues and profitability are generally rising and market conditions are becoming less favorable for achieving big cost savings and other concessions from suppliers either through competitive bidding or negotiation.
- **Cost savings.** Headwinds for procurement-led cost savings have been strong over the past two years; this is reflected in the global benchmark for cumulative cost savings achieved through strategic spend management, which was unchanged at a weighted average of 12% this year (p6).
- **Spend under management (SUM).** At a weighted average of 54%, the global benchmark for spend under management (SUM) by corporate procurement has regained the single point it lost last year, but the indicator remains three points lower than its 57% high point recorded in 2014 (p7).
- **Contract compliance.** This year, the weighted average global benchmark for compliance to procurement strategic supply contracts regains two of the six points it lost between 2014–2017 with large companies leading the increase and mid-sized firms adding a slight drag (p8).
- **A first glance, procurement groups appear to be well enabled from a technology standpoint.** More than 70%, for example, claim to have spend analysis solutions in place. Scraping away the veneer, however, reveals a somewhat less favorable picture. For example:
 - Only 16% of procurement professionals, on average, rate their current technology stack as state of the art (SOA) and fully one-third believe they are behind the curve on technology.
 - Nearly 40% are still using homegrown solutions (mainly digital spreadsheets) compared to 14% investing in comprehensive, fully integrated procurement application suites (complete details on pages 11–19).
- **Procurement groups show little progress this year in terms of the technology adoption and utilization benchmark,** underscoring the importance of ease of use as a criteria for technology selection (p21).
- **Asked to cite the most profound change expected for procurement in the coming five years,** roughly half (53%) of procurement professionals believe it will be somehow related to technology – for example, faster, smarter, more automated, more integrated, more mobile. Some 22% of procurement professionals believe the greatest shift will come in the role procurement plays within the corporate enterprise (pages 23–24).

