



KPMG 2023 Global Procurement Survey

Facing a critical year

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Executive summary

Many procurement executives see 2023 as a critical year for their function. On one hand, they see a growing set of risks and challenges, many of which are unfamiliar. On the other hand, changes in the market and advances in technology promise a wide range of unprecedented opportunities.

On the risk side, concerns continue to grow and pain points intensify. Many executives complain that they must still cope with limited data and insights, outdated systems, weak stakeholder collaboration, and lack of integration with the wider supply chain. Externally, they worry about inflation, rising commodity prices, disruption, and uncertain demand. Taxes are a major concern, as well, though executives are divided about which ones: 29 percent focus on import duties and customs, 23 percent on value-added taxes, and 19 percent on sales and use taxes.

Not surprisingly, perhaps, given their view of the state of their supply chain, only 25 percent of respondents believe that stakeholders would rate their performance as exceptional. Most are also convinced that the C-suite still does not fully understand procurement's range of responsibilities or its potential. For most procurement teams, the struggle to establish an efficient and effective operating model continues, and their aspiration to earn a seat at the table as strategic decision makers remains a distant dream.

Although many procurement leaders have seen environmental, social, and governance (ESG) goals added

to their brief in the past few years, ESG did not make their list of top priorities. For 64 percent, cost savings and cost avoidance topped the list, followed by process efficiencies and enhancing return on technology (32 percent). Concerns about supply disruption remain but seem to have eased as memories of the pandemic fade. This year, only 28 percent of survey respondents called out risk management and supply assurance as their top objective.

Fortunately, not every aspect of procurement is a work in progress. Survey respondents generally agree that their teams have a good handle on regulatory compliance, operations, strategic sourcing, and value generation. Executives rated regulatory capabilities as their most mature capability (95 percent), followed by procurement operations (93 percent), which reflects the years of work that most procurement teams have put in to improve their performance.

However, more work remains. Procurement executives say their least-mature capabilities include outsourcing of other corporate functions, sustainability in the supply chain, and management of third-party risks.



Survey respondents



Global study informed by 400 C-suite and SVP/VP executives within procurement and outsourcing surveyed in July 2023

Exhibit 1. Reporting relationship

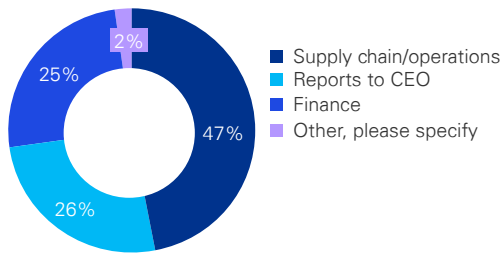


Exhibit 2. Organizational revenue

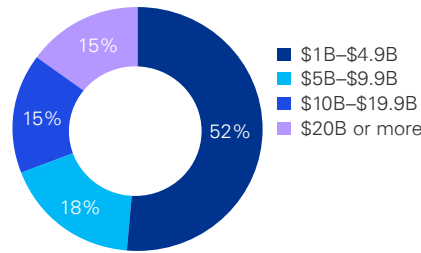


Exhibit 3. Organization type

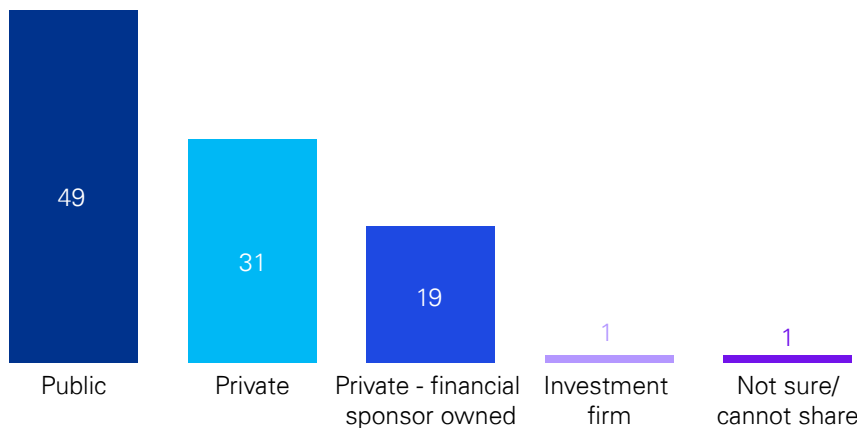
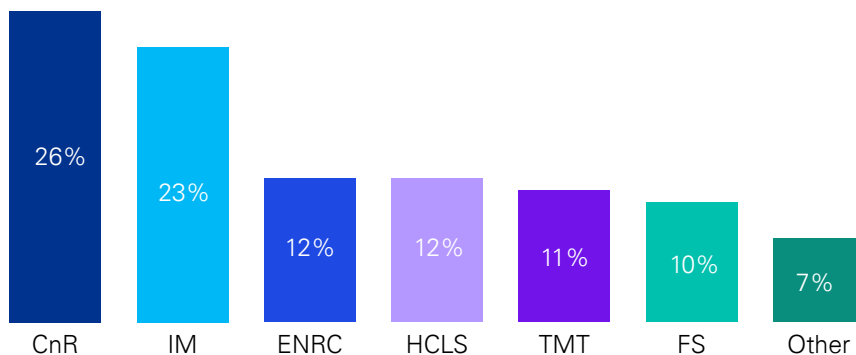


Exhibit 4. Organization sector



N=400

Respondent level in organization

22%

C-suite executives (procurement only)

79%

SVP and VP levels (procurement only)

The road ahead

To meet their primary goals, most companies have developed a roadmap for development of their procurement function. Eighty-four percent have a plan for the next 1–3 years, and 51 percent have thought through their procurement development strategy for the next 3–5 years.

In the short run (1–3 years), 70 percent report that their roadmap emphasizes supplier relationship management capabilities, followed by 66 percent who emphasize strategic sourcing and value generation, and 62 percent who would like to improve their procurement analytics.

Thinking longer term (3–5 years), executives tend to focus on other concerns: sustainability worries (56 percent), followed by strategic sourcing and value generation (54

percent), and supplier relationship management (50 percent). This indicates that although they expect the major concerns won't go away—sourcing and relationships can always be improved—procurement leaders expect ESG-related demands on their teams to grow.

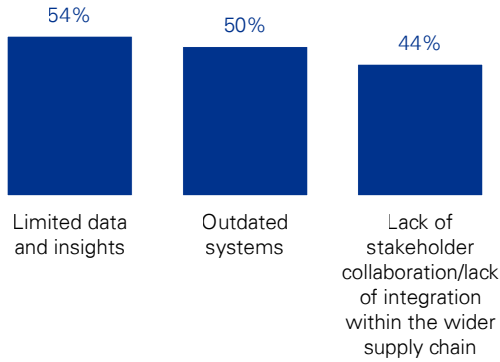
To achieve their objectives, a majority intend to implement more data and analytics solutions (60 percent). In the immediate future (12–18 months), they also plan to rationalize the supply base and spend influence and improve partnership capacities.

In the longer run (3–5 years), while 43 percent still consider improving their data, analytics, and other technological capabilities as a top priority, ESG will make a sudden jump to highest priority for 48 percent.



