Finding the Formula to Drive Cost Optimization and Customer Success

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01 |

Introduction

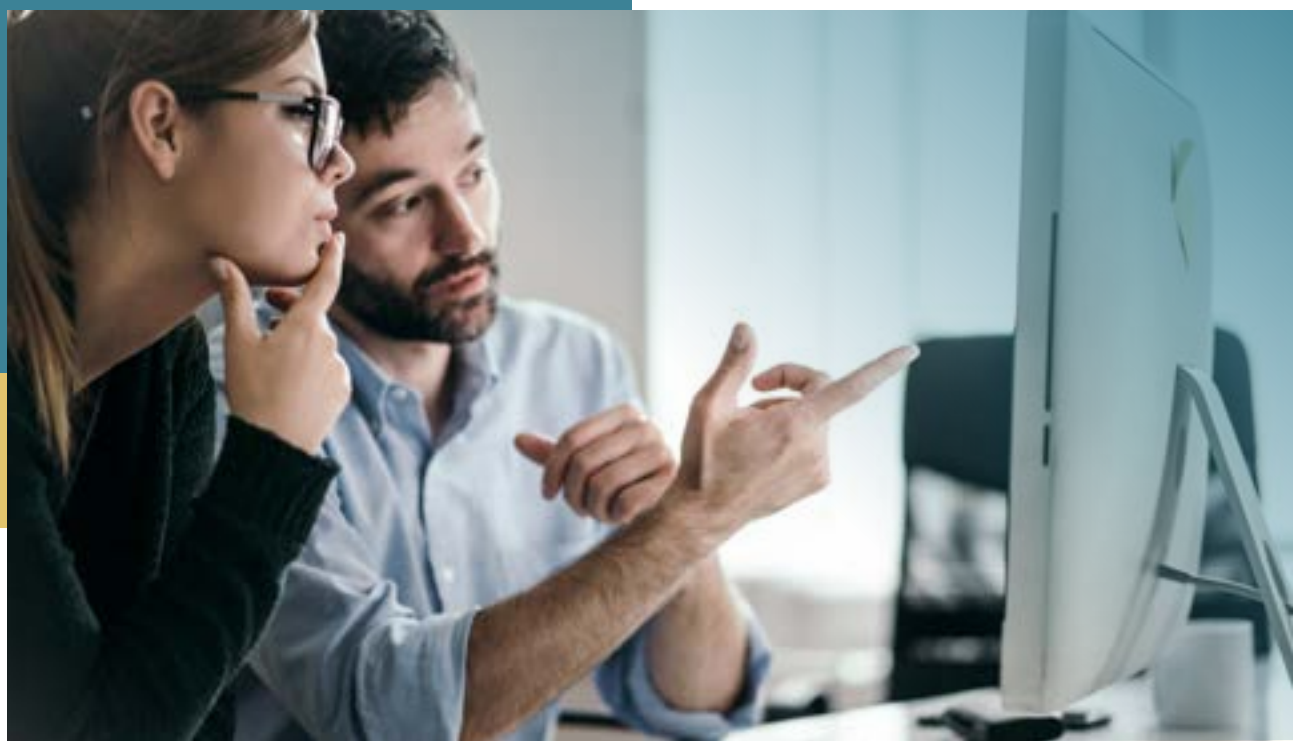
Dynamic market conditions, shifting priorities, and the rapid evolution of AI solutions make 2025 another year of change for procurement leaders and teams across the globe, according to The Hackett Group. Its 2025 Procurement Agenda states, "As teams consider factors such as the need to simplify, increasing business expectations and potential generative AI impacts, the operating model should adapt to meet evolving requirements." Reducing the cost of supplier spend remains a core priority, in 2025. While the top three priorities are unchanged from the previous year, their relative emphasis has evolved to reflect shifting business needs and economic conditions.

While global economic growth faces challenges and geopolitical shifts continue, procurement teams are proactively focusing on supply continuity and agility, refining operating models, and accelerating digital transformation. Strengthening data analytics capabilities—particularly for cost modeling, inflation management, and ESG insights—positions organizations to navigate uncertainty and drive long-term resilience and value from their procurement departments.

The Hackett Group's ten most-cited areas of focus for CPOs are:[1]

1. Improved spend cost reduction
2. Ensure supply continuity
3. Transform the operating model
4. Combat inflationary price increases
5. Digital transformation and modern landscape
6. Act as a strategic advisor to the business
7. Embed sustainability (e.g., environment)
8. Improve analytics' and insights' capabilities
9. Enhance supplier relationships
10. Strengthen third-party risk management visibility and capability

[1] Hackett Group, 2025 Procurement Agenda and Key Issues Study Results.



In the past, the role of procurement was to process the paperwork needed to buy goods, materials and services either for production (direct procurement) or to enable it to maintain and develop its operations (indirect procurement). Today, the purpose of a modern procurement function is more broadly understood to identify and optimize the value delivered to the organization by third parties, which include suppliers, partners and contract labor. Or to put it another way, to optimize the ratio of costs of goods and services procured to the value that they bring to the organization.

Of course, this is far from straightforward and every procurement function is different in terms of its focus (on which suppliers and categories should we focus our attention to have maximum effect, and how should we focus that attention) and the level of maturity (to what extent is our procurement function operational, and to what extent is it strategic). This complicates the identification of value as there is no one-size-fits-all roadmap that an organization can follow to identify the greatest value it can contribute. However, regardless of the level of maturity, we can say that the *raison d'être* of a procurement function is to increase a company's competitive advantage by managing spend with the appropriate strategies.

