

# MARKET INSIGHTS ON PROCUREMENT OUTLOOK 2022





## Impact of COVID-19 on Procurement Operations



### Impact of COVID-19 on procurement operations

- Sourcing and procurement operations faced tremendous challenges during the pandemic and raised many concerns of the established procurement practices, while also bringing into light unseen vulnerabilities
- For instance, majority of the global companies, which rely on the just-in-time (JIT) sourcing and manufacturing model, struggled to maintain sufficient inventory, as the global lockdown caused supply chain disruptions and delays in shipments of raw materials
- Following are some of the significant challenges organizations faced during the pandemic:

#### Key Challenges

##### Disruption in logistics/ supply chain

##### Rising raw materials costs

##### Labor shortage

##### Lack of supplier transparency

#### Highlights

- The pandemic witnessed visible issues in the supply chain as lockdown and closure of transportation hubs resulted in delayed shipments and longer lead times
- Rising cost of raw materials and resources such as fuel and other commodities resulted in higher procurement cost and loss of revenue
- According to Blue Yonder and Reuters Events, over 60% of retailers and manufacturers globally have been affected by the availability of labor during the pandemic.
- Lack of supplier transparency exposed the risk of collaborating with unethical and financially unstable suppliers. This also gave rise to unethical sourcing practices during the pandemic such as price rigging, etc.



## Imperatives for Procurement Operations in 2022

Companies are gradually moving towards a post-pandemic environment, and there is an increased focus on building on a resilient procurement strategy going forward. Companies are seeking ways to

increase overall competitiveness through strategic sourcing, building a sustained value by strengthening relationship with their preferred suppliers, and optimizing procurement spend in order to create and

sustain a competitive advantage.

Following are the key priorities for procurement operations for 2022 and beyond:

### Priorities for Procurement Strategies

|                |                           |  |
|----------------|---------------------------|--|
| Top Priorities | Re-assess sourcing models | Ensuring supply chain continuity by shifting to alternate supply sources, that is, through <b>local sourcing or hybrid model</b> |
|                | Inventory management      | <b>Stocking up inventory</b> (bulk purchase) to overcome challenge of shortage (a shift from JIT)                                |
|                | Risk assessment           | Investing more time and money on risk assessment and mitigation such as <b>enhancing supplier-information sharing</b>            |
|                | Supplier management       | Forming <b>strategic alliances with preferred suppliers</b> , assessing supplier stability, and avoiding redundancies            |
|                | Payment terms             | <b>Reducing payment cycles</b> to ensure working capital flow to suppliers   |
|                | Sustainable procurement   | Blue Yonder (Reuters Events) survey in 2021 found that more companies are <b>investing in sustainability programs</b>            |
|                | Contract management       | Efficient and <b>proper management of contracts</b> (using software and automation technology).                                  |
|                | Supply chain visibility   | Companies are investing in real-time <b>supply chain visibility platforms</b> (end-to-end supply chain visibility)               |










## Shift in Procurement Strategies – Current vs. Expected (for 2022)

| Trends                                    | Current Strategies  | Strategies for 2022 or beyond   | Criticality in 2022                              |
|---|---|---|--|
| Sourcing Models, Processes and operations |   |   |  |
| <b>Diversifying carrier base</b>          | Most procurement strategies prioritize timeliness — evaluating suppliers/ carriers who could deliver products the fastest.                            | The focus is expected to shift on keeping the supply chains moving at all times (for instance using <b>multiple/ parallel carriers</b> )  |  |
| <b>Shift towards local sourcing</b>       | Sourcing models and decisions mainly leverage lowest possible cost and most favorable payment terms.  | The pandemic have shifted supply chain risk priorities by re-evaluating sourcing models ( <b>focusing on re-shore, near shore models, or dual sourcing</b> ) to reduce supply chain risks |  |
| <b>Inventory stock-up</b>                 | Just-in-time (JIT) operations result in over-emphasis on procurement efficiency causing companies to insufficiently address inventory risk management | Companies likely to <b>move away from JIT sourcing</b> and rather optimize inventory management and <b>purchase in bulk</b> based on anticipated demand and supply factors.               |  |
| <b>Leveraging data analytics</b>          | Challenges in obtaining useful data for analysis (which are generally disparate and fragmented data sources)  | <b>Data analytics tools for predictive analytics, risk analysis, etc.</b> are expected to play an important role for procurement insights and supplier risk analysis.                     |  |
|   |   |   | <div>Low</div> <div>Medium</div> <div>High</div> |