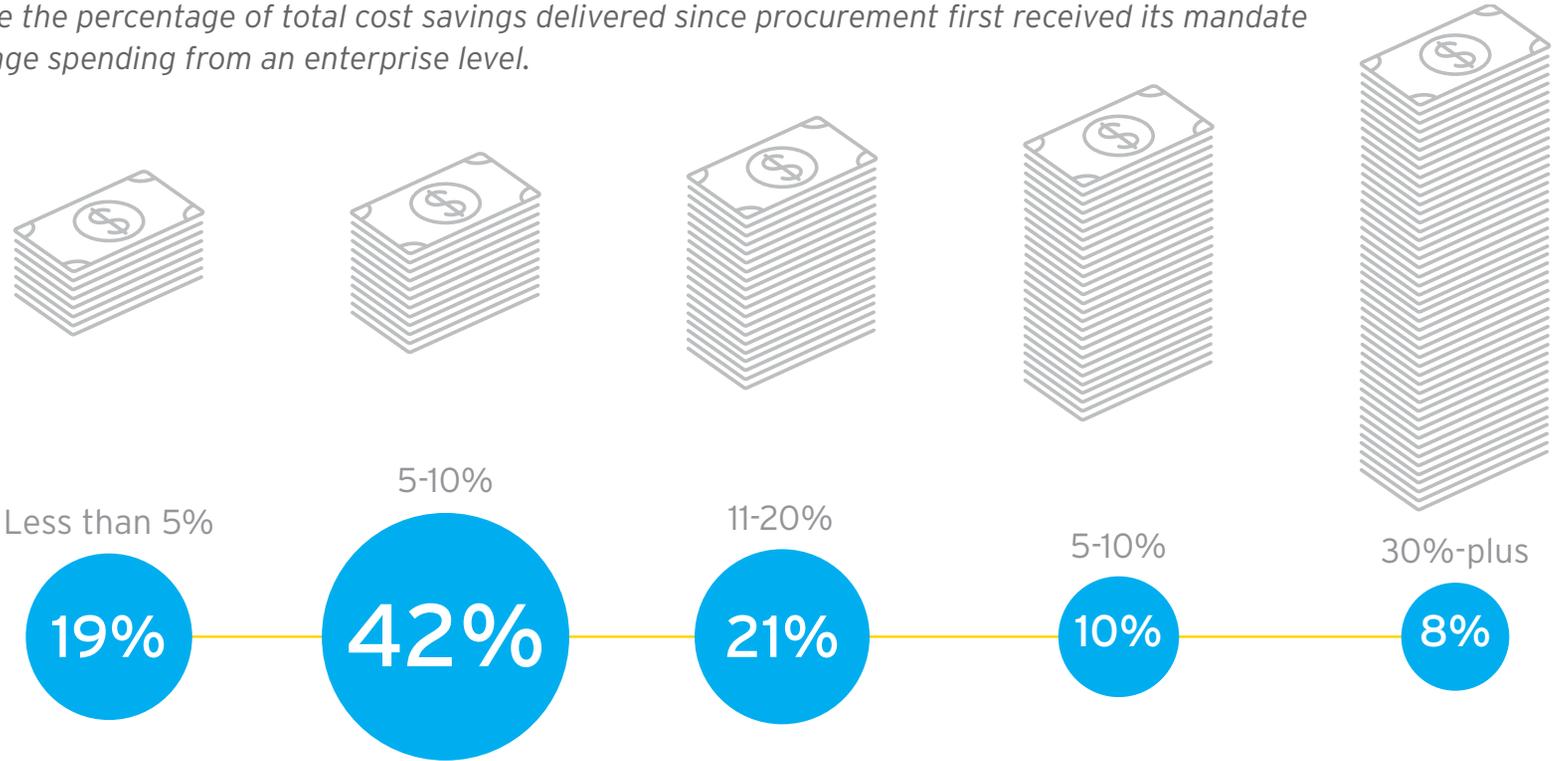
PERFORMANCE BENCHMARKS

COST savings

Headwinds for procurement-led cost savings have been strong over the past two years. This is reflected in the global benchmark for cumulative cost savings achieved through strategic spend management, which was unchanged at a weighted average of 12% this year. World Bank data show energy commodity prices rising 24% in 2017 while non-energy commodities rose 5%. Latest forecast calls for continued, albeit slower, commodity price inflation in 2018 (however, that was before the latest surge in oil prices and round of trade-related threats). Though wages have, so far, been impervious to tightening labor markets, that will also change eventually, meaning the emphasis for achieving procurement-led cost savings may need to shift from volume and leverage to more process-focused collaboration with suppliers.

	Weighted Avg	vs. 2017
All Global	12%	-
Large – \$2 billion+	13%	-1
Mid-size – \$500M - \$2B	11%	-
Small – <\$500M	11%	-

Estimate the percentage of total cost savings delivered since procurement first received its mandate to manage spending from an enterprise level.

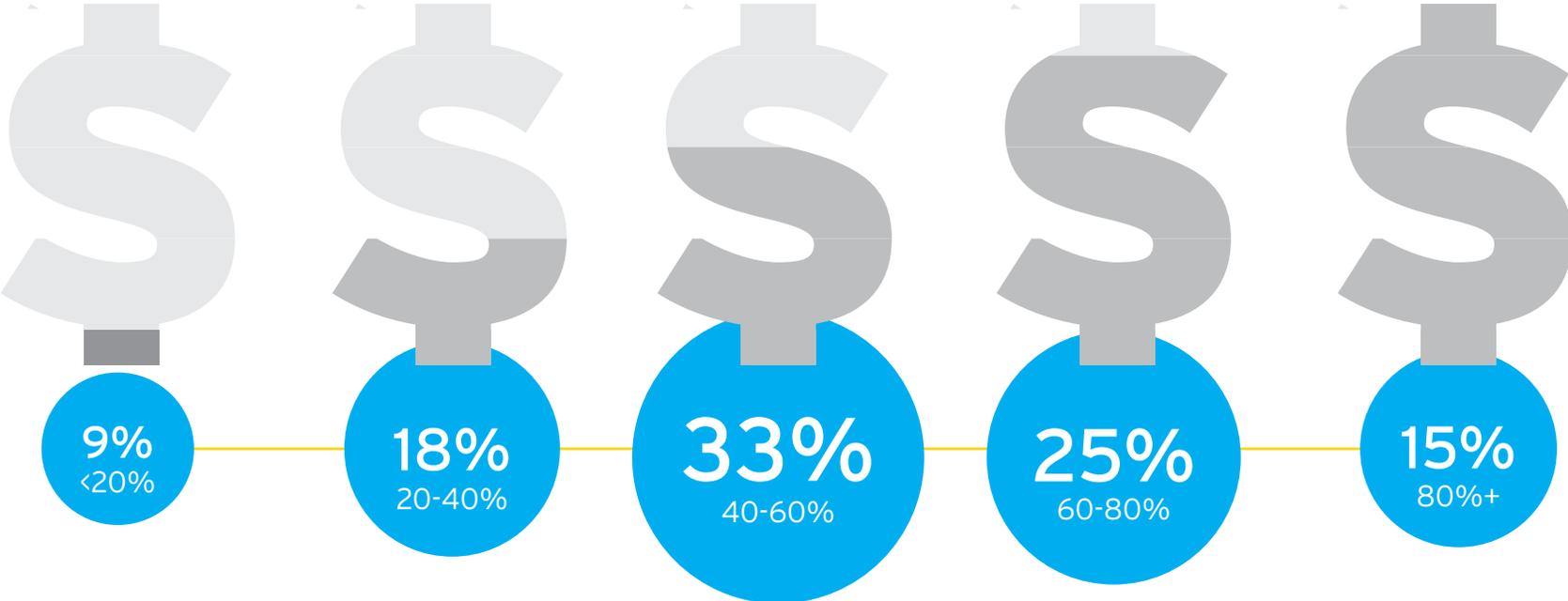


SPEND UNDER management (SUM)

At a weighted average of 54%, the global benchmark for spend under management (SUM) by corporate procurement has regained the single point it lost last year, but the indicator remains three points lower than its 57% high recorded in 2014. Both mid- and small-sized companies continued to show SUM increases this year, while larger firms were responsible for the slippage. **Three strategies for increasing SUM:** ensure spend analysis covers all direct, indirect, and even low-value categories; revisit so-called nonaddressable spend categories; consider utilizing AI-powered solutions to automatically mine spend data for less obvious types of sourcing opportunities.