Cost optimization continuously delivers sustainable value to organizational stakeholders (which is procurement's output) with minimal external spend and human resource effort (procurement's inputs). A company that delivers sustainable value can be said to be effective. One that minimizes inputs can

be said to be efficient. Cost optimization is more than just cost efficiency or cost effectiveness. It must be both, and more. Companies that are only efficient fail slowly due to their lack of dynamism (inertia). Their lean processes keep them going, but they are gradually overhauled by more dynamic competitors. By contrast, companies that are only effective may collapse, especially in the event of a sudden shock, a phenomenon that has been termed "active inertia". Effective companies tend to carry on doing the same things that worked in the past, even though the circumstances have changed, without paying attention to the efficiencies that would enable them to ride out a crisis. To excel a company must be both effective *and* efficient and the procurement function must work with internal stakeholders and external suppliers and partners to achieve the synergies that amplify efficiency and effectiveness. A critically important aspect of this collaborative effort is to help the organization to reduce the *time to value*, for example by ensuring the robustness of supply chains and, where necessary, mitigating risks of supply chain disruption.

In this way a procurement organization becomes a strategic partner of the wider business, contributing to the organization's ultimate aim, which must be to increase revenues and profitability by delivering *customer success*.
Cost optimization in this broader sense of delivering maximum value takes on even greater importance in 2024 as organizations sought to bounce back from global disruptions and sourcing challenges. In this paper, we will explore ways to optimize costs across your organization through greater efficiency and effectiveness, reduced time to value, and the external factors that may impact your goals, both positively and negatively. We will then consider the benefits of a comprehensive source-to-settle solution and provide some examples of the return on investment organizations have derived from such a solution.

Of course, spend management professionals have become victims of their own early successes. Driving down costs in double-digit increments over multiple years, through the application of technology and best practices, has resulted in an expectation from the CFO and others that the party will continue. In addition, each new solution uncovers new internal process challenges. Add to that the growth in external factors like regulatory compliance and supply chain risk, and there are many calls across the organization for spend management process and solution enhancements that can turn these threats into opportunities.

Levers for Optimizing Value

In the introduction we stated that as a standalone function, procurement optimizes value through efficiency and effectiveness. Efficiency means reducing spend and procurement's expenditure of human effort or energy, and effectiveness means raising the value of procurement's output (which become inputs to the organization's success, along with the efforts of its human resources and fixed assets).

Value optimization can thus be expressed with the simple formula: **Reduce cost, reduce effort, increase output.**

Although an organization must be efficient, the savings from improved effectiveness are, in the long run, far greater. Hackett reported back in 2012[2] that improvements targeting effectiveness have 12 to 14 times higher savings potential than efficiency improvements. However, it would be wrong to see efficiency and effectiveness as somehow in competition for the procurement function's precious time resources. An article in Spend Matters demonstrated why this is so: "effectiveness is about doing the right things and efficiency is about doing more of those right things in the right way (i.e., eliminating waste in the process, automating the processes, etc.) with limited inputs".[3] Increase the quality of your output and you will reduce the quantity of cost and effort. There is a virtuous circle going on here.

As we also mentioned in the introduction, the story does not end there, because procurement does not exist in a vacuum. It works with strategic suppliers, who should be increasingly viewed as business partners, and it works with internal stakeholders. These collaborative efforts drive out costs and increase value. A key measure of a procurement function's level of maturity is the depth and breadth of these relationships. We will deal with these later.

[2] Beyond Process Efficiency: How to Achieve 12 to 14 Times Higher Savings. Pierre Mitchell and Lynne Schneider, Hackett, 2012

[3] Efficiency and Effectiveness – You Can't Have Both: Procurement Myth No. 12. Pierre Mitchell, Spend Matters, April 10, 2015.

First, we will look at the levers that an organization can apply to reduce cost, reduce effort, and increase output to optimize value. We will tackle each lever individually, define key capabilities that enable the lever, actions that pull the lever, and the types of value delivered when the lever is pulled. Where relevant, we will also detail specific platform capabilities that can maximize the impact.

We'll start with each of the seven levers listed below and define specific capabilities and actions that can be used to increase effectiveness. Secondly, we will discuss how to make the overall process more efficient. Thirdly, we'll discuss how the effectiveness of the levers increases with the procurement function's maturity.

Effective procurement uses each of the levers to deliver greater value to the organization, regardless of the organizational strategy. Keep in mind, however, that value is maximized when procurement is aligned with the organization's overall strategy and not just the wishes or objectives of individual stakeholders.

The seven levers are:

- Demand Influence and Reduction
- Increase Spend Under Management
- Decrease Contract Costs
- Increase Contract Compliance
- Reduce Usage Costs
- Reduce Risks
- Decrease "Order to Pay" Costs

02 |

Part 1: The Levers of Change

Demand Influence and Reduction

Reducing or influencing demand, especially at negotiating time, can increase cost reductions by as much as 50%.[4] And when category management is included, the effect is much higher. According to research by Future Procurement, category management can triple the value impact.[5]

Capability	Actions	Value	Platform
Better Demand Visibility	1. Improved inventory management 2. VMI (Vendor Managed Inventory) or JIT (Just in Time) to minimize on-hand 3. Performance incentives	1. Better insight into actual versus perceived need 2. Lower MRO and overhead costs 3. Less effort by organizational users to better manage demand and inventory	• Inventory management capability • VMI capability • Inventory/warehouse cost tracking
Demand Shaping	1. Identify substitutes or alternatives 2. Challenge need and/or specifications	1. Lower costs, higher quality, value add, and other value-for-money improvements 2. Lower need, cost, and waste	• Supplier product and services catalog • Supplier network capability or integration

[4] Spend and the Art of Cost Reduction. Pierre Mitchell, Spend Matters, April 25, 2016.

[5] The 2019-20 Global Category Management Leadership Report, Future Procurement. Cited by Spend Matters, March 18, 2020.