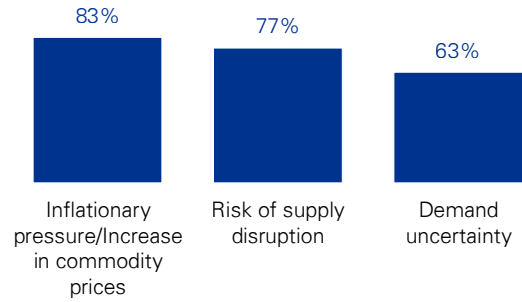
Exhibit 5. Top internal and external challenges to the procurement function

Internal challenges



Question: Rank the top internal challenges faced by your procurement function (top three out of 10 challenges displayed).

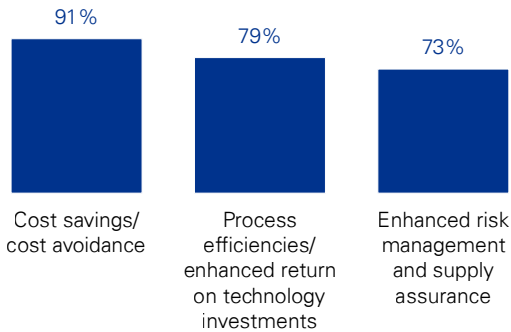
External challenges



Question: Rank the top external challenges faced by your procurement function (top three out of six challenges displayed).

Exhibit 6. How stakeholders perceive procurement’s service

Procurement optimization initiatives



Question: Please rank in order of importance the goals of your current procurement optimization initiatives (top three out of nine displayed).

Exhibit 7. How procurement believes stakeholders would rate procurement’s service

Procurement optimization initiatives

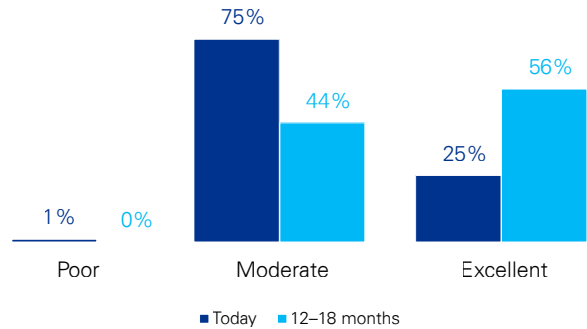
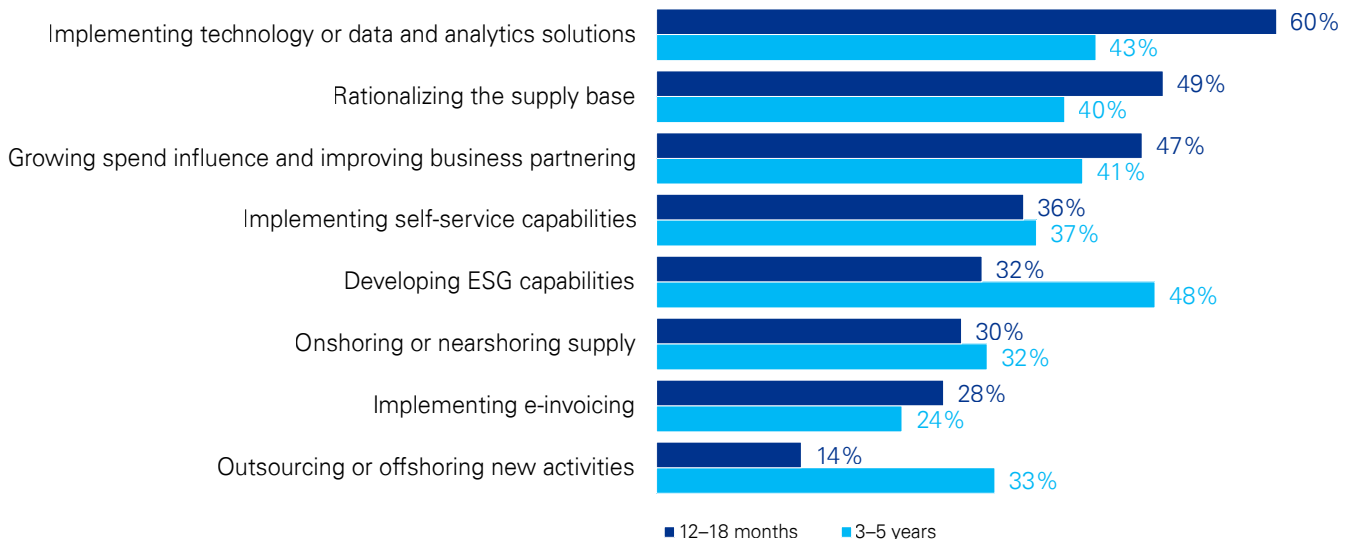


Exhibit 8. Activities that procurement is planning or likely to initiate





The road ahead

Exhibit 9. Organizations that rate themselves as “high” maturity in these focus areas