	Weighted Avg	vs. 2017
All Global	54%	+1
Large – \$2 billion+	56%	-2
Mid-size – \$500M - \$2B	52%	+2
Small – <\$500M	51%	+4

Estimate the percentage of total corporate spending currently under management by procurement:

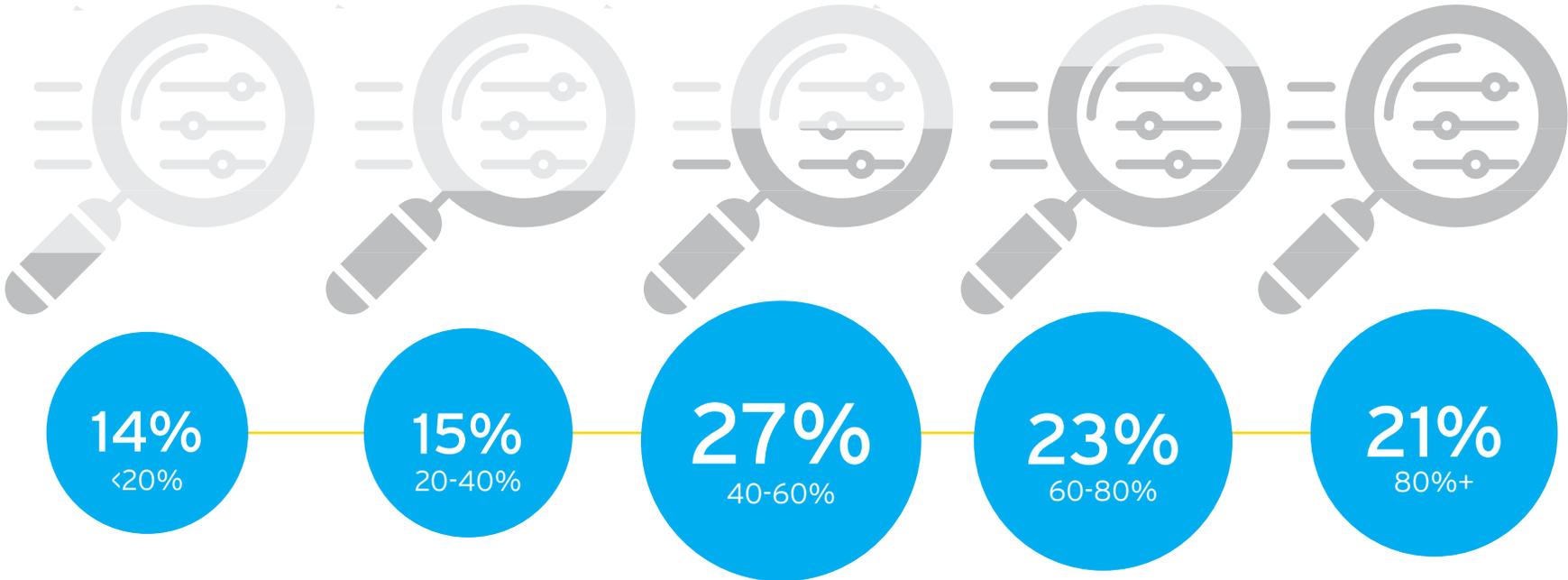


CONTRACT compliance

This year, the weighted average global benchmark for compliance to procurement strategic supply contracts regains two of the six points it lost between 2014 –2017 with large companies leading the increase and mid-sized firms adding a slight drag. With economic growth on the rise around the globe, the impetus for supporting procurement-led spend management can wane. **Strategies for promoting contract compliance include:** involving key stakeholders in sourcing and selection processes; measuring and communicating benefits consistently throughout a contract's lifecycle, and tracking, validating, and reporting out (and up) on compliance statistics.

	Weighted Avg	vs. 2017
All Global	55%	+2
Large – \$2 billion+	59%	+4
Mid-size – \$500M - \$2B	50%	-2
Small – <\$500M	50%	+1

Estimate the overall rate of compliance to enterprise strategic supply contracts in your enterprise:



TECHNOLOGY ENABLEMENT

OVERVIEW

The annual **Pulse of Procurement** study from Zycus finds few notable shifts in the procurement technology landscape over the past several years with half to 70% of procurement teams reporting at least some degree of technology enablement across nine common procurement solutions tested (full details on pages 26-34 and breakouts for company size appear on page 35). A few summary stats:

16%

Rate their current technology stacks as state of the art (SOA).

Fifty-two percent (51%) rate current technology capabilities as middle of the curve, and 33% believe they are behind the curve across nine common procurement solutions tested in the study.

37%

Use custom solutions developed in house.

Typically such solutions utilize common desktop spreadsheet or database applications or may have been built in-house using IT development resources.

31%

Rely on procurement-specific modules related to installed ERP systems for spend analysis, contract management, procure-to-pay, eSourcing, and other functions.

18%

Have invested in dedicated procurement solutions, which are not integrated across the source-to-pay continuum.

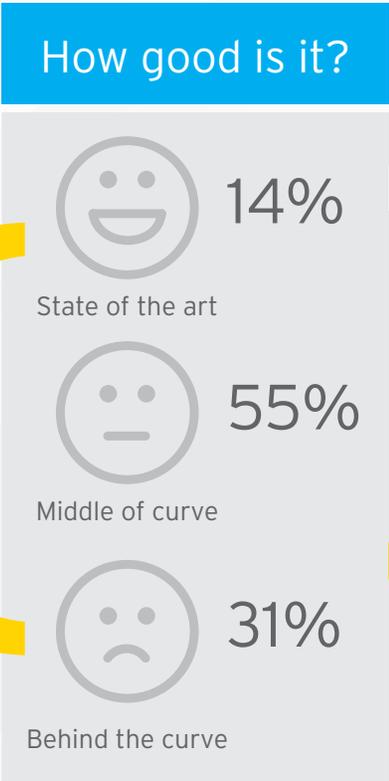
While such solutions may comprise best of breed functionality, moving information from one process step to the next is still often manual, and operational visibility for procurement leadership is limited.

14%

Have invested in integrated procurement suites. Key benefits associated with suites include: fast, automated flow of information from one procurement process step to the next; reduced risks of data error due to manual re-entry; advanced capabilities for generating a wide variety of performance metrics, compliance-tracking, and 360-degree operational and performance-related visibility for procurement leaders.