Increase Spend Under Management (SUM)

An increase in spend under management will result in an increase in savings, and the more spend that is put under management, the more savings that can be obtained. Spend under management is often understood as "spend that is managed by or goes through the procurement function" but a more accurate definition, especially when buying departments increasingly self-serve, is "the percentage of annual addressable supplier spend utilizing preferred supplier contracts." Typically, top performers will have more than 75% of their spend under management according to this definition. "Spend under management" does not necessarily mean that it is *optimized* spend under management – there may be scope for further savings in review cycles. However, according to the Hackett Group, firms that use digital technology to bring tail spend under management can cut annual expenditures by 5% to 10%, while 30% of companies reported savings of above 10%.[6]

Capability	Actions	Value	Platform
Primary Transaction Data Store	1. All transactions through a platform	1. Full spend visibility that allows for decreased spend, demand influence, reduced usage cost, and compliance initiatives through complete analysis	• Transaction store • Primary data management • Integration with P-card systems
More contracts	1. Increase strategic sourcing activities 2. More tail spend out to tender	1. More SUM and more cost control 2. Less overspend and more SUM	• Contract and contract meta data management • RFX, auctions, and catalogs

[6] Reduce Purchase Costs, Improve Agility, and Become a Trusted Advisor. Hackett Group CPO Agenda 2016.

Decrease Contract Costs

Before diving into cost cutting exercises, you need to understand where exactly money is being spent, by whom, with whom, for what purpose, and how much. Better spend analysis and spend visibility, cornerstones of advanced sourcing, can typically generate considerable savings through consolidating spend and other measures. Demonstrating the ROI of spend analytics can be elusive, "because dedicated spend analysis tools are often viewed as enablers to saving money through other methods, rather than a benefit in their own right," according to Spend Matters.[7]

The 2019 Deloitte Global CPO survey identified spend consolidation as the top priority among procurement leaders.[8]

Aside from the ability to deliver savings, spend analytics can help organizations reduce costs in other ways. The simplest is a reduction in the total number of vendors being managed. Hackett estimates this cost at $750 per year per vendor; so a reduction in the number of rogue vendors quickly adds up.[9]

In the light of the emergency cost-cutting measures imposed on many companies by the Covid-19 crisis, it is clear that organizations that have excellent spend visibility are in a much better position to act swiftly, but also wisely, if external pressure comes to bear. This is especially true of the portfolio companies of private equity firms, a point underlined by an August 2020 report by McKinsey, which advised setting up a "spending control tower" (SCT) for the duration of the crisis: "An SCT focuses primarily on general and administrative spending, as well as some indirect costs of goods sold. It reviews all spending, including point-of-sale purchases, invoices, expense reports, and recurring expenses, such as subscriptions. (It doesn't manage direct costs of goods sold.)"[10]

[7] ROI, Today: Making the Near-Term Business Case for Spend Analytics. Spend Matters Brand Studio, September 2018.

[8] Complexity: Overcoming obstacles and seizing opportunities. The Deloitte Global Chief Procurement Officer Survey 2019.

[9] Spend Matters Brand Studio, op.cit.

[10] Seeing the savings: Toward transparent management of portfolio companies. McKinsey, August 2020.

Capability	Actions	Value	Platform
Improved spend visibility	1. Category aggregation/bundling 2. Overall supplier spend leverage 3. Standardization 4. Component and raw material buys on behalf of Tier 1	1. Spend leverage during category events through increased volume 2. Spend leverage during negotiations due to total supplier spend 3. Additional volume leverage through utilization of one component, versus many similar components 4. Additional savings through bulk purchases on behalf of your Tier 2 suppliers	• Primary data management • Complete transaction store • Bill of materials • Support for drill down bill of materials and cost models from suppliers
Increased cost transparency	1. Primary cost driver identification 2. Cost benchmarks	1. Identification of key costs: materials, labor, energy, overhead, or currency exchange 2. Identification of average costs and trends over time	• Detailed cost mdoels • Analytics that compute average costs and trends
Market informed sourcing	1. Standard prices and trends 2. Early indication of trend changes 3. (Projected) Currency exchanges, raw material prices, labor costs…	1. Identification of average market prices and trends for key materials, labor, and energy 2. Allows sourcing to lock in mid-term and long-term contracts before rapid price increases or hold off before rapid price decreases 3. Allows sourcing to choose the right currency for bids and purchases	• Market feed integration • Predictive analytics

Increase Compliance with Contracts

Maverick spend leads to cost savings leakage and prevents sourcing teams from fully realizing the cost savings associated with a negotiated contract. Without good contract and procurement management processes, 30 to 40 cents of every dollar of negotiated savings fail to materialize as a result of maverick and off-contract spend. Maverick spend can also create operational and reputational risks that will generate costs. A study found that increasing compliance by as little as 20% can increase savings up to 8%.[11]

Off-contract spend has become more of a problem for indirect spend because of online shopping: office supplies and other items are just a few mouse-clicks away. The experience is fast and friendly, unlike submitting a requisition or purchase order that takes ages to process. According to PA Consulting, off-contract spend can be as high as 80% in organizations that do not have catalog-based P2P systems.[12]

Capability	Actions	Value	Platform
Increased compliance with existing contracts	1. Manage all spend against contracts on a transaction basis	1. Negotiated savings become realized savings 2. Less maverick spend	• Contract, purchase order, goods receipt, and invoice management
Increased compliance with preferred suppliers	1. Manage all spend against preferred suppliers on a transaction basis	1. Overbillings, duplicate billings, and fraudulent billings are immediately identified and not paid	• Supplier-centric views into contracts, purchase orders, goods receipts, invoices, and performance • M-way match and payment capture

[11] Understanding E-procurement, Part 1: Quantifying the Benefits Patrick Connaughton, Robert Derocher, and Amy Font, Hackett, 2014

[12] Five things you need to know to tackle maverick spend. Supply Management, October 2014.