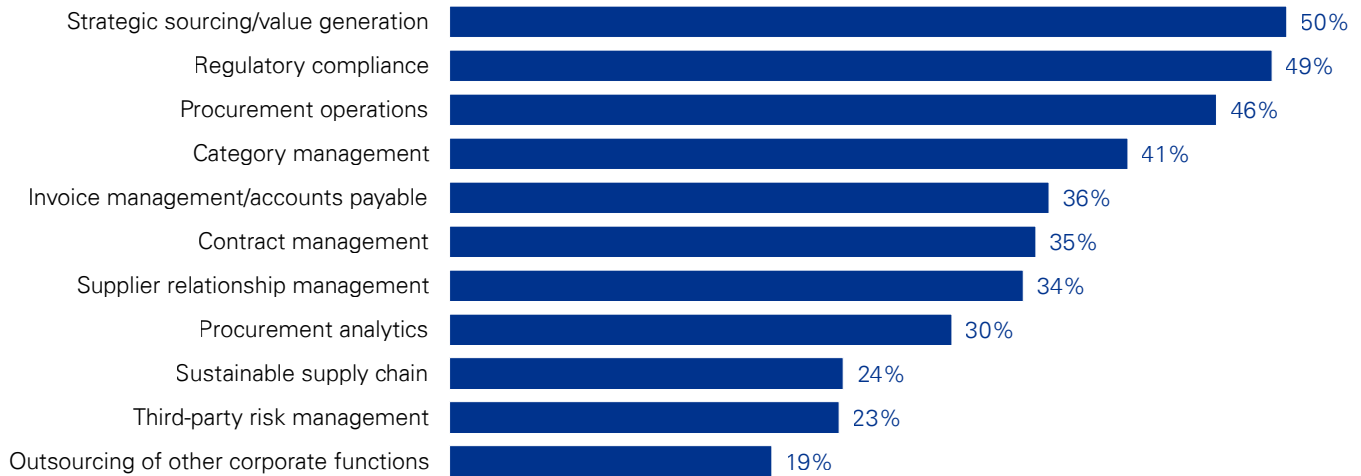
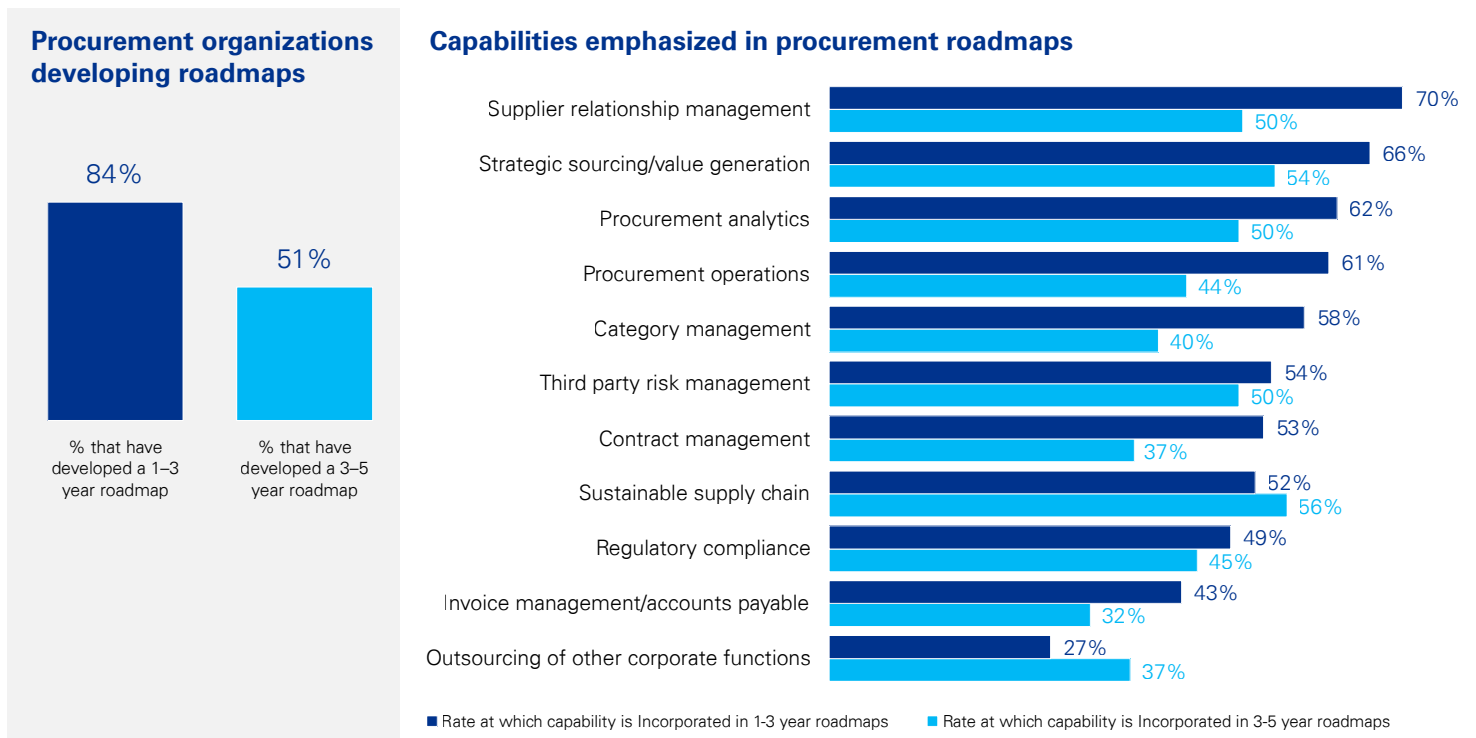
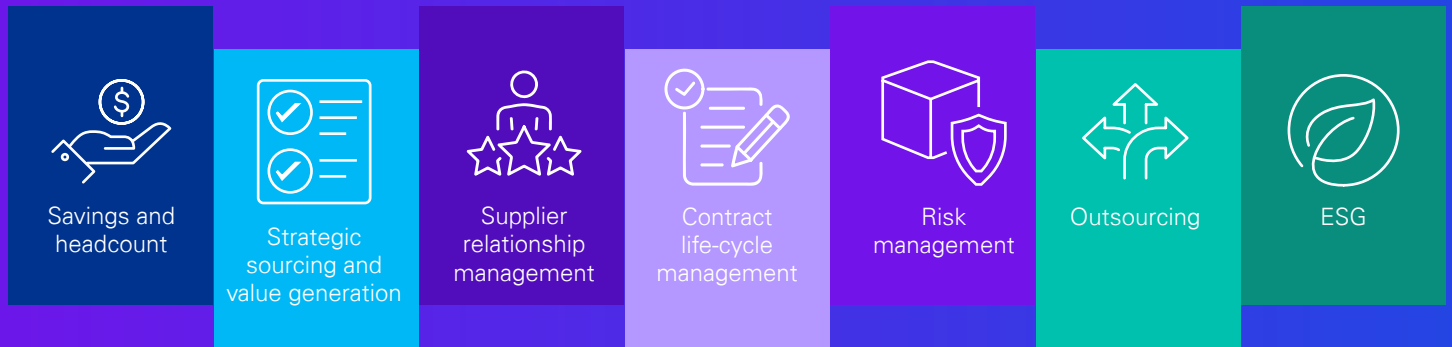


Exhibit 10. Percentage of procurement organizations that have developed roadmaps



Key areas of focus

Drilling further down, a similar pattern emerges of leaders trying to balance the need to address today’s problems with the need to meet tomorrow’s challenges. In seven key areas (savings and headcount, strategic sourcing and value generation, supplier relationship management, contract life-cycle management, risk management, outsourcing, and ESG), respondents see various opportunities ahead for procurement organizations.



Savings and headcount

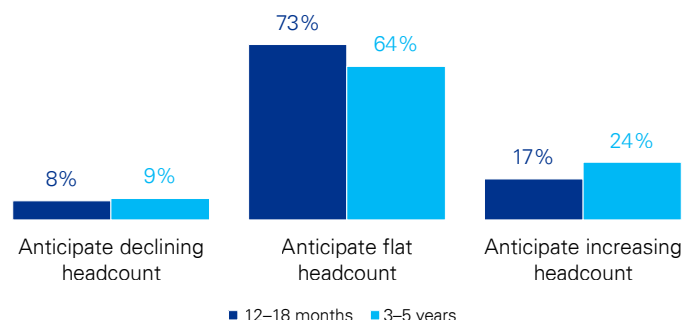
Every year, procurement is challenged to do more with less. Rising savings targets, percentage of spend to be managed, and other objectives have all outpaced the growth of procurement organizations, spurring them to achieve greater and greater productivity.

Given pressures to trim payroll costs, only 17 percent of procurement executives expect their headcount will increase in the next 12–18 months, compared to 73 percent who see no change in headcount and 8 percent who see a decrease ahead. Longer term (3–5 years), 24 percent of executives believe they will need to expand their headcount, while 64 percent see either no change or a decrease (Exhibit 11). The good news is that they not only see their teams growing larger over time, but also believe automation will enable those teams to focus on strategic rather than operational activities.

At the moment, however, most procurement teams are still waiting to see more benefit from automation: Limited data and insights and outdated systems remain two of the top three challenges ranked by respondents. Despite—or

maybe because of—their limited experience with the latest technology (only 6 percent have integrated artificial intelligence [AI] into their sourcing processes), they are extremely optimistic about the impact generative AI and robotic process automation will have in both the short run (12–18 months) and the long run (3–5 years). They also have high hopes for predictive analytics and robotic process automation (Exhibit 12).

