



ZYCUSTM

GLOBAL SOURCE-TO-PAY SOFTWARE SOLUTIONS

Part 1

PULSE

of Procurement 2018

INTRODUCTION

Dear Colleague,

Here we present Part 1 of our **Pulse of Procurement 2018** study report. For the first time in some 20 years, the procurement function is facing a sea change powered by rapid advancement and convergence among a number of disruptive technologies – Artificial Intelligence, Internet of Things, Blockchain, 3D printing, and more. With this year's study, we take an initial look at how procurement professionals around the globe see these technologies reshaping their function in the years immediately ahead.

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

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

Aatish Dedhia
CEO, Zycus Inc.

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COMING SOON in Part 2

PROCUREMENT PERFORMANCE BENCHMARKS
 Cost savings, spend under management (SUM), contract compliance

PROCUREMENT TECHNOLOGY ENABLEMENT
 A solution-by-solution look at the current procurement technology enablement landscape, maturity assessments, upgrade plans, key solution benefits and value, and what it means to be state-of-the-art plus procurement technology adoption and utilization metrics

PROCUREMENT FUTURE
 Procurement leaders' views on future directions for the function



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

REVENUE

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

GEOGRAPHY

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

JOB TITLE

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

EXECUTIVE SUMMARY

- **Believe the hype!** Procurement, sourcing, and supply management professionals envision a broad array of future uses for fast-moving technologies such as:
 - Artificial Intelligence (also known as Machine Learning) (p6)
 - Internet of Things (IoT) (p7)
 - Blockchain (p8)
 - Manufacturing robotics, automation, 3D printing (p9)
 - Advanced materials technologies such as graphene, nanotechnology, and OLEDs (p10)
- **Big pain points for procurement are remarkably intransigent.** Lack of sufficient time and resources for the work they most value doing ranks at number one on this year's list of top procurement pain points. Poor visibility into supplier performance and too few standard processes round out the top three. Debuting on the pain points list this year: skilled labor/talent shortage at number eight and rising political and economic uncertainty at number 12 (p12).
- **Corporations worldwide continue to invest in strategic procurement.** Roughly three in four procurement organizations worldwide report stable or rising budgets for operating, capital, and labor expenses this year (p13).
- **Strategic transformation remains the number one priority** for more than half (53%) of procurement leaders this year, though 19% say they are shifting focus to leveraging Big Data/analytics and 15% are focusing more on achieving synergies with suppliers (p14).
- **Cost savings is still the top focus area** for procurement, though it has a far less commanding lead than in years past. Negotiating leverage in many markets has shifted from buyers to suppliers, so procurement leaders appear to be looking more to process-based savings to achieve performance goals in 2018 (p16-17).
- **Procurement teams are tasked with delivering 9% savings overall this year** with no notable variation by company size (p15).
- **On the maturity curve for strategic transformation,** one in five procurement organizations perceive themselves to have attained global best-in-class status. Large companies gain three points on this measure in 2018, mid-sized firms gain nine points, and small firms add seven points (p19).