Reduced Usage Costs

While inventory and warehouse overhead costs are difficult to calculate, the literature on the subject suggests an average 25% of the value of the products, comprising 15% capital costs, 2% storage space costs, 2% inventory service costs, 6% inventory risk costs.[13]

Thus, any reduction in demand or overstock will reduce associated inventory costs. But this is just one area where costs can be reduced. In some organizations, poor return and repair processes cost the organization more than the original cost of the product. And the savings are really dependent on where the organization is being efficient and how much improvement can be made. A great way to reduce lifecycle costs is to identify where lifecycle processes are unnecessarily long and then find ways to speed them up and make them lean. For example, in an average organization, the average cycle time to create, negotiate, and approve contracts is typically in the order of three months (92 days).[14] In a leading organization, this is in the order of one month (33 days). In other words, inefficiency can triple process cost, and this adds up.

Another area where many organizations waste too much time and energy is on operational intelligence. The average organization has to request data needed to make operational decisions an average of four days in advance (68 hours) whereas leaders can get the information they need in less than a day (16 hours).[15] Good informatics can greatly increase efficiency and effectiveness.

Capability	Actions	Value	Platform
End-to-end purchase-to-pay (P2P) Platform	1. Track "usage" costs such as warehousing, recycling, etc.	1. Identify large ancillary costs and allow them to be attacked	• Lifecycle cost models and cost component tracking • Asset management
Lifecycle cost models	1. Use analytics to determine the most prominent costs 2. Use the right parties to manage each step of the lifecycle to minimize cost and waste	1. Identify the largest hidden lifecycle costs and allow them to be attacked 2. Lowest cost party, be it company, vendor, or third party can take over management when they can do it more cost effectively	• Cost component analytics • Predictive and prescriptive analytics

[13] See, for example, Mary Lu Harding, C.P.M., CPIM, CIRM, "Calculating the total cost of ownership for items which are inventoried", NPMA, volume 14, issue 2, 2002.

[14] The Value of Strategic Supplier Data Management, Aberdeen Research, July 2015.

Reduce Risks

In 2020-21, the world faced its first global supply chain disruption as a result of the Covid-19 pandemic. But before then, and since, non-economic risks such as climate catastrophes and extreme weather events, as well as geopolitical disputes, have been frequent sources of supply chain risk. Organizations that manage risk proactively can reduce spend. Independent research cited by a Spend Matters white paper found that good risk management can prevent damages up to 7.5% of revenue.[16]

The reason for this is that when risk materializes as a supply chain disruption, it's not just revenue that is lost, it's performance across the board.

Further learning from the pandemic, a report by PwC at the height of the Covid-19 found that 70% of firms took an reactive approach to risk management. Only 5% of firms had a fully cross-functional approach managed by a dedicated supply risk management unit.[17] Yet earlier research by PwC (at a time when the global business environment was more stable) had found that 60% of surveyed companies reported that their performance indicators had dropped by 3% or more as a result of supply chain disruptions.[18]

According to research by riskmethods and the German consultancy eckseler-consult, a company with annual revenues of $200 million could save $200,000 per annum through process efficiency in distribution. 37% of these savings would be in the form of reductions in contingent business insurance.[19] The report quotes research by Sourcing Innovation showing that "companies with demonstrable supply chain visibility can reduce the insurance rate for CB insurance by up to 50%". A further 39% of the savings would come through improved risk-controlled advanced sourcing. In the event of crises causing severe disruptions to supply chains, the riskmethods report argues that "statistically, for 2 crisis situations in a period of 3 years, preventive measures can provide the maximum degree of protection and save the company millions [estimated at just under $10 million per annum] in terms of losses resulting from operational disruption and damage to corporate image". These findings were confirmed

[15] Ibid.

[16] Proactive Supply Chain Risk Management (SCRM) in an Uncertain World. Thomas Kase, Spend Matters, 2016.

[17] Supply Chain Risk in a Time of Crisis. PwC Middle East, 2020.

[18] Supply . chain and risk management. Making the right risk decisions to strengthen operations performance. PwC, 2013.

[19] ROI of Supply Chain Risk Management. riskmethods and eckseler-consult, November 2014.

by Deloitte: "A recent Deloitte Touche Tohmatsu Limited survey found that 85 percent of surveyed global supply chains had experienced at least one disruption in the past 12 months. Fortunately, proactive risk management in the supply chain has shown to be a cost-effective approach. Companies that indicated they proactively manage supply chain risk spend 50 percent less to manage supplier disruptions than companies that stated they aren't proactive."[20]

Capability	Actions	Value	Platform
Strategic category/ product risk management	1. Identify high profit/ revenue categories and alternate sources 2. Identify raw materials/ components with limited availability and lock up supply	1. Prevent unexpected stockouts of key products or at least minimize duration 2. Prevent unexpected stockouts of key components or materials that could bring down production times	• Risk tracking • Risk indicator tracking • Alternate source tracking
Supplier/ geographic risk management	1. Identify suppliers in high risk geographies and suppliers in alternate geographies	1. Allow the organization to quickly switch suppliers if a supplier or geography becomes inaccesible	• Alternate supplier tracking
Corporate social responsibility (CSR) & sustainability	1. Identify parts/ components containing regulated materials 2. Identify suppliers (incl. Tier 2, etc) representing a risk: child labor, slavery, pollution, health & safety, etc	1. Allow the organization to track/replace materials 2. Allow the organization to quickly switch suppliers if a supplier is identified as non-compliant	• Risk tracking • Risk indicator tracking • Alternate source tracking

Decrease Procure to Pay (P2P) Costs

In many organizations, there is a lot of waste in processes. Lean process transformation can save a considerable amount in overhead cost. The Hackett Group's 2018 analysis of its procurement benchmarking database concluded that organizations that are leaders in the digital transformation of procurement enjoy performance advantages over average organizations which include 21% lower labor costs and 29% fewer full-time equivalent staff. By standardizing and automating routine tasks, they lower the cost of many activities, while technology raises staff productivity.[21]

[20] Understanding risk management in the supply chain. Using supply chain data analytics to drive performance. Deloitte Risk & Financial Advisory, 2017.