SPEND analysis

71%
Have it



What it means to be SOA:

- Artificial Intelligence (AI) powered data classification
- Captures 100% of spend
- Real-time data/frequent refresh
- Easy, intuitive report creation
- Automated identification of savings opportunities

21%
Planning to upgrade

17%
Planning initial investment



Homegrown
44%



ERP-Based
27%



Standalone
16%



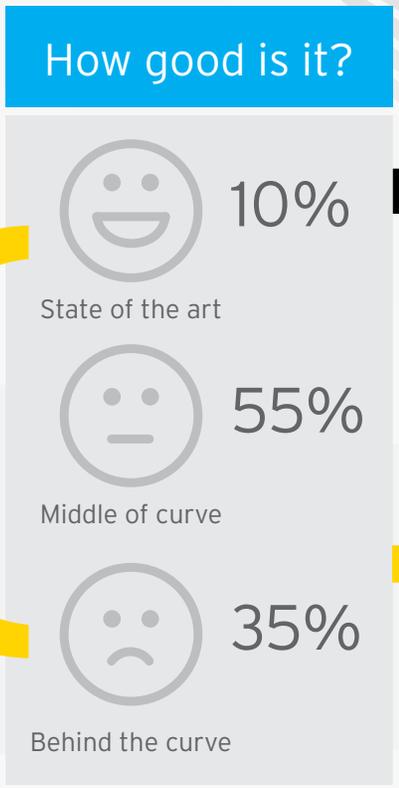
Integrated Suite
13%

Key benefits/value

- Empowers procurement organizations with information to:
- **Identify and prioritize** savings opportunities
 - **Strategize** and negotiate with suppliers based on market-driven insights to increase cost efficiency.
 - **Track and promote compliance** to approved spend methods, contracts, approval workstreams, and so forth.
 - **Create** understanding around how market trends influence movements in major corporate financial metrics.

CONTRACT management

70%
Have it



What it means to be SOA:

- Multidirectional workflow
- Collaborative authoring
- Negotiation/revision of terms
- Customizable access control
- Automated expiry alerts
- Performance tracking
- Integration with spend analysis, procure-to-pay (P2P), etc.

25%
Planning to upgrade

17%
Planning initial investment



Homegrown
34%



ERP-Based
26%



Standalone
27%



Integrated Suite
13%

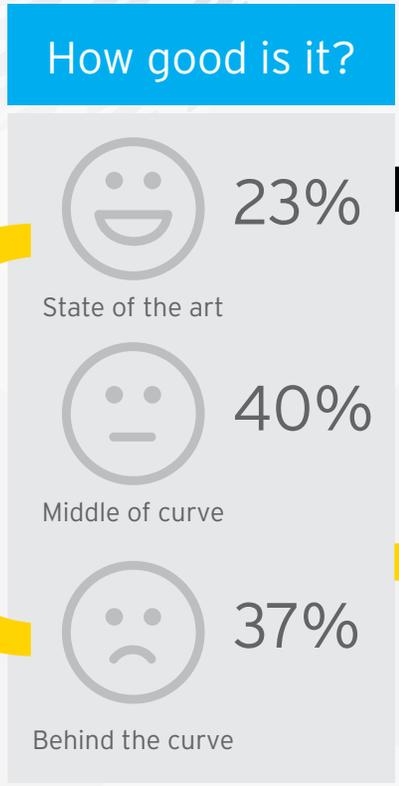
Key benefits/value

Enables procurement organizations to:

- **Centralize and control** contract/document record keeping.
- **Collaborate** with legal teams in minimizing contract risk.
- **Extract and structure** contract data for analysis and reporting.
- **Track and promote compliance** to negotiated contract terms – both commercial and performance related.
- **Reduce contracting cycle times**, ensuring capture of benefits negotiated in dynamic markets and enabling more spend to be linked to the contracts

ELECTRONIC (e)Sourcing

55%
Have it



What it means to be SOA:

- Handles simple to highly complex bidding events
- Covers all forms of eRFx and multiple bid formats
- 24/7 Web access with easy flow of information from on- to offline apps
- Rigorous workflow and communications capabilities
- Sophisticated, yet easy-to-use bid/award analysis tools

16%
Planning to upgrade

22%
Planning initial investment



Homegrown
21%



ERP-Based
27%



Standalone
29%



Integrated Suite
23%

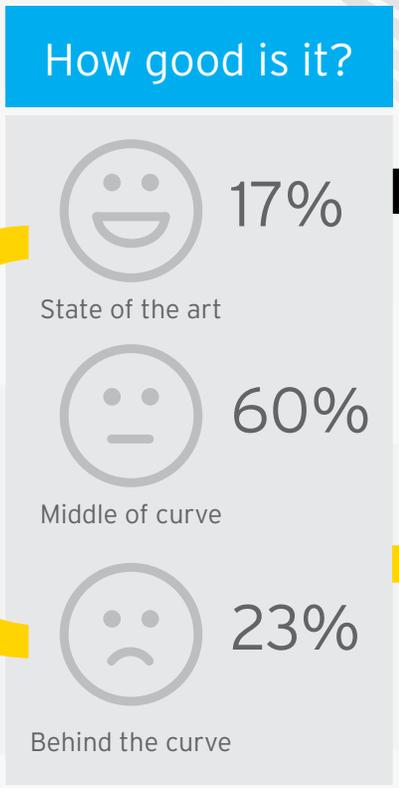
Key benefits/value

Digitalizes and accelerates standard strategic sourcing process, enabling procurement organizations to:

- **Involve stakeholders** in writing requirements and analyzing RFx.
- **Bid more categories across** more suppliers, covering larger geographies.
- **Expand analysis** to include non-price related and subjective factors.
- **Capture knowledge/business intelligence** over time.
- **Test and understand** commercial impacts of requirements.
- **Create transparency** and fairness through bid, analysis, and award processes.