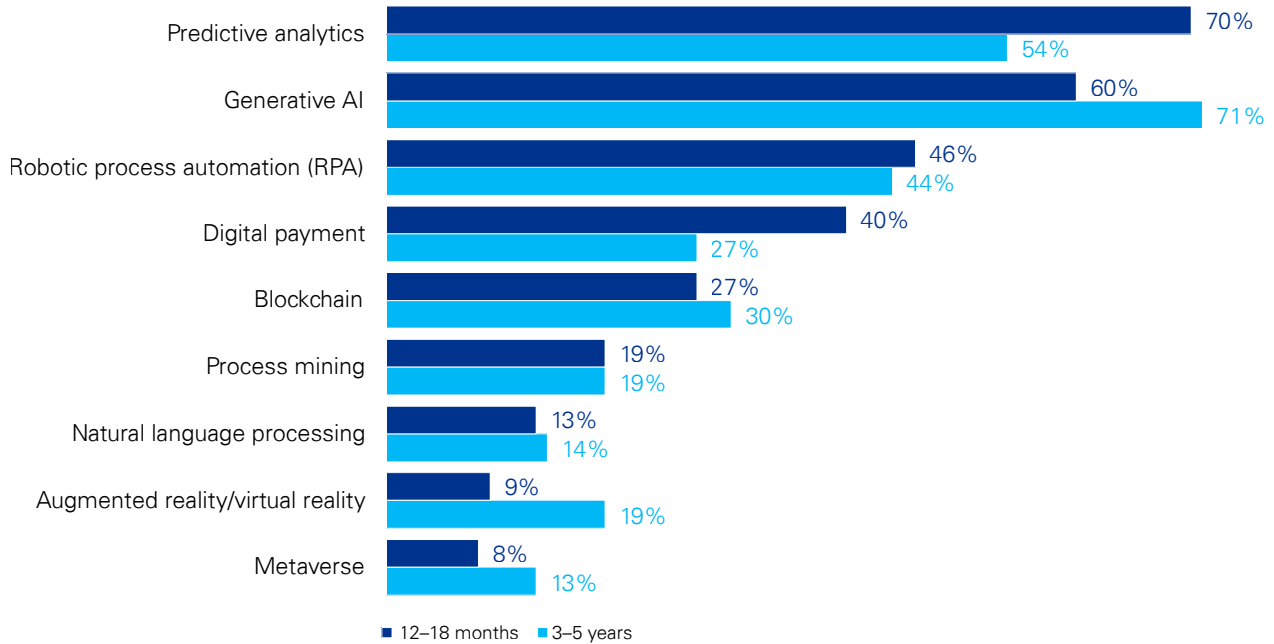
Exhibit 11. Anticipated procurement headcount changes





Savings and headcount

Exhibit 12. Emerging technology trends that procurement expects to have the greatest impact



Strategic sourcing and value generation

Right now, the majority of procurement leaders remain highly focused on macroeconomic trends and supply constraints. Although headline inflation numbers have eased in 2023, inflation remains their top concern (64 percent). Executives still fear supply constraints as well: 59 percent of respondents see a need for continued firefighting to manage supply risks and disruptions. Making their situation still more challenging is the inability of a majority (52 percent) to forecast demand due to economic uncertainty (Exhibit 15).

Many respondents hope that better sourcing practices will help get them out of these multiple binds. However, although they see strategic sourcing as one of their most mature capabilities, our experience suggests that as little as 25 percent of the negotiated savings from such sourcing efforts actually reaches the bottom line. Often, the money won negotiating a better price is simply spent on other purchases or lost through non-compliance with contracts.

Over time, such projects also tend to suffer diminishing returns once excess supplier margins are squeezed out and other units of the company pursue other priorities than traditional procurement aims, such as innovation. However, many procurement executives have made capturing more value from their strategic sourcing their highest priority over the next 12–18 months, and hope this will help change this dynamic.

At the same time, their second-ranked priority is realizing more value beyond cost savings. This strategic shift suggests that procurement leaders recognize that excessive focus on cost undermines their credibility within the company when their function needs to support other company projects, such as marketing initiatives or research and development.

Respondents rated demand management as their third-most important concern, which they hope to use to drive spend reductions beyond supplier negotiations and bring more savings to the bottom line.

Exhibit 13. Degree to which procurement organizations have integrated technologies into the sourcing process





Strategic sourcing and value generation

Exhibit 14. Anticipated shift in resource allocation from operational to strategic

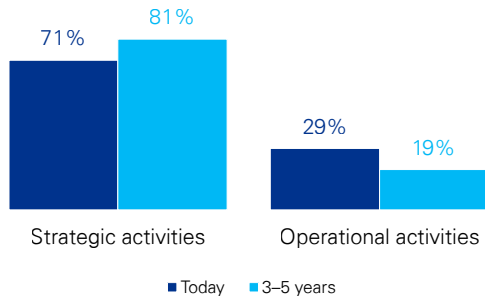
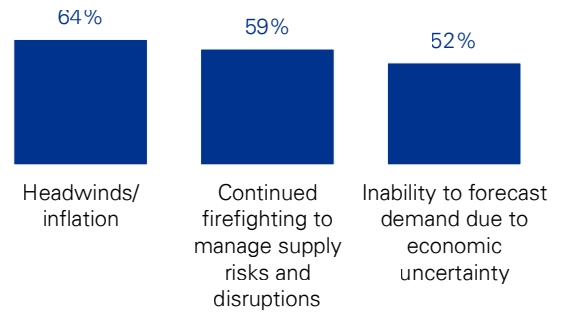
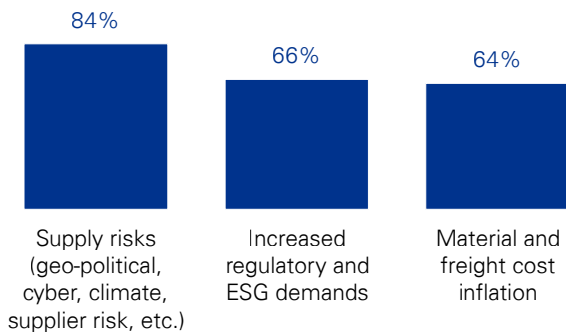


Exhibit 15. Top barriers to meeting strategic sourcing objectives



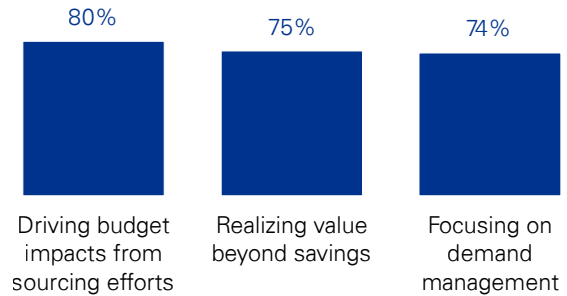
Question: What are the top barriers to meeting your strategic sourcing objectives in the next 12–18 months from now (top three out of eight displayed)?

Exhibit 16. Top emerging themes influencing strategic sourcing objectives over the next 3–5 years



Question: In 3–5 years, what are the top five emerging themes that you think will be influencing your sourcing strategies (top three out of eight displayed)?

Exhibit 17. Top strategic sourcing priorities for next 12–18 months



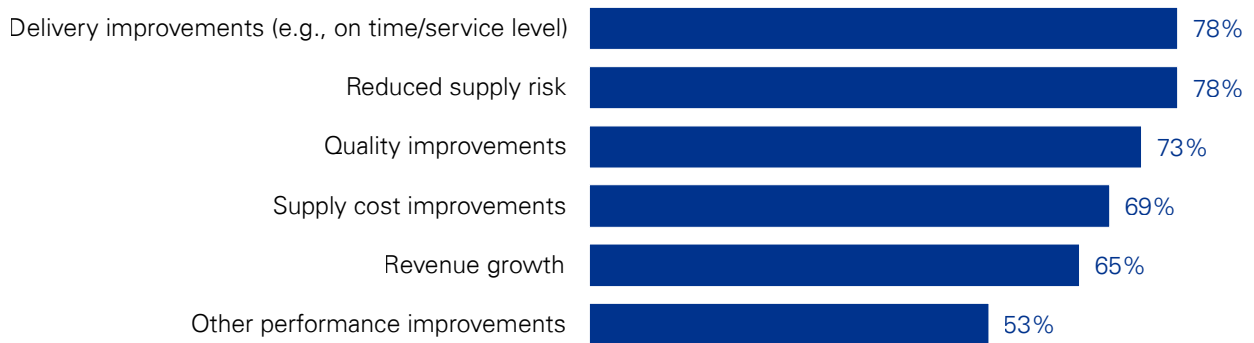
Question: What are your top five identified sourcing priorities in the next 12–18 months (top three out of 14 displayed)?