BIG TECHNOLOGY TRENDS

ARTIFICIAL intelligence

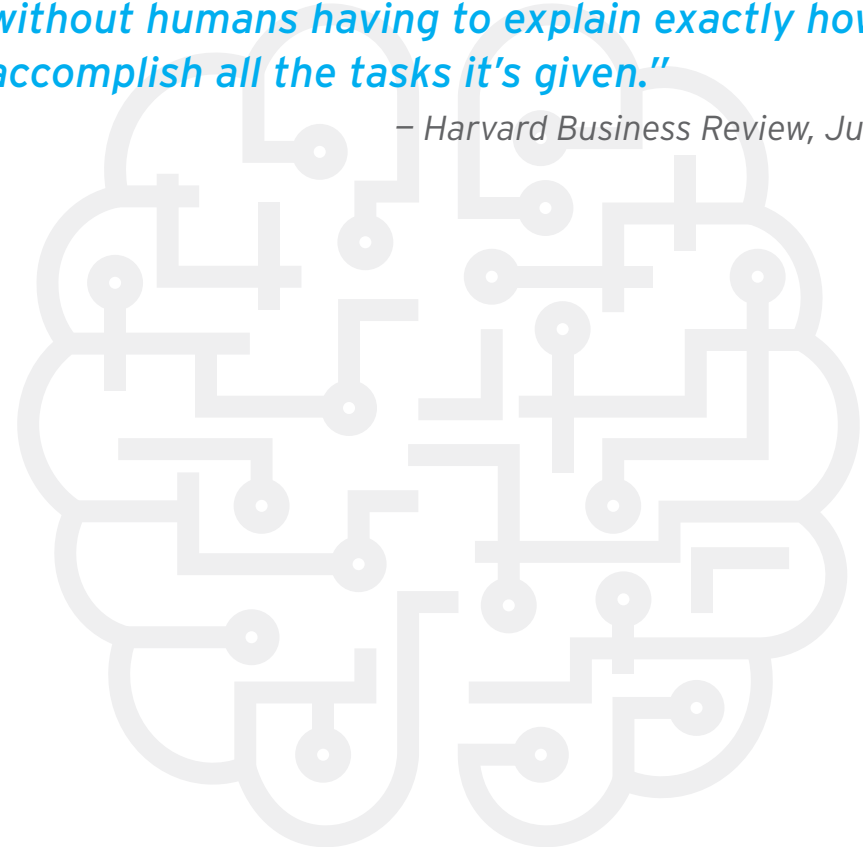
Talk of **Artificial Intelligence (AI)** – also often referred to as Machine Learning – has exploded across both business and social media of late, so it is no surprise that some 33% of procurement professionals see it as the most likely technology to influence the procurement function in the near future. While the arrival of AI may be new to many industries and business functions, the technology has, in fact, been operational within procurement for roughly two decades. It started with classification of transactions for spend analysis, then expanded to such areas as guided buying and automated identification of cost savings opportunities.

With some 20+ years worth of procurement-specific machine learning already accomplished, procurement professionals now see AI expanding into such areas as:

- Forecasting demand and market trends
- Determining true market pricing
- Negotiating contracts
- Driving sourcing events and decision analysis
- Verifying transactions and processing invoices
- Setting strategic priorities
- Driving compliance
- Improving speed to market
- Managing supply risk
- Extending spend under management (SUM) to include more lower-value spend

“The most important general-purpose technology of our era is artificial intelligence, particularly machine learning (ML) – that is, the machine’s ability to keep improving its performance without humans having to explain exactly how to accomplish all the tasks it’s given.”

– Harvard Business Review, July 2017



INTERNET of things (IoT)

Fifteen percent (15%) of procurement professionals vote Internet of Things (IoT) – a world in which things such as manufacturing equipment, production materials, and MRO supplies, gather and transmit data about themselves and their surroundings – as the most likely technology to influence procurement in the near future. Indeed, if Artificial Intelligence (AI) is the brain, then IoT is the five senses.

Inventory, equipment maintenance, goods re-ordering, supplier performance tracking, global supply-chain, and risk management are all areas where procurement professionals see IoT being optimized to their benefit.

Not everyone is a fan, though. Some worry the costs might still outweigh the benefits at least in the near term as IoT technology matures alongside procurement's abilities to manage and leverage the resulting explosion of data and information. Others see new risks arising – namely data and network security as well as a loss of nuanced understanding as machine-automated interactions continue to supplant human relationships.