PROCURE- to-pay

65%
Have it



What it means to be SOA:

- Consumer-like user experience
- Guides users to best-cost/preferred choices
- Minimal reliance on costly eCatalog technology
- AI-powered classification of spend transactions in real-time
- Easily customized for varied req, PO, and invoice workflows

22%
Planning to upgrade

14%
Planning initial investment



Homegrown
16%



ERP-Based
53%



Standalone
15%



Integrated Suite
16%

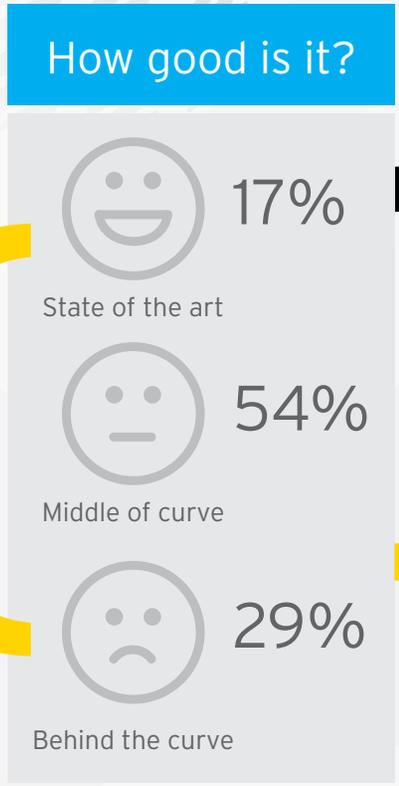
Key benefits/value

Enables procurement organizations to:

- Improve visibility and transparency with real-time, accurate data across every transaction
- Obtain user adoption with Amazon-like user interface
- Promote supplier-side automation using comprehensive and complimentary supplier portal
- Achieve robust compliance by linking contracts to transactions
- Improve approval management and efficiency with multi-conditional, dynamic workflows
- Increase portal-based invoice generation and capture

PROJECT management

58%
Have it



What it means to be SOA:

- Seamless info flow from spend analysis and opportunity ID to evaluation and prioritization, sourcing, contracting, supplier onboarding, and performance management apps.
- Milestone tracking/alerts
- Real-time, 360-degree visibility for procurement leadership

19%
Planning to upgrade

12%
Planning initial investment



Homegrown
42%



ERP-Based
25%



Standalone
20%



Integrated Suite
13%

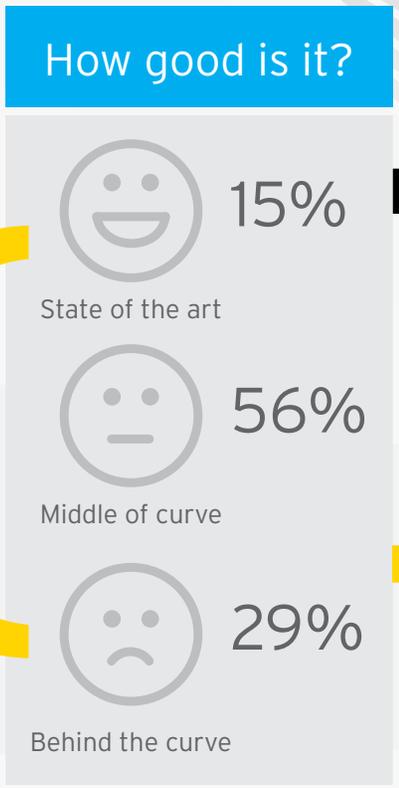
Key benefits/value

Enables procurement leaders to:

- **Evaluate, prioritize, and assign** strategic sourcing opportunities.
- **Manage actively** to specific organizational objectives for cost savings and other value delivery.
- **Ensure compliance** of category managers to standard strategic sourcing process steps and organizational requirements for information and analytical rigor.
- **Identify and address** process bottlenecks if and when they occur.

REQUEST management

62%
Have it



What it means to be SOA:

- Accommodates virtually any desired approval process, financial governance, or compliance workflow
- Multidirectional workflow (requests can move forward, backward or sideways)
- Easy to use
- Generates detailed audit trails

20%
Planning to upgrade

15%
Planning initial investment



Homegrown
36%



ERP-Based
36%



Standalone
17%



Integrated Suite
11%

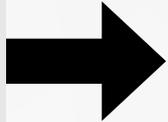
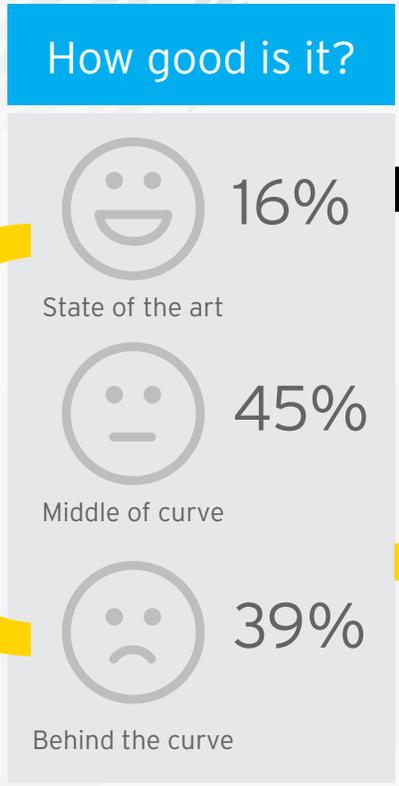
Key benefits/value

Enables procurement organizations to:

- **Extend procurement influence and control** over one-time, off-contract, and other spending requirements that do not otherwise fit into standard eProcurement, p-card, or direct-sourcing workflows.
- **Improve service and satisfaction levels** among internal stakeholders by minimizing errors, making it fast and easy to engage procurement and to track request progress (ultimately increasing total spend under management by procurement).
- **Track and understand** request volumes and types; allocate procurement resources accordingly.