[21] Raising the World-Class Bar in Procurement Through Digital Transformation. The Hackett Group, 2018.

The aim is to reduce friction in procure-to-pay (P2P) processes. In 2019 the Hackett Group further reported that "Through full deployment of digital tools, typical procurement organizations can reduce operational costs by up to 45%".[22]

According to research by the US Institute of Finance & Management and Tungsten Network, the cost of P2P friction to American companies averaged $171,340 in 2017. Only 31% of businesses felt they were moving forward in reducing P2P friction.[23]

Deloitte estimates process efficiency gains of up to 50% and EBIT improvement of up to 5% by applying its methodology to overcome potential P2P process disturbances.[24]

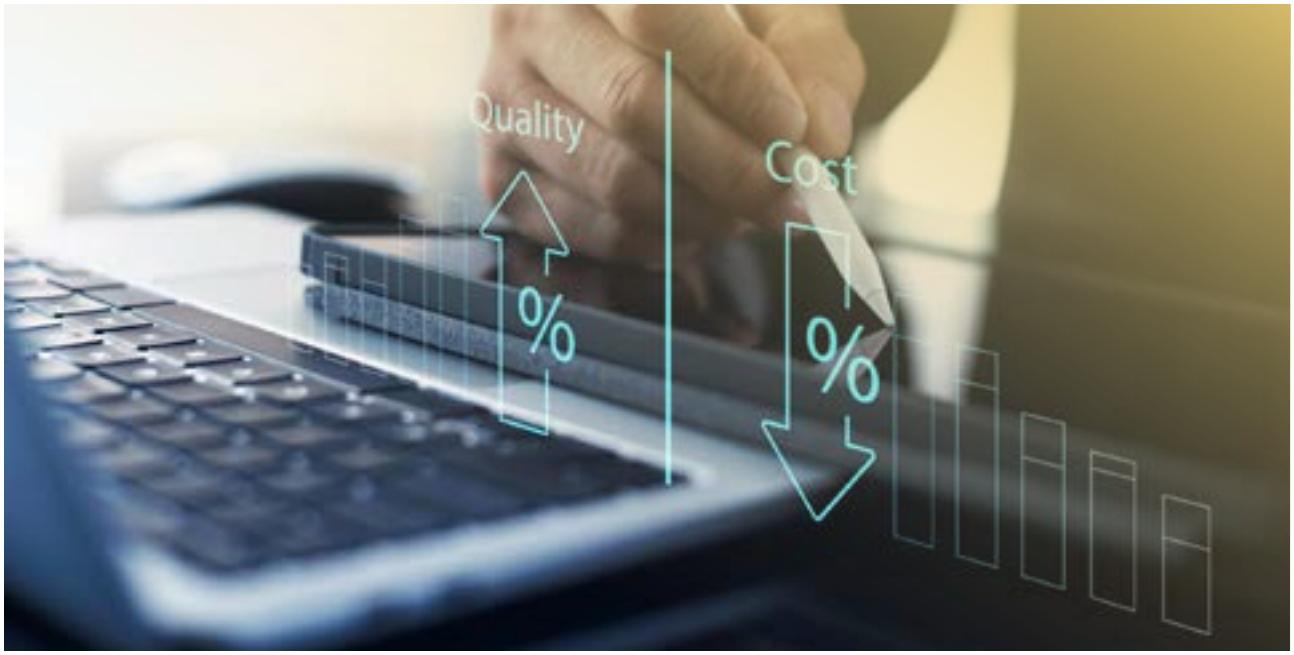
Invoicing is one example where companies that use little or no automation when processing invoices tend to spend more than $10 per invoice, while companies that have little to no manual steps in their AP process spend $2 or less per invoice, i.e., they make a saving against the average of 80%, according to data from the American Productivity & Quality Center.

[22] Digital Transformation Can Enable Typical Procurement Organizations to Reduce Cost by 45% as They Deliver Greater Value, Improve Customer Experience. Hackett Group, September 2019.

[23] 5 Proven Strategies to Reduce Costs and Accelerate Cycle Times in P2P. IoFM and Tungsten Network, May 2018.

[24] Purchase 2 Pay Optimization: Transform a Trouble Maker into an EBIT Driver, Deloitte 2021.

Capability	Actions	Value	Platform
Exploit platform capabilities	1. Catalogs, basic reverse auctions, and simple RFQs/ RFPs for tail spend 2. Incident tracking and CAM (corrective action management) for issues	3. All spend can be under management in the platform, at least market pricing obtained in all cases 4. Buyers have a more complete supplier picture when inviting to events or placing orders	• Catalogs, auctions, RFX, and standard forms and templates • Benchmarks and trends over time • Issue, return, and credit tracking
Track and manage all transactions	1. M-way match and automatic payment approval 2. Automatic rejection and return for error correction	1. Frees up wasted transactional effort for more strategic activities	• M-way match • Automatic invoice acknowledgement, processing, and return PO-flip
Use supply-chain finance (SCF) where appropriate	1. Factoring and dynamic discounting	1. Reduces overhead when discount is less than the cost of borrowed capital for daily operations	• In-platform dynamic discount support • Integration with SCF platforms
Use workflow and process templates	1. Business process modeling 2. Supplier integration	1. Focus on true exceptions only 2. Real-time flow of information	• Rich workflow engine • Supplier portal/ network



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External Factors: Working with Suppliers to Reduce Costs

You don't have to look very far to understand the dramatic impact of risk and compliance issues on the supply chain. From product quality to interrupted parts deliveries to record regulatory compliance fines and criminal prosecutions, risk and compliance issues have gained boardroom visibility and resources. In fact, a recent study found that companies that announced a supply chain disruption experienced a share price drop of an average of $9/share. As a result, spend management professionals are finding themselves tasked with not only evaluating a supplier's financial health, but with identifying and tracking a variety of other factors, from ethical and social responsibility concerns to geopolitical and climate impacts. Traditional transaction-based solutions are not well suited to collecting and managing these types of data, nor can they easily deliver new tools such as predictive analytics to identify potential problems and turn them into opportunities.