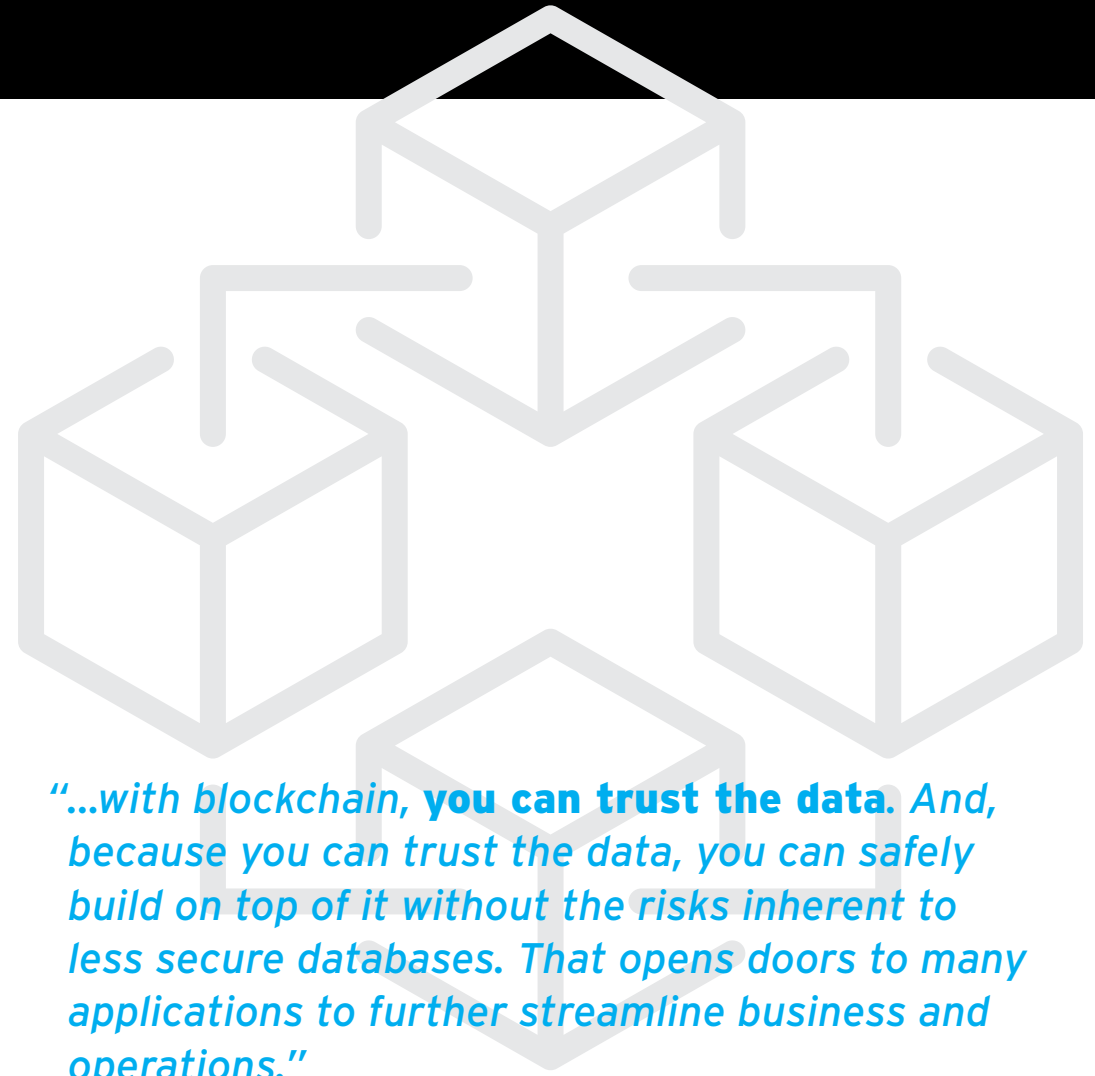


BLOCK chain

Blockchain – most commonly known as the technology underpinning cryptocurrencies such as Bitcoin – has rapidly been identified as holding immense potential for procurement, sourcing, and supply chain management.