## Shift in Procurement Strategies – Current vs. Expected (for 2022)



| Trends   | Current Strategies   | Strategies for 2022 or beyond   | Criticality in 2022   |
|--|--|---|---|
| Supplier Aspects                                 |  |   |   |
| <b>Prioritizing supplier relationships</b>       | Assessing short term strategies and benefits with emphasis on transaction-oriented and independent buying of goods and services                          | Companies are expected to have <b>strategic alliances with preferred suppliers</b> and <b>collaborative projects</b> to create value and sustainable relations.   |    |
| <b>Improving supplier transparency</b>           | Lack of information flow from suppliers to buyers is resulting in increased risk exposure of partnering with financially unstable suppliers              | Survey by Deloitte in 2021 indicated CPOs are likely to enhance <b>supplier information-sharing as the top supply risk mitigation strategy</b> .  |  |
| <b>SME and minority suppliers</b>                | Companies leverage a major portion of their procurement needs from larger top-tier global suppliers  | It is projected that <b>SMEs and minority-owned suppliers</b> will also contribute to a <b>significant portion of a company's supplier base</b>   |  |
| <b>Stricter payment terms</b>                    | Average payments terms increased from 55 days in 2020 to 58 days in 2021 according to research from Hackett Group which is impacting suppliers cash flow | <b>Obliging to supplier payments terms</b> will be crucial to ensure continuous cash flow to suppliers. Buyers are expected to strictly meet these obligation to build strong relations.                          |  |
| ESG (Environment, Social, and Governance) Aspect |  |   |   |
| <b>Analyzing ESG performance</b>                 | Relatively less number of companies consider sustainability measures as a primary criteria in sourcing decisions and supplier reviews.                   | With some countries (such as in the EU and Asia) mandating ESG reporting standards, companies are expected to <b>use data analytics with major tier-1 suppliers to analyze ESG performance</b> of a supply chain. |  |
|  |  |   | <div>Low</div> <div>Medium</div> <div>High</div>                                      |



## Adoption of Procurement Tools and Technologies

- Digital and automation technologies are expected to bring new capabilities to the procurement function by making use of predictive analysis for sourcing, a more proactive vendor management system, and an optimized procurement process
- According to Deloitte study, organizations are implementing several forms of core procurement technology platforms. Companies are away moving from manual systems and focusing on adopting automation technologies to shift efforts towards strategic and value-adding activities
- A recent report by Capgemini Research Institute found that, 62% of respondents indicated supply chain resilience would be a key priority in the wake of the pandemic. As such, companies are expected to inject more funds into technology which will have a significant impact on procurement processes

| Deployment                   | Key Procurement Technologies                 | Key Highlights  | Adoption in 2022 |
|------------------------------|--|---|------------------|
| Maturing / majority adoption | Predictive/ advanced analytics               | <ul style="list-style-type: none"> <li>• Analytical tools for developing and supporting strategies such as <b>predictive analysis for cost/ price fluctuations, demand/ supply scenarios, and risk analysis</b></li> <li>• The growing volume and availability of data is expected to drive adoption</li> </ul> |                  |
|                              | Cognitive computing/ artificial intelligence | <ul style="list-style-type: none"> <li>• Technology used mainly for automated reading, interpreting, and recognizing procurement related information to facilitate <b>data analytics, automating risk assessment</b> and autonomous execution-based response</li> </ul>   |                  |
|                              | Intelligent data extraction                  | <ul style="list-style-type: none"> <li>• <b>Contract management tool</b> to facilitate automated approach to document classification, data extraction and archiving</li> </ul>  |                  |
| Emerging technologies        | Blockchain                                   | <ul style="list-style-type: none"> <li>• To improve supply chain visibility and reduce supply disruptions</li> <li>• Expected to remain in <b>experiment and proof-of-concept stage until 2022</b></li> </ul>   |                  |







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