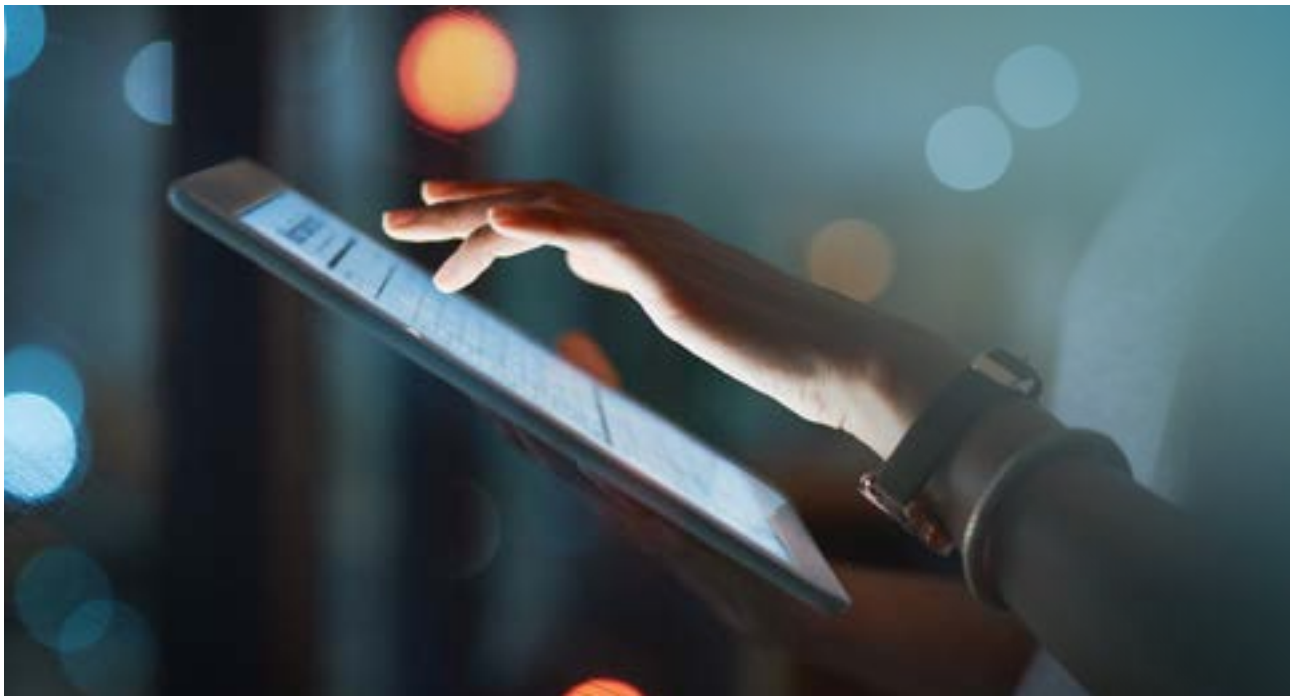
Supplier Collaboration

An outgrowth of this demand for more accurate, timely and complete supplier information is the need for true collaboration in supplier relationships. What were once largely one-way demands from buyers to suppliers, followed by exchanges of transaction information like POs and invoices, must now become bidirectional conversations for the joint management of business processes and documents. Visibility into the supplier's suppliers demands a new level of collaboration and the tools to support it.

Integration

This growth in new responsibilities and processes is also driving new cross-boundary process and information integration requirements. The old view of large-scale ERP was based on semi-connected independent business process areas like finance, HR, sales and procurement, each of which focused on the transactions and information needed to accomplish their tasks. There was a base level of integration for data elements like account numbers, but true process integration was rare.

The new spend management world demands not only cross-functional integration of process elements, like risk management and working capital planning, but also a single repository of the required information. No longer can the AP system have a loosely coupled supplier database while procurement has a vendor database, and the compliance system has a third-party database. All of these systems rely on overlapping subsets of the same data, and if there is not a central repository with the structures in place to manage the needed integration, errors and impaired decision-making will grow exponentially.



Competitive Advantage

What is competitive advantage doing in a discussion of spend cost management? Best-in-class companies are using spend management processes as a competitive weapon in their markets. The ability to respond more quickly, avoid risks, and manage costs more effectively, all contribute to organizational agility and the ability to control rather than react. Some examples include:

- Reductions in time-to-market due to best-practice sourcing processes and tools, including understanding the capabilities and capacities of existing suppliers
- Lower costs, and thus larger margins, which allow more competitive price negotiation based on sourcing/contract management/ procurement execution advantages
- Risk avoidance through predictive analytics and linked trigger-based mitigation plans, resulting in superior customer service and a lower cost of compliance

Security

Aside from supplier risk and compliance issues, one aspect that is often overlooked is security, i.e., the need for accurate and secure information exchange when doing business. As the number and frequency of security violations continues to rise, there is a serious risk that such a violation could result in high costs and damages to reputation.

The result is an increasing demand for secure eprocurement transactions to ensure the confidentiality, integrity and availability of data. Secure transactions are essential if organizations are to realize the benefits of eprocurement.

Data security in procurement falls under three main headings:

- Hosting security means that information is securely stored and segregated with controlled access to information
- Application security means identifying and addressing any vulnerabilities that may arise, such as cyberthreats
- External audits, authorizations and certifications such as SSAE18, ISO and FedRAMP provide additional protection to ensure cast-iron security

New Working Models

The world of work is changing, and this is impacting procurement as much as any other function. One impact is the creation of new hybrid roles combining procurement with expertise and skillsets in other areas. This benefits the organization in a number of ways. It means procurement brings greater value at lower cost, because the procurement professional can also perform services and functions that would once have been performed by another full-time employee. This is especially true in technology. A KPMG consultant told a recent CIPS conference that the organization was looking for individuals who combined traditional procurement expertise with digital and analytical skills: "Once these individuals are going out to talk to the stakeholders, they're actually able to understand, question, and articulate back to the stakeholder in a much more comprehensive way. This actually ends up leading to a much better procurement result."[25] Such individuals will be difficult to retain so organizations will need to adjust their human resources policies accordingly.