Supplier relationship management

Many procurement organizations have significantly improved their supplier relationship management in recent years. Most agreed that the focus on better relationship practices has improved performance by over 10 percent with respect to on-time delivery and service level (78 percent), reduced supply risk (78 percent), and product and service quality (73 percent) (Exhibit 18). World Commerce

and Contracting indicates that performance improvements of 8–12 percent are the norm when implementing or improving supplier management practices. KPMG has seen specific supplier performance improvements of over 35 percent for previously unmanaged supplier relationships.

Exhibit 18. Procurement has realized >10 percent quantifiable value from supplier management in multiple areas



However, supplier interactions span nearly every function across the organization, making consistent, structured, and efficient supplier relationship management difficult. For many organizations, a fragmented supply base with a long tail further complicates management of supplier relationships and limits resources that the organization can dedicate to its most important suppliers. Respondents say the top three keys to further improvement are obtaining more performance data, managing key suppliers more strategically, and improving supplier management processes (Exhibit 19).

To enable supplier relationships to run more smoothly and on a more strategic basis, organizations are making target investments to improve their supplier relationship management over the next 12–18 months. Respondents say their firm will improve the relationship management capabilities of the procurement team (70 percent), implement supplier management (61 percent), and enrich the organization’s supplier data with market insights on risk, ESG, and other topics (52 percent).

Further out (3–5 years), those priorities will shift. At that point, executives intend to enrich the organization’s supplier data with market insight (Exhibit 20), such as details about risk or ESG (57 percent of respondents), mapping their Tier 2 suppliers (50 percent), or migrating spend to strategic suppliers (46 percent).

Exhibit 19. The most challenging aspects of supplier management



Question: Which aspects of supplier management are the most challenging (top three out of seven displayed)?



Supplier relationship management

Exhibit 20. Planned investments in supplier management



Contract life-cycle management

Contract life-cycle management is another area procurement leaders see as increasingly important. They cite various benefits of better contract life-cycle management: minimizing risks (76 percent), increasing efficiency (67 percent), and improving visibility (60 percent)—all benefits that align well with organizations' broader priorities.

Historically, technology and data limitations made it difficult for organizations to maintain central visibility and control of all their agreements, limiting efforts to drive compliance to contract within the organization and to hold suppliers accountable for contracted terms and pricing. Manual efforts to improve contract visibility have improved procurement efficiency, as have efforts to enforce standards in authoring of contracts and instill adherence to approved templates.

Respondents said their top contract lifecycle capability priorities (Exhibit 24) are contract visibility (65 percent), service level agreement management (48 percent), and expiration data management (47 percent). While the majority of organizations (87 percent) rate their maturity in contract lifecycle management as medium or above,

they are not fully satisfied with the ability of their current contract lifecycle management to meet the above priorities. Only half say they are somewhat satisfied or satisfied with their performance.

Currently, various factors hold back their contract management (Exhibit 22): lack of visibility and control over contracts (68 percent), inefficiency of contract management process (60 percent), and lack of integration with upstream and downstream systems and processes (49 percent).

In their use of technology to support contract management, most procurement functions are still using tools that have been available for more than a decade (Exhibit 21), including e-signatures (79 percent), centralized contract repositories (60 percent), and document management software (55 percent). However, they see a lot of promise in the next generation of digital systems (Exhibit 23), which they hope will help them review contracts and management renegotiations (51 percent), collaboration portals to manage and monitor vendors and contracts (41 percent), and contract analytics and visual dashboards (37 percent).



Contract life-cycle management

Exhibit 21. Tools currently employed for contract life-cycle management

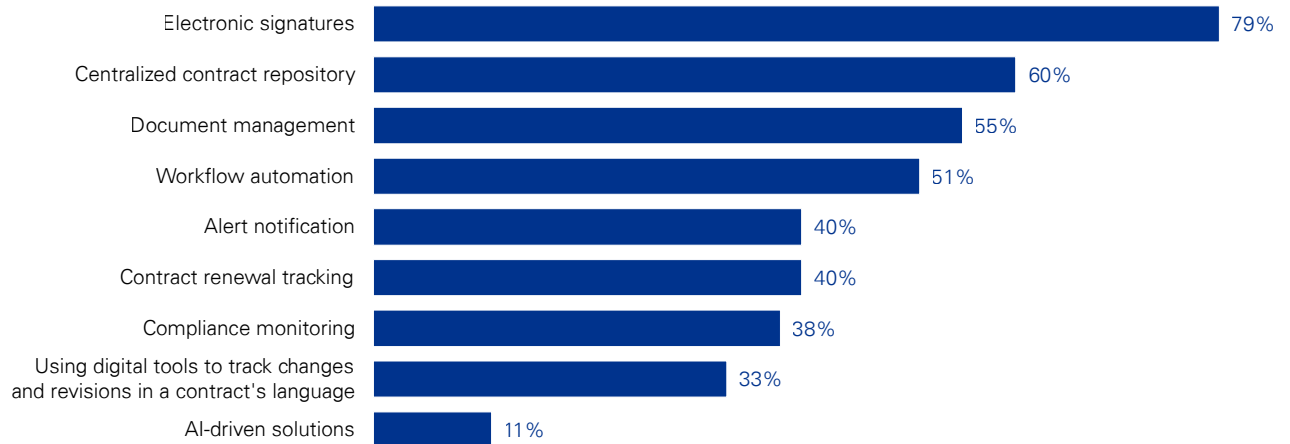
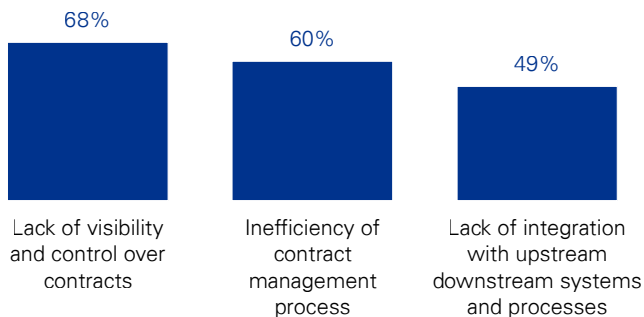
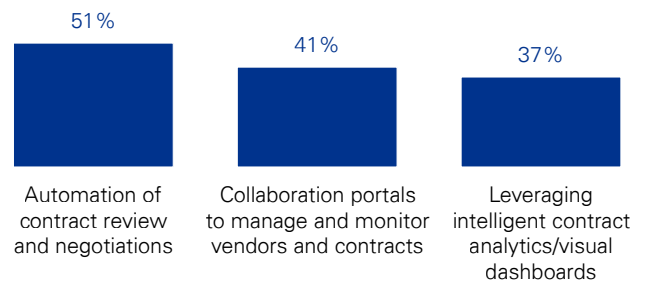


Exhibit 22. Current challenges with the contract life-cycle management process



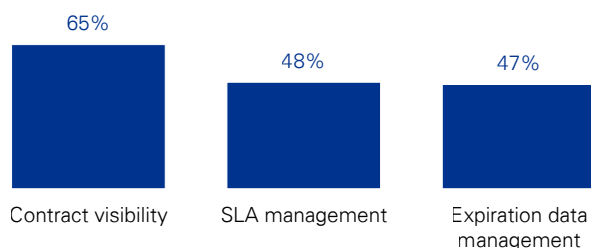
Question: What are your top three biggest current challenges in your current contract lifecycle management process (top three out of seven displayed)?