SAVINGS tracking

65%
Have it



What it means to be SOA:

- Allows for high complexity and nuance in savings definition
- Enables tracking by projected, realized, actual and classification of savings types (negotiated, market-based, hard/soft/avoidance, etc)
- Workflow for savings validation, disposition (budget down, reinvest, etc), and allocation

19%
Planning to upgrade

16%
Planning initial investment



Homegrown
64%



ERP-Based
18%



Standalone
10%



Integrated Suite
8%

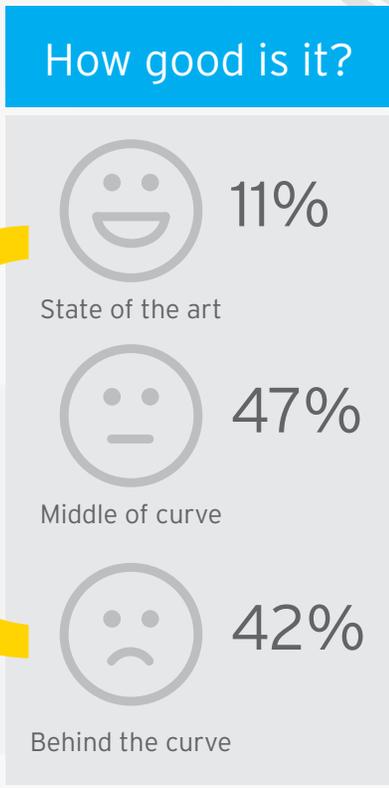
Key benefits/value

With cost control being a lead objective for more than half of procurement organizations worldwide, savings tracking solutions:

- **Consistently define and control** measurement and validation of procurement cost savings.
- **Enable valid linking of procurement cost savings** to corporate financial metrics and balance sheets.
- **Measure and report on procurement performance** in ways that are accepted and respected by enterprise leadership.
- **Extend** procurement influence by documenting value delivery.

SUPPLIER management

61%
Have it



What it means to be SOA:

- Supports all categories and both direct/indirect spend
- Flexible metrics design
- Consistent weighting, KPI rollup for comparability
- Workflow for stakeholder input
- Empowers suppliers to enter and maintain basic info and have voice in SPM process

28%
Planning to upgrade

21%
Planning initial investment



Homegrown
46%



ERP-Based
29%



Standalone
12%



Integrated Suite
13%

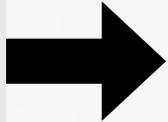
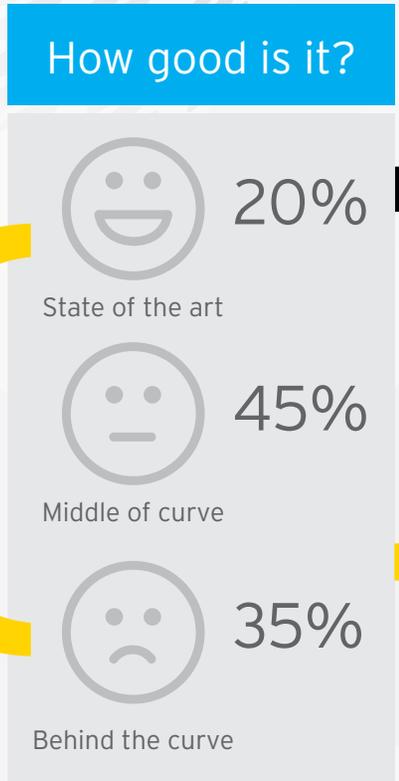
Key benefits/value

Empowers strategic procurement organizations to:

- **Ensure consistently clean, up-to-date information** around supplier capabilities, certifications, regulatory compliance, etc.
- **Identify top-performing suppliers** for long-term contracts, process/technology integration, and collaborative relationships.
- **Identify and address supply risk** before it manifests in crisis.
- **Enhance supplier relationships** by collaborating on problems, driving continuous improvement and ensuring that commercial transactions are executed accurately and on time.
- **Award business** on total cost of ownership versus price only.

SUPPLIER network

55%
Have it



What it means to be SOA:

- Seamless extension of eSourcing, P2P, and SIM/SPM solutions for supplier discovery
- Enables suppliers worldwide to document capabilities and demonstrate eligibility and interest in participating in sourcing/bidding events
- Rapid supplier onboarding

23%
Planning to upgrade

14%
Planning initial investment



Homegrown
34%



ERP-Based
36%



Standalone
16%



Integrated Suite
14%

Key benefits/value

Enables procurement organizations to:

- **Rapidly discover suppliers** for new product competitive bids.
- **Build** local supplier networks in expansion regions or markets.
- **Improve service levels** on one-time or unique requests.
- **Rapidly onboard new suppliers** by automatically pulling supplier maintained and/or third-party data (such as DUNS numbers) into eSourcing, SIM/SPM, and financial transaction systems.
- **Keep a pulse on innovation** taking place in global marketplace.
- **Offer affordable means of interacting digitally** for receiving POs, submitting invoices, etc.