The Covid-19 pandemic has also required procurement to look anew at the way we work, and this too has implications around the value procurement delivers, and at what cost. According to a McKinsey report, "companies will want to reimagine not just what the [procurement] function does but also how it operates and which new capabilities it will need." It identifies several responses that companies should take, including new working models: "Team meetings, supplier site visits, negotiations, and other face-to-face interactions that procurement professionals took for granted went virtual, or went away – all calling for new ways of working." To embrace this new reality, companies need to find more agile, future-ready operating models. "Adopting an agile operating model could help procurement functions scale up or down quickly to respond to sudden supply challenges. Agile methods could be applied to key strategic issues, such as assigning a cross-functional 'sprint team' to accelerate capturing value in a specific spend category or creating a 'negotiation factory' to deliver contract negotiations in assembly-line fashion or rapidly onboarding a new supplier. These new ways of working require new skills: data engineers and data scientists are becoming increasingly commonplace in leading procurement departments, and demand for data capabilities is increasing across the function. Procurement leaders will also want to step up on the soft skills required to cultivate solid partnerships and to collaborate more effectively with internal functions across the business in a more agile manner."[26]

[25] Are 'hybrid roles' the future of procurement? Supply Management, November 4, 2020.

[26] Reimagining procurement for the next normal. McKinsey, August 2020.

04 |

Optimizing Spend Management with a Comprehensive Source-to-Settle Solution

Technology plays a central role in any optimization and can do so more rapidly than many commentators imagine. Technology can make a major contribution to cost reduction, or to express it more positively, value optimization. According to McKinsey, "The tech-enabled cost-reduction approach uses automation, artificial intelligence (AI), and other technologies to find new opportunities in such areas as capacity reallocation, spending effectiveness, and accounts receivable. Based on our experiences with 24 industrial companies, we found that it can cut indirect costs by as much as 15 to 20 percent in 12 to 18 months."[27]

Depth and Breadth

It should be clear from the foregoing discussions that optimizing the value you get from spend management, in terms of both efficiency and effectiveness, is no simple matter. There are many moving parts, and each of the moving parts of the complex whole is itself complex. A solution therefore needs to offer both breadth in solution coverage but also depth of functionality, while simplifying, as far as possible, the complex.

The stakes are high, and so are the returns. As a result, it's common for vendors to take a single-function solution like sourcing, add a few additional supplier management capabilities and claim that it is a "best-of-breed" solution. And indeed, they may be able to demonstrate best-of-breed performance in particular areas of strength, though it is more than likely that the costs they suppress and the value they gain in one area will reappear as costs or lost value in others.

While no vendor can be perfect at everything, leading supplier management

[27] Advanced Industries Practice. How industrial companies can cut their indirect costs – fast. McKinsey Private Equity & Principal Investors Practice, August 2020.

vendors will have breadth across their solution suite as well as depth that includes tightly coupled applications, the ability to optimize all processes, and a robust roadmap to demonstrate how they will continue to deliver new capabilities.

So, what are the key differentiating supplier management solution elements you should look for in order to ensure that you can optimize your spend management environment along all of the other vectors we've been discussing? The following should be key considerations:

Cloud-based Self-service and Collaboration

Cloud (or SaaS) solution capabilities enable easy interaction for all of the interested parties. Suppliers need only a browser and a URL in order to collaborate, which means you can collect data at the source. Buyers and other stakeholders can also interact efficiently and easily, and role-based security ensures that everyone has access only to authorized information. Self-service will also enable new collaborative functions such as dynamic discounting in which a buying organization offers early payment in exchange for an additional discount. As a result, buyers and suppliers alike can manage working capital more effectively.

Automated Workflow Management

Best-in-class workflow includes conditional branching, simultaneous parallel execution, and trigger-based processes launched through integration with other systems. In order to drive the complex decision trees and rapid-response capabilities to deliver the highest ROI, workflow must be at the heart of the automation.

Risk and Compliance Management
These are among the newest capabilities for suppler management solutions. It also presents a challenge, in that there are likely elements of risk and compliance in other enterprise solutions, such as finance and corporate strategy. Be sure to look for the collection of not only financial risk data but other types as well.

Third-party Data Integration
While it has been common in the past to access financial health data such as D&B while qualifying a new supplier, the new concepts of risk demand a much broader information set. Third-party sources should include news stories, commodity trend data, weather forecasts, and geopolitical data. Today, online access to data is nearly limitless ... for example, you can license international bill of lading (BOL) data to evaluate trends that impact risk.

Next-generation Networks
Today's supplier networks form the core of the supplier management universe. Best-of-breed networks have moved away from the earlier "one-to-many" model, in which many suppliers only dealt with a single buyer on a "network" and often felt they were no more than a price. Now "many-to-many" networks provide value to suppliers in terms of new customer opportunities and the ability to sell on value, not just price.

Networks are also providing opportunities to explore new B2B capabilities such as crowd-sourced supplier ratings and the online purchase of enhanced data feeds or analysis.

Predictive Analytics
It's no longer enough to look in the rearview mirror. In order to achieve competitive advantage, you have to anticipate markets and events. A predictive analytics capability will allow you to combine supplier, business and market data in ways that allow you to proactively take advantage of new opportunities and avoid unexpected disruptions.