Some 13% of procurement professionals participating in the **2018 Pulse of Procurement** study believe Blockchain will be most influential for the function over the near future. Predicted uses in procurement and supply chain management include:

- Automating invoicing and payments
- Guarding against parts counterfeiting and other forms of supply-chain fraud
- Managing chain of custody for materials and parts in support of regulatory compliance, quality control, product recall, warranty, and so forth
- Expediting freight (for example import/export transactions), opening new opportunities for global sourcing
- Managing social/environmental standards for supplier behaviors – labor practices, exposure to conflict minerals, and so forth – across global, multi-tiered supplier networks



“...with blockchain, you can trust the data. And, because you can trust the data, you can safely build on top of it without the risks inherent to less secure databases. That opens doors to many applications to further streamline business and operations.”

*–Bertrand Maltaverne, Procurement Digitalist, Vienna Austria,
Procurement Tidbits, July 2017*

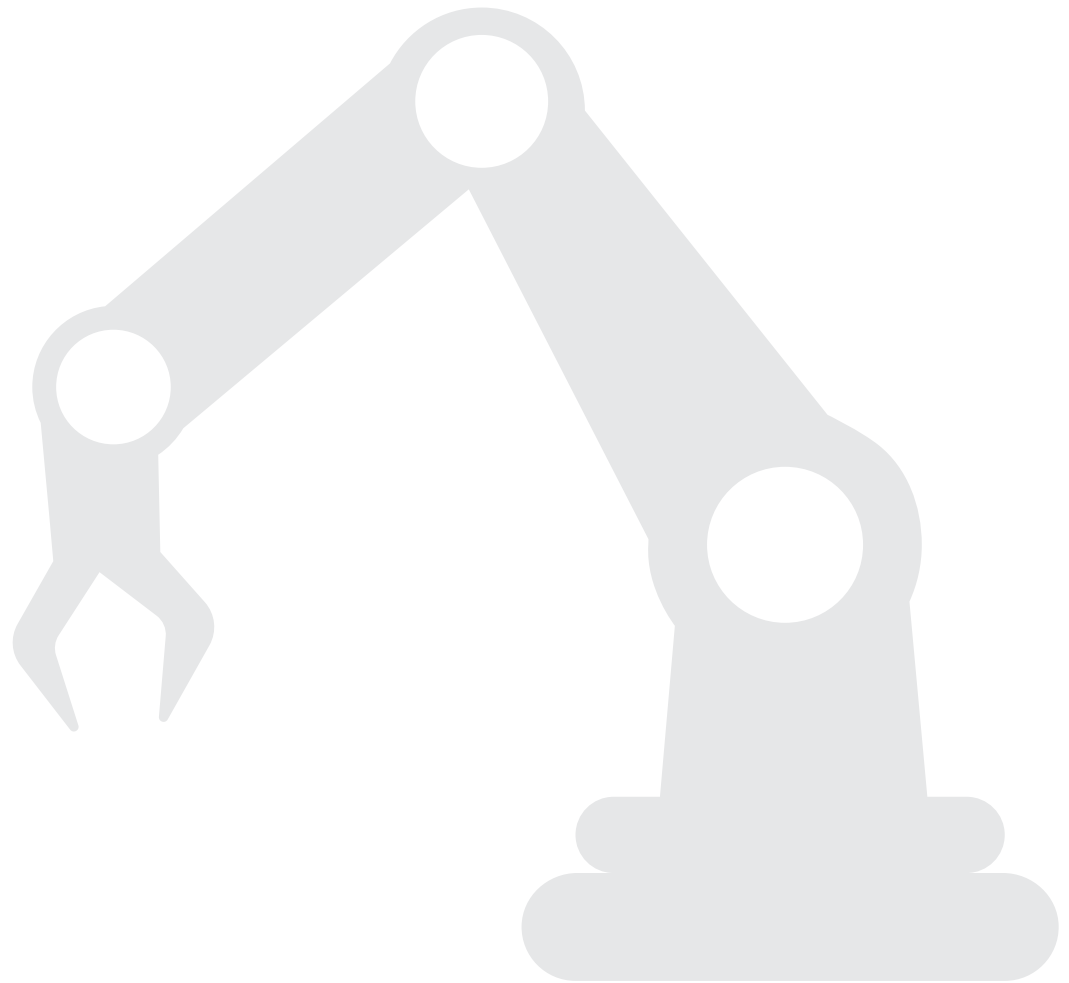
MANUFACTURING

robotics/automation/3D printing

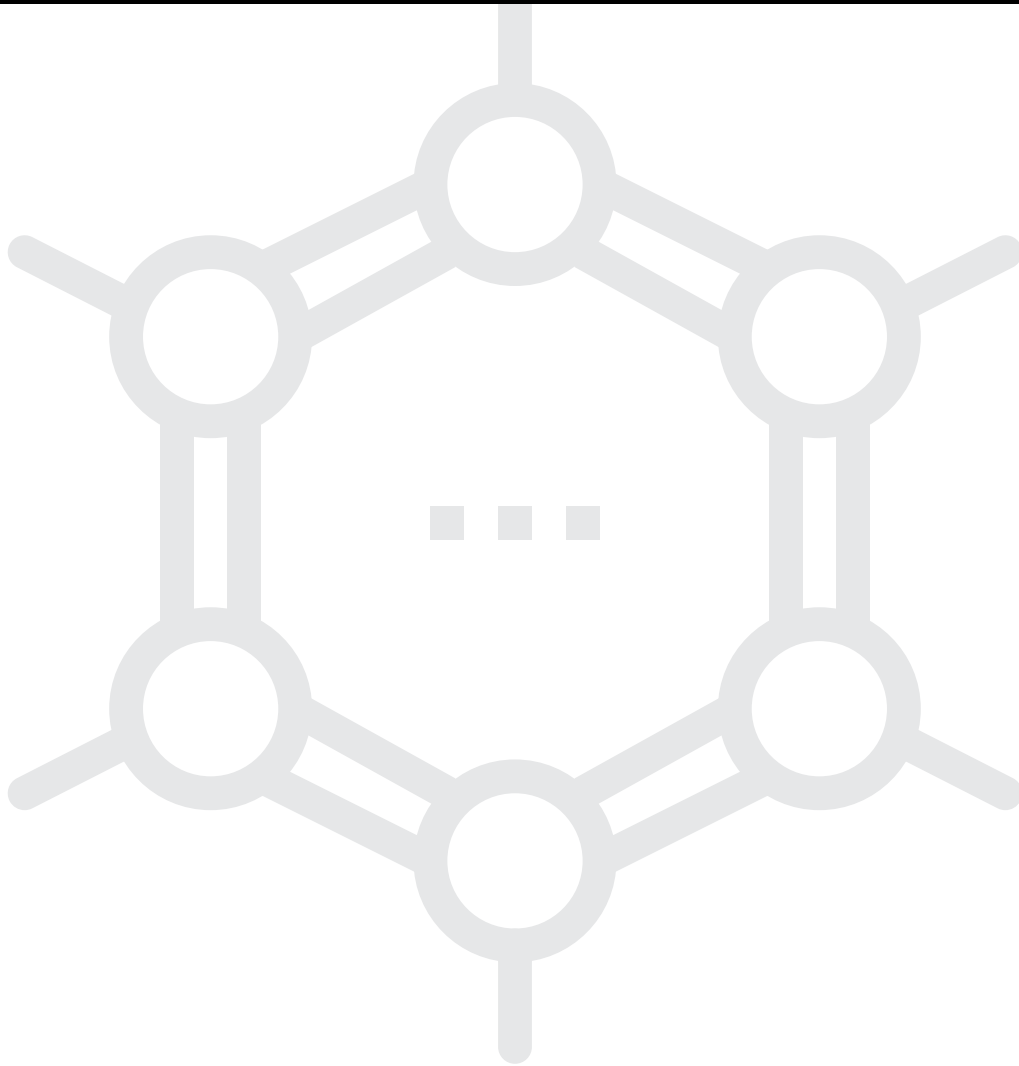
In a tie for 13% with Blockchain, manufacturing robotics, automation, and 3D printing technologies have also now broken into the collective procurement consciousness as a key influencer of change in the years immediately ahead.