TECH ENABLEMENT by company size

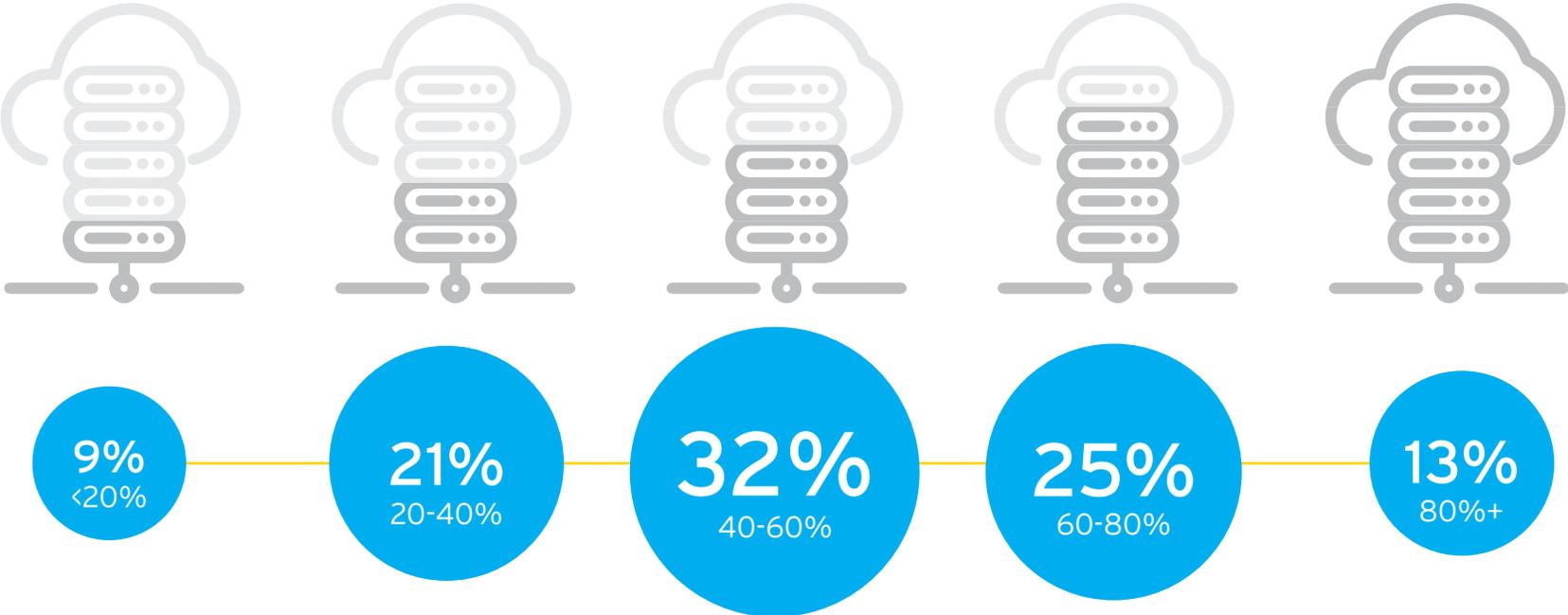
	Large			Mid-size			Small		
	Have it	Will invest	No plans	Have it	Will invest	No plans	Have it	Will invest	No plans
Spend Analysis	78%	13%	9%	67%	18%	15%	64%	23%	13%
Contract Management	77%	12%	11%	70%	16%	14%	61%	25%	14%
eSourcing	65%	16%	19%	43%	26%	31%	49%	27%	24%
Procure to pay	70%	12%	18%	64%	13%	23%	57%	19%	24%
Project Management	57%	11%	32%	59%	8%	33%	57%	16%	27%
Request Management	62%	16%	22%	56%	15%	29%	67%	16%	17%
Savings Tracking	72%	14%	14%	59%	16%	25%	57%	21%	22%
Supplier Management	68%	18%	14%	50%	24%	26%	61%	22%	17%
Supplier Network	55%	13%	32%	54%	18%	28%	56%	13%	31%

TECHNOLOGY adoption/utilization

The weighted average benchmark for procurement technology adoption and utilization, which measures the average percentage of total available functionality being used routinely, regains two of the four points it lost in 2017. Where utilization remains low, difficulty driving change management around technology rollout remains, by far, the number-one culprit. **Winning strategies for overcoming this obstacle include:** fixing process flaws before adding process-automation technology; identifying likely power users and making them mentors, and making training and success-share sessions an integral part of team work and social culture.

	Weighted Avg	vs. 2017
All Global	53%	+2
Large – \$2 billion+	53%	-2
Mid-size – \$500M - \$2B	53%	+4
Small – <\$500M	52%	+4

When considering your company’s total available procurement technology portfolio (standard and advanced functions), estimate the percentage of total available capabilities being actively utilized at this time.



PROCUREMENT FUTURE

PROCUREMENT next 5 years

Asked to offer predictions for where the procurement function is headed over the next five years, three quarters of verbatim comments sort into one of two categories. Fifty-three percent predict more and/or different uses for technology in procurement, while 22% foresee major shifts coming in the procurement function's essential corporate role. Within the 'more technology' segment, there are several threads running through the various predictions:

Disruption

As discussed on pages 5-10 of this report, many believe disruptive technologies such as AI, Blockchain, and IoT are poised to explode on the procurement scene in the coming five years.