05

Advanced Technology Developments in Value Optimization: A Peek into the (not so distant) Future

Increasingly, optimization will be driven by digitalization, analytics and automation rather than the simple digitization of routine tasks. A recent report by Kearney stated, “As procurement embraces going digital, the organization’s structure will change with a new allocation of resources and new way of working. Repetitive procurement tasks will become automated, and supply market data will be more prevalent, shifting resources from focusing on transactional and administrative tasks to integrating data and examining analytics.”[28]

A survey report published by JAGGAER and IPG Consultants in 2024 highlighted three areas in which we can look forward to advanced technology delivering ever-increasing value to organizations with best-in-class procurement functions: supply side, demand side, and collaboration-related. It also considered how Covid-19 initially stalled the implementation of advanced solutions, as organizations focused on weathering the storm, but provided an impetus for accelerated development in the longer term.

[28] Procurement: Making digital transformation work for you. A.T. Kearney, 2020.

Supply Side Advanced Solutions

Supplier health will be monitored by leveraging all types of internal and external sources, such as buyers' information on the speed at which suppliers are committing to orders or requesting earlier payments, information from plant visits regarding utilization, and newspaper/industry discussions on sell-and-lease-back deals or the loss of key people to understand the "real" situation of the supplier.

Solutions will come on stream that will allow procurement professionals to identify supply risk scenarios proactively, based on continuous risk exposure, and to develop and run scenarios for likely and less-likely events, accounting for impacts across the value chain. As supply chains have been extended over the years there is even more complexity as a result of external sources of risks, as the Covid-19 crisis proved all too well.

To achieve a more efficient and effective supply chain, companies will need to deploy innovative optimization models to understand risk when there are multiple uncertainty factors. The technology will also be able to identify business and operational opportunities by providing robust supplier alert management. The technology is typically built on three functional modules: an optimizer, a discrete-event simulator and a supply chain modelling framework. The optimizer continuously searches through various supplier portfolios and related operational parameters, driving the creation of corresponding simulation models. The supply chain planner is then able to optimize the supplier portfolio, taking uncertainties into consideration. Alerts notify the planner of any changes in circumstances.

Predictive analytics is just beginning to feature in a small number of procurement functions. In the future, they will benefit from built-in anticipation by embedding predictive analytics into decision-making to identify and react to supplier issues before they arise. This reflects the kind of AI-driven developments in other areas of business (e.g., the shift from

reactive to predictive maintenance) and provides similar benefits, such as just-in-time interventions to prevent shortages and expensive late orders while reducing inventory costs.

Supply risk mitigation will become business-as-usual: organizations will integrate automated risk mitigation workflows, scenarios, and protocols into business-as-usual playbooks to switch quickly from normal operations to disruption response, as needed. Unsurprisingly in the year of Covid-19, risk mitigation became an issue, but it has yet to be integrated into such playbooks to enable organizations to switch from normal operations to disruption response.

As we do progress, we will move beyond even more complex rules-based automation to intelligent automation in which actions and protocols will be automated once their effectiveness is proven using technologies such as machine learning. JAGGAER refers to this as “cognitive procurement”, which enables the machine to learn from large volumes of data in such a way that it drives continuous improvement.

Demand Side-Related Advanced Solutions

Demand planning is a supply chain management process of forecasting, or predicting, the demand for products to ensure they can be delivered in the right quantity at the right time. The goal for procurement is to leverage this forecasting to strike a balance between having sufficient inventory levels to meet customer needs and overspending on unnecessary surplus. Organizations will need to be able to prepare multiple demand scenarios and plan actions within these scenarios if they are to compete effectively.

Advanced statistical forecasting tools will be increasingly used to generate a realistic forecast for base demand and market intelligence information will be integrated into product-specific demand-forecasting models. Using historical data, statistical forecasting creates supply chain forecasts with advanced statistical algorithms such as regression models built up to project a range of demand curves based on a certain confidence level. A high level of analytical competence is needed here, which many companies do not yet have. For them to be effective, it is important to determine the accuracy of each model, identify outliers and exclusions and understand assumptions.

Another area of demand forecasting in which we expect to see further development is product portfolio management. This oversees the overall product lifecycle, beginning with the introduction of a new product through to its end-of-life planning, which is highly relevant in sectors such as high-tech manufacturing. In such sectors, product lines are interdependent, and understanding how new products may

influence demand for other existing, new, or established products is important to understanding the overall product mix required to maximize market share.

Integrated planning systems and electronic data interchange with customers will be established to obtain real-time updates on planned volumes. This is a solution that is already in operation in some best-in-class organizations. They will be able to monitor the probability of order cancellations, similar to the processes for monitoring the possibility of winning orders.

And finally, organizations will in the future be able to establish real-time visibility to identify and secure logistics capacity by tracking the on-time status of freight in transit and monitoring of broader changes, such as airport congestion and border closings. This is a solution that is already in operation in some best-in-class organizations. JAGGAER Sourcing Optimizer is a good example of a solution that is already providing access to real-time market information and the flexibility to move quickly, which is a vital advantage always, but in particular at a time of intense volatility in the freight market such as we saw in 2020.

06 |

Conclusion & Next Steps

The implementation of an integrated procurement solution that offers breadth and depth while being flexible and efficient is the sine qua non for optimization now and moving forward.

Once this is in place it is possible to implement tools and solutions that will not only fix an immediate challenge but provide the basis for continuous improvement.

The rewards for getting this right will be considerable, not just in traditional terms of savings (important though this is) but also in terms of aligning with the objectives of the wider business, mitigating risks, making the right build or buy decisions, achieving greater supplier diversity, ensuring compliance etc.

There is no software “tool” that can fix this alone. Organizations that want to progress need to identify and address their needs holistically, systematically and strategically, working with the right partners. On the other hand, our experience tells us that projects to automate standard operational processes can coexist and run in parallel with projects to implement more advanced solutions.

If properly managed technological solutions, and the value they deliver, grow in lockstep with the maturity of the procurement function itself.

We recommend any organization to undertake a comprehensive needs analysis to identify the areas of its procurement operation that are most in need of optimization. A good starting point for this is our Procure to Pay Evaluation checklist.

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