Exhibit 23. Technology developments with the greatest impact on the contract lifecycle management process



Question: What are the top three technological developments you anticipate having the largest impact on your contract management process (top three out of 11 displayed)?

Exhibit 24. Top capability priorities for contract life-cycle management



Risk management

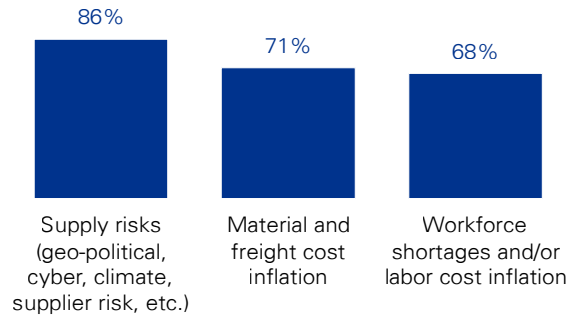
Economic, geopolitical, and supply disruptions, as well as growing regulatory scrutiny, have made procurement organizations pay close attention to risk. There is no faster way for a procurement leader to join the ranks of the unemployed than by failing to prevent major supply disruptions, running afoul of regulators, or landing on a newspaper’s front page for lax supply management practices—even when the problems were caused by suppliers.

Procurement officers have a clear view of both their short- and long-term risks. In the next 12–18 months, they are most concerned with upstream supply disruption and material shortages (67 percent), rising material and freight costs (65 percent), and upstream cybersecurity exposures (58 percent).

And that’s only the beginning. Respondents see a number of megatrends bearing down on them over the next 3–5 years (Exhibit 25): supply risks (geopolitical, cyber, climate, supplier risk, etc.), material and freight cost inflation, and economic stagnation and slowing demand. They expect these trends will affect their suppliers over this same period, with effects such as supply risks (86 percent), material and freight cost inflation (71 percent), and workforce shortages and/or labor cost inflation (68 percent) anticipated to impact procurement functions.

Despite this awareness, most organizations have yet to develop the kind of supplier risk management tools they will need to mitigate these risks. Organizations

Exhibit 25. Risks that will affect how organizations will work with suppliers over the next 3–5 years

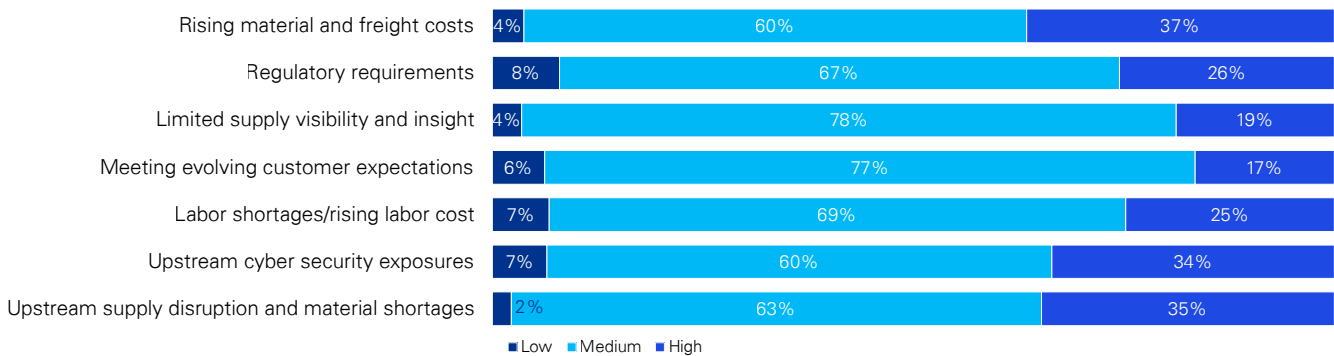


Question: What are the top five risks which you believe will impact the way you work with suppliers in 3–5 years (top three out of nine displayed)?

are struggling with a number of complicating factors that limit their ability to effectively manage supplier and third-party risk. The top three challenges reported are the limited availability of risk and performance data, the organization’s continued focus on quantifiable savings, and the organization’s highly fragmented supply base, which makes it difficult to scale risk management practices across the supply base.

To an extent, this lack of preparedness is the result of a focus on cost-cutting. Respondents report not being highly confident that their supplier risk management capability is being executed in an efficient and effective way (Exhibit 28), particularly in the areas of third-party risk management (13 percent), vendor screening and due diligence (25 percent), and performance management (25 percent). Investments in supplier risk-reduction will need to be a higher priority going forward.

Exhibit 26. Potential impact of procurement threats over the next 12–18 months

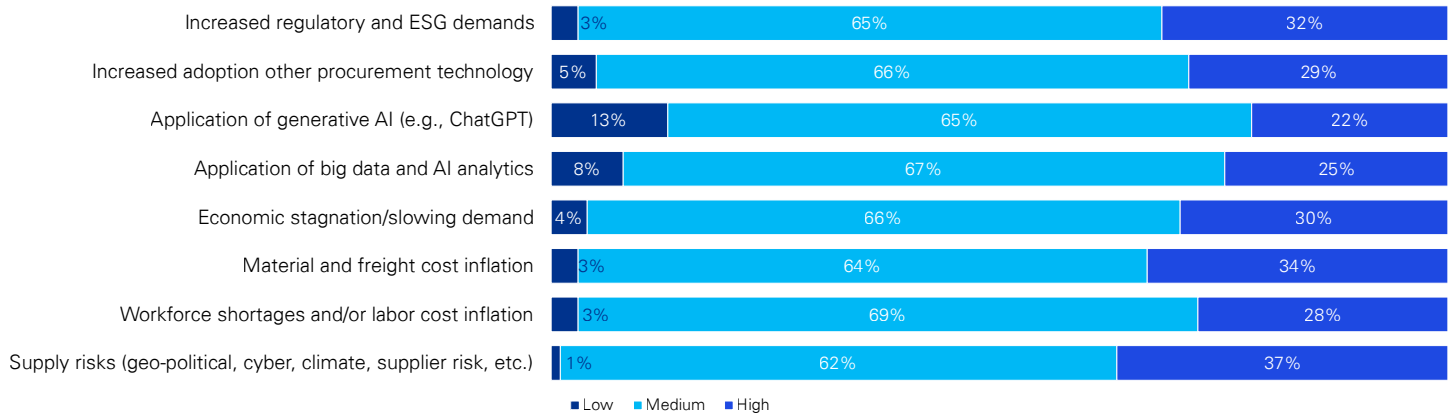


Displaying percentage of procurement leaders rating impact of threats as high, medium, or low.



Risk management

Exhibit 27. Importance of key megatrends for companies' supply chains over the next 3–5 years



Displaying percentage of procurement leaders rating importance of megatrends as high, medium, or low.