Automation

Continued automation of manual procurement tasks is a foregone conclusion for a large percentage of the procurement professionals making predictions. And they have eyes wide open about what that will mean for many currently working in the procurement field. Fortunately, as noted on page 38, many also see new, more sophisticated roles emerging for those procurement professionals who make the effort to evolve their skills and capabilities.

Analytics

Procurement professionals participating in this year's study see an immense leap forward coming soon in both sophistication and ubiquity of advanced (Big Data) analytics capabilities in procurement.

Excelling in this area, some suggest, will be one way to remain employed in procurement for the foreseeable future.

Connectivity

A close reading of pages 25-35 of this report shows that many procurement functions remain far from fully connected or integrated technologically with other corporate functions such as manufacturing, warehouse, and Accounts Payable. What is more, many lack even basic integration among the various procurement technology solutions on which they rely for daily work. The belief is strong, however, that this state of disconnectedness will soon change for the better.

Cloud

While receiving far fewer mentions than other areas, at least a few study participants foresee continued migration in technology enablement from enterprise (behind-the-firewall) solutions to those hosted and accessible 24/7 from anywhere in the world via Cloud technology.

PROCUREMENT next 5 years

With the elevation of procurement from a tactical to strategic function remaining the number-one priority for procurement leaders this year, it is interesting to see how different procurement professionals see their roles changing over the coming five years. Here is just a small sample of what they foresee:



Procurement will shift from savings/cost cutting to business collaboration and [obtaining] solutions from suppliers..."



New supplier eco-systems and eco-system managers. Procurement of more advanced and bundled services and solutions. Shift toward performance- and value-based contracting."



I see more horizontally structured organizations where procurement is the main component of many businesses..."



A more balanced approach and view of the value procurement brings to the business; becoming end-to-end supply chain management (not just procurement), addressing sourcing and supply risks, contract risks, commercial and cost risks, internal customer service as a full business partner from the earliest stages of business strategy and planning through to considerations for utilization, performance, safety, environment, disposal and clean-up."



I believe procurement will be trimmed down to only supplier relationship management role. All the other processes within procurement will be automated and will need no human intervention."

Zycus is a leading global provider of complete Source-to-Pay suite of procurement performance solutions. Our comprehensive product portfolio includes applications for both the operational and the strategic aspects of procurement – eProcurement, eInvoicing, Spend Analysis, eSourcing, Contract Management, Supplier Management, Financial Savings Management, Request Management and Project Management. Our spirit of innovation and our passion to help procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotive, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.

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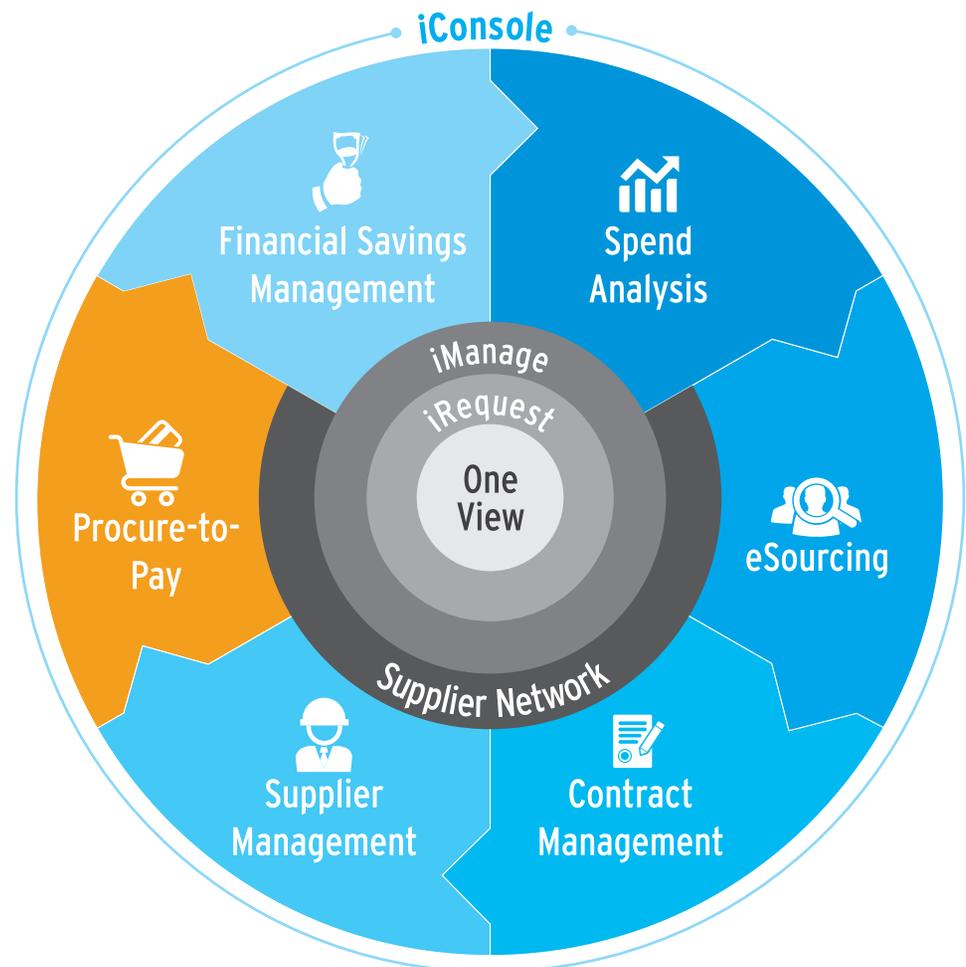
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