While these technologies are primarily centered in manufacturing facilities (versus procurement offices), they are expected to have profound effects in upending longstanding business models and procurement approaches to:

- Modeling supplier cost structures for informing negotiations
- Designing supply networks in support of new product introductions (for example, should parts be purchased and warehoused or licensed for 3D printing? Printed in-house or at a distributor's location?)
- Managing/improving parts quality
- Contingency/risk planning
- Contract authoring and risk, especially in relation to 3D printing and intellectual property
- Forecasting demand, supply availability, delivery leadtimes, and so forth



RENEWABLE ENERGY & advanced materials



While three quarters of procurement professionals believe AI, IoT, Blockchain, and manufacturing automation and 3D printing are the key tech trends for procurement professionals to watch in the near future, two other areas have smaller, but still notable mentions.

Some 8% of procurement professionals participating in this year's **Pulse of Procurement** study cite climate change or renewable energy as likely to have the greatest near-term influence on the procurement function. They see this playing out for procurement mostly in terms of stricter regulatory and compliance requirements; cost savings opportunities via facilities retrofit, and potential for disruptions to old assumptions around energy-industry economics, impacts on price, supply/demand forecasting, and modeling of supplier cost structures.

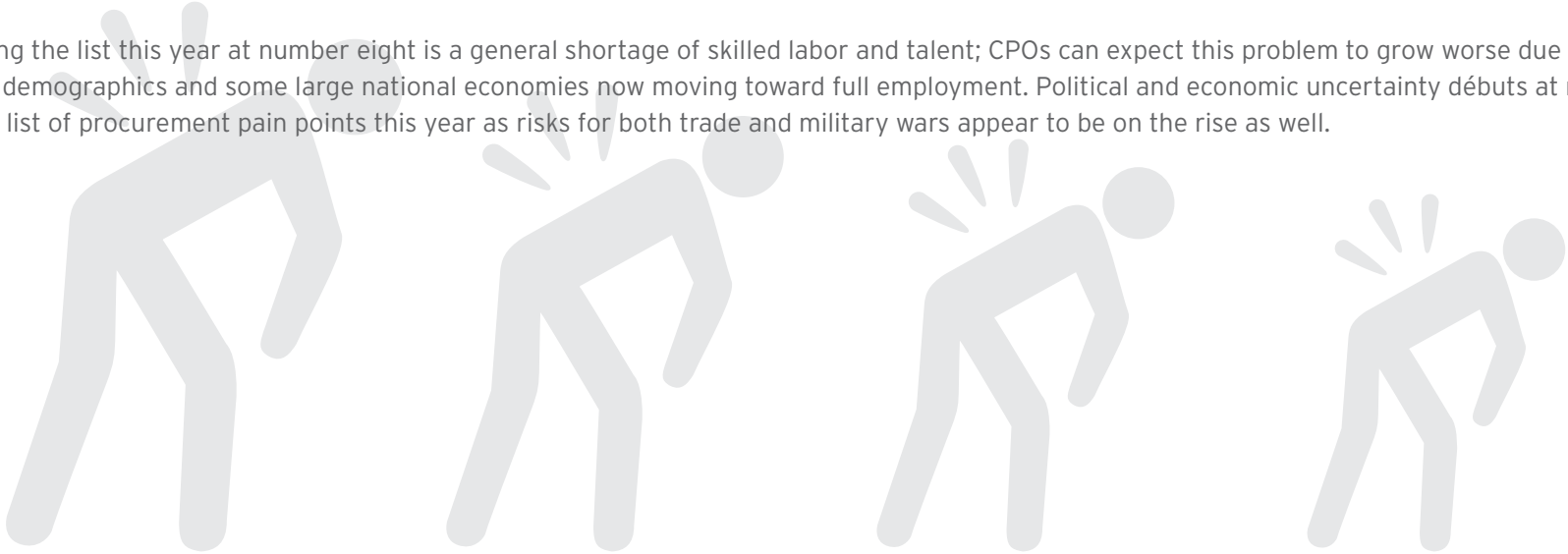
Another 5% of procurement professionals, likely those with early involvement in supporting new product exploration and design processes, cite advanced materials – such as graphene, nanotechnology, organic light emitting diodes (OLEDs), and so forth – as the most important technology trends for procurement professionals to watch.