Exhibit 28. Organizations that are fully confident that risk management/mitigation is being executed effectively and efficiently by area

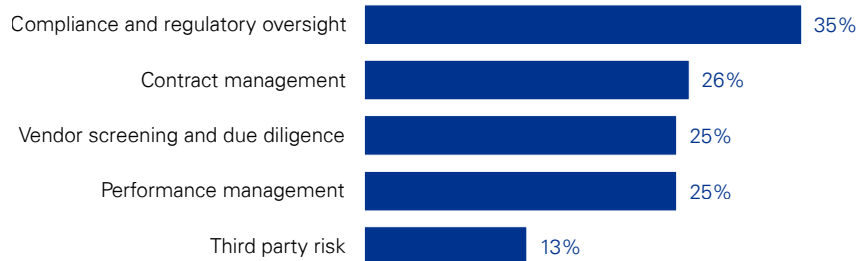
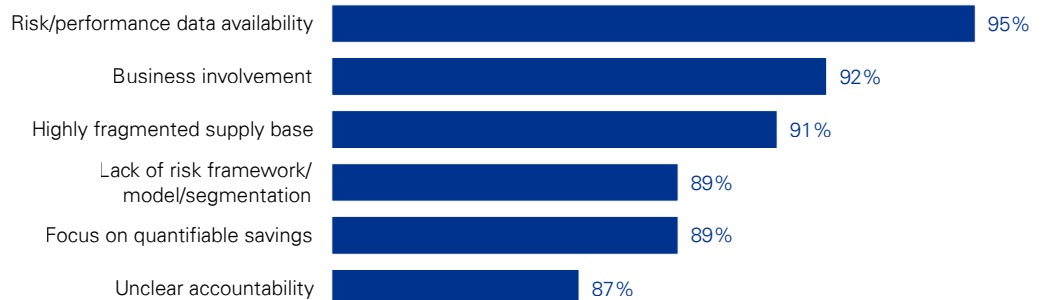


Exhibit 29. Organizations that report challenges with the following elements of third-party risk management





Outsourcing

Outsourcing is not a new concept. Organizations have been outsourcing functions since the early 2000s, and the market is continuing to grow, particularly as procurement leaders are given a seat at the deal table alongside business leaders. Procurement leaders have long looked to outsourcing to improve the efficiency and effectiveness of a variety of areas including third-party risk management, procure-to-pay, and for outsourcing advisory support of other business processes or IT functions. According to survey results, outsourcing is a growing priority for procurement with approximately 50 percent of organizations looking to outsource new activities in the next five years.

Procurement leaders report that the top benefits they see from working with an outsource provider are lower cost, improved capability, access to talent, and access to

better technologies. However, cost savings is increasingly viewed as table stakes for outsourcing, with 77 percent of CPOs prioritizing the realization of value beyond savings, as one of their top 5 sourcing priorities in the next 12–18 months. With that in mind, procurement leaders will turn to outsourcing not only for cost savings but also for improved capabilities and to drive performance and pricing compliance.

Under the coming wave of outsourcing, proactive contract governance and demand management will require a heightened partnership between procurement, business partners, and supplier management. The focus of contracts will increasingly move from measuring cost to realizing value with procurement strategy integrated into governance models and enabled via procurement technologies.

ESG

In recent years, societal pressure has pushed ESG toward the top of the corporate agenda. As boards look to make good on their promises for improved performance, procurement has been a key function charged with fulfilling those goals. So far, it's gone well: 84 percent of respondents say that their organizations have been able to align spending with their ESG commitments.

To better align their firms' enabling practices to ESG (Exhibit 32), respondents say they have developed policies

and guidelines (73 percent), evaluated suppliers (70 percent), and collaborated with suppliers (63 percent). This work already seems to be having an impact in the evaluation and selection of suppliers. Seventy-seven percent of respondents report that ESG is at least moderately important in their organizations' evaluation of new suppliers (Exhibit 31). A similar 80 percent of respondents indicate that ESG is at least moderately important in evaluating current suppliers.

Exhibit 30. Rate at which investments are aligned with ESG goals by region

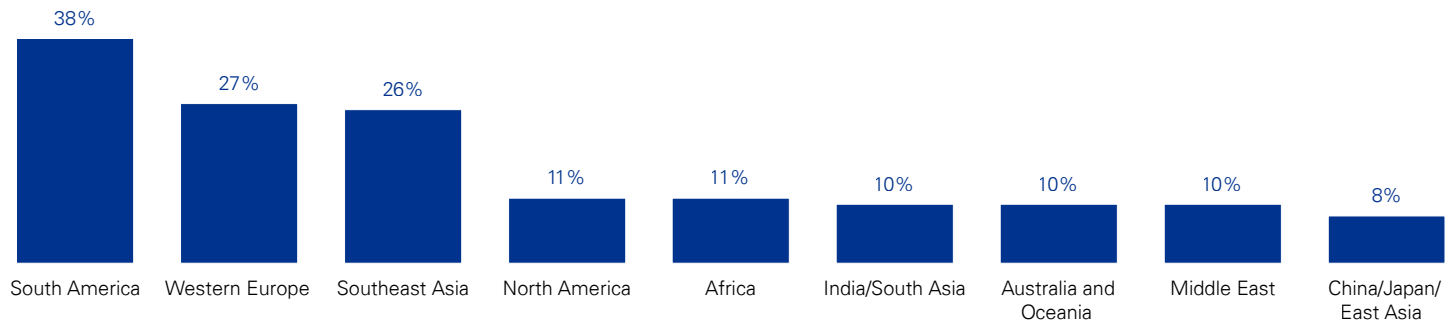
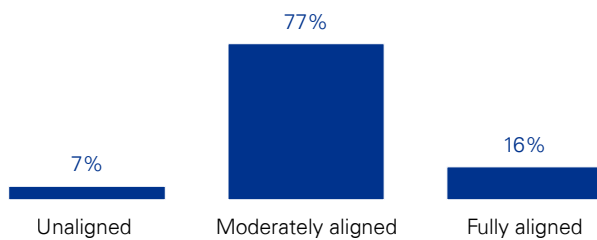


Exhibit 31. Alignment of current investments with organizational ESG goals



Percentage of respondents in each region who report having fully aligned their current investments with organizational ESG goals.

Exhibit 32. Activities procurement is using to align with ESG



Question: What activities do you engage in to align procurement activities with ethical and sustainable business practices, including social and environmental responsibility (top three out of seven displayed)?



ESG

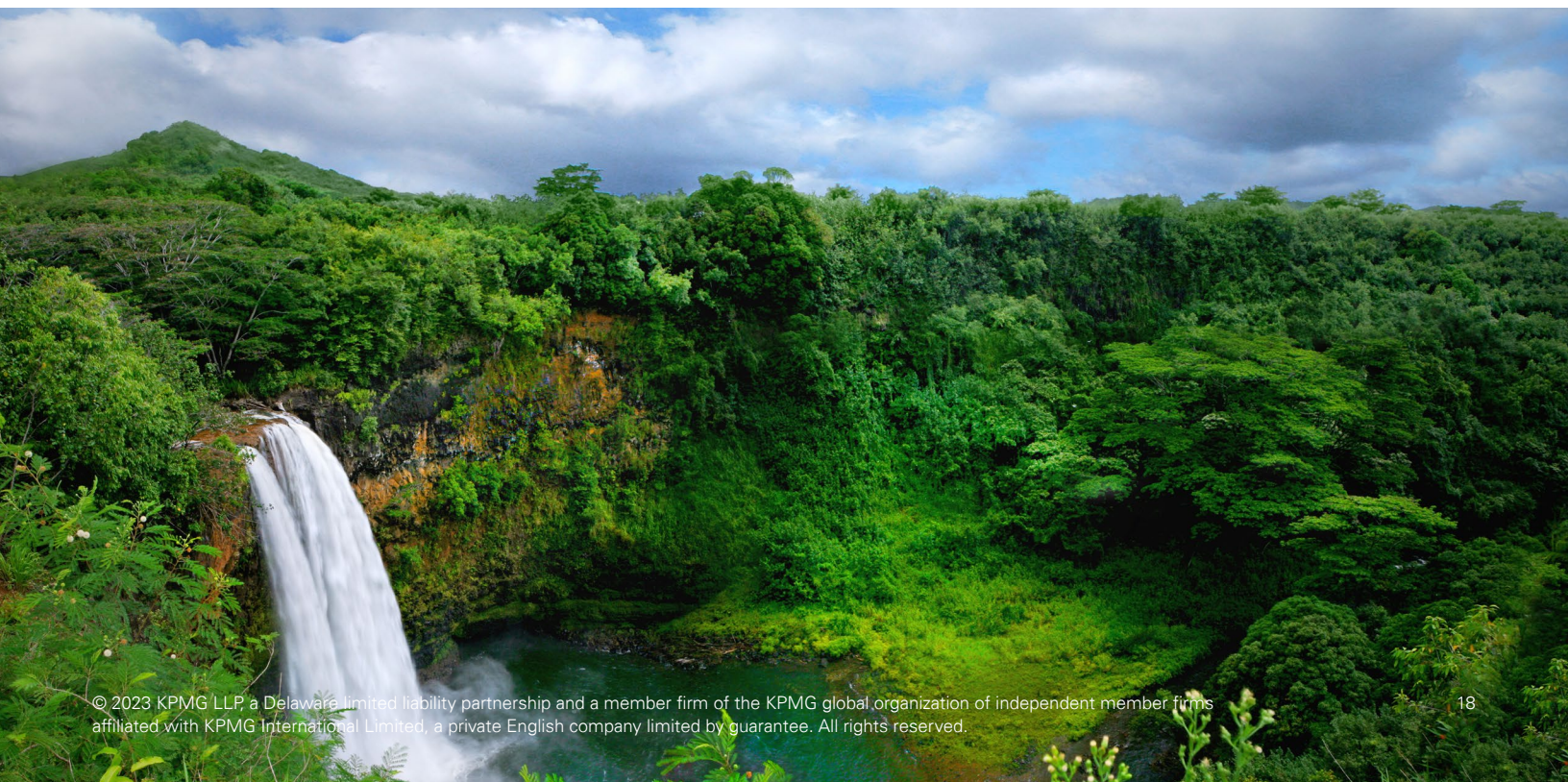
Respondents said their biggest ESG successes to date have been in regulatory compliance (52 percent of respondents), fair work conditions and wages in contracts (41 percent), and environmental responsibility and sustainability (36 percent).

To build on these successes, respondents report the following top ESG priorities (Exhibit 33) over the next 12–18 months: regulatory compliance (74 percent), environmental responsibility and sustainability (66 percent), and identifying

social impacts such as community impacts and human rights impacts (46 percent).

Going forward, organizations expect to shift from what has been a regulatory ESG emphasis to other elements of ESG. The top three ESG investment areas for the next 3–5 years reported by respondents were social impacts such as community impacts and human rights impacts (57 percent), environmental responsibility and sustainability (55 percent), and diversity, equity, and inclusion (48 percent).

Exhibit 33. Planned ESG investments



Conclusion

The 2023 Global Procurement Survey highlights the crucial crossroads procurement executives encounter as they navigate escalating risks and groundbreaking opportunities in today's business landscape. To position their organizations for success, procurement leaders should address critical concerns while taking advantage of the possibilities offered by emerging technology and market changes.

Short-term priorities for procurement leaders should include fortifying supplier relationship management, fine-tuning strategic sourcing and value generation, and advancing procurement analytics. Long-term objectives should include a growing emphasis on sustainability, ESG-aligned duties, and adopting technology improvements. To position their organizations for success and drive alignment with CxO stakeholders on procurement value, role, and objectives for the future, procurement leaders should consider the following actions:

1 Develop a procurement roadmap

- Develop a comprehensive, forward-looking plan that includes procurement's short-term and long-term goals.
- Ensure the roadmap aligns with overall business objectives and is shared with CxO stakeholders to gain their buy-in and support.
- Tie the roadmap to targeted value to justify required investments.
- Address specific stakeholder needs to secure support and sponsorship from leaders across the organization.
- Consider all elements of the procurement target operating model (process, people, technology, data, service delivery model, and governance) and identify the actions needed to advance them.

2 Embrace technology

- Evaluate opportunities to apply generative AI, robotic process automation, and predictive analytics to enhance efficiency and effectiveness.
- Re-evaluate technology architecture and seek improvements in end-to-end integration across the application portfolio.
- Consider new off-the-shelf cloud tools as well as custom AI and low-code/no-code solutions to take advantage of leading practice capabilities.

- Augment the procurement workforce with new technology to increase their effectiveness and productivity.

3 Enhance strategic sourcing

- Focus on bringing savings to the bottom line while shifting the focus toward delivering value beyond cost savings.
- Go beyond "taking spend to market"; apply advanced sourcing value levers such as demand management, requirements, and specifications to drive material improvements in value.

4 Streamline supplier relationship management

- Shift from firefighting to targeting strategic value through capabilities like supplier relationship management.
- Focus on improving procurement's supplier relationship management skillsets and technology.
- Once a foundation for supplier management is built, look to advanced capabilities such as mapping tier-2 suppliers and beyond and looking at the full impact of the supply base on risk and ESG.



5 Improve contract life-cycle management

- Maximize contract visibility and SLA management to achieve greater efficiency, risk mitigation, and compliance with overarching goals.
- Adopt tools for automation of contract reviews and negotiation, leveraging recent advancements in technology fueled by generative AI and machine learning.
- Partner with the legal function to define clear roles and responsibilities, ensure that the end-to-end contract lifecycle management process is efficient and maximally automated, and that technology-enabled workflows are in place.

6 Capitalize on outsourcing opportunities

- Evaluate outsource provider offerings that will reduce operating costs and free up headcount to direct at new priorities.
- Consider specialist outsource providers who can bring advanced market intelligence, analytics, and category sourcing capabilities that would require hiring of skilled resources and investment in new technologies.
- Engage in proactive contract governance and foster strong partnerships with both business partners and supplier management teams.

7 Strengthen ESG initiatives

- Align procurement's ESG efforts and spending with corporate commitments in areas of regulatory compliance, social impacts, environmental sustainability, and diversity, equity, and inclusion.
- Integrate ESG considerations into supplier evaluation and management processes.
- Balance ESG with other priorities such as strategic sourcing, supplier management, and supply visibility in the near term.
- Plan to scale ESG investments and initiatives over the next 3–5 years to stay ahead of regulatory compliance requirements and to ensure that the organization's supply management supports corporate objectives for sustainability, DEI, and other social impacts.

By addressing these key actions and utilizing the procurement roadmap to drive alignment with CxO stakeholders, procurement leaders can balance short-term priorities, manage risks, utilize new technology, and respond to long-term pressures related to sustainability and ESG. Adopting innovation and collaboration will be essential in guiding the procurement function towards strategic importance, making lasting contributions to the overall success of the organization.

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