PROCUREMENT PRESENT

PROCUREMENT pain points

While there is much in terms of emerging technologies for procurement professionals to feel excited about in 2018, many longstanding pain points for the function persist as well. Concerns about poor visibility into supplier performance gains the number two spot on this year's list (up from number four in 2017). This may be a function of rising risks associated with tightening supply markets and accelerating inflation, which, in turn, mandates greater focus on the early warning signs that often show up in supplier performance data long before supply disruptions materialize. Data in disparate sources rises from number six on the pain points list in 2017 to number four in 2018.

Entering the list this year at number eight is a general shortage of skilled labor and talent; CPOs can expect this problem to grow worse due both to global demographics and some large national economies now moving toward full employment. Political and economic uncertainty débuts at number 12 on the list of procurement pain points this year as risks for both trade and military wars appear to be on the rise as well.



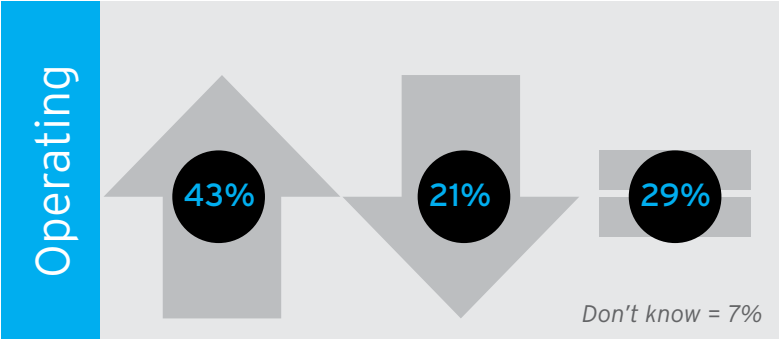
1. Lack of time and resources	5. Long, cumbersome sourcing process	9. Outdated technology	13. High dependency on IT
2. Poor visibility into supplier performance	6. Contract risks	10. Unstructured data reporting	14. Data in multilingual formats
3. No standardization in process	7. Lack of compliance	11. Lack of supplier collaboration	15. Other
4. Data in disparate sources	8. Skilled labor/talent shortage	12. Political/economic uncertainty	16. Limited data security

PROCUREMENT budgets

How procurement budgets have changed from 2017 to 2018:

+5pts

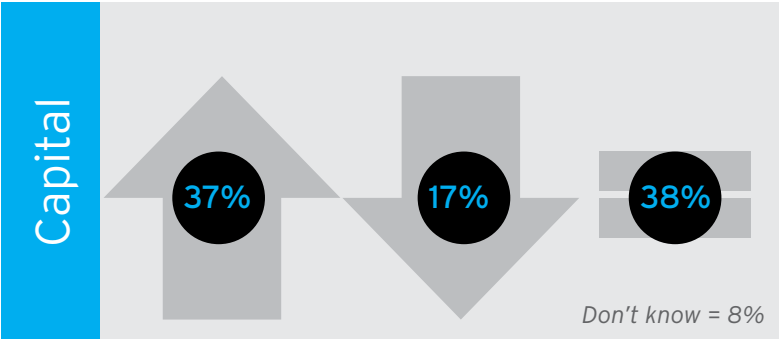
Percent reporting increasing budgets compared to 2017.



Overall, it appears that corporations worldwide continue to favor investments in their procurement functions. Some 72% of this year's survey panel report either stable or increasing procurement operating budgets. The percentage reporting higher operating budgets rises 5 points, following a 7-point leap in 2017.

+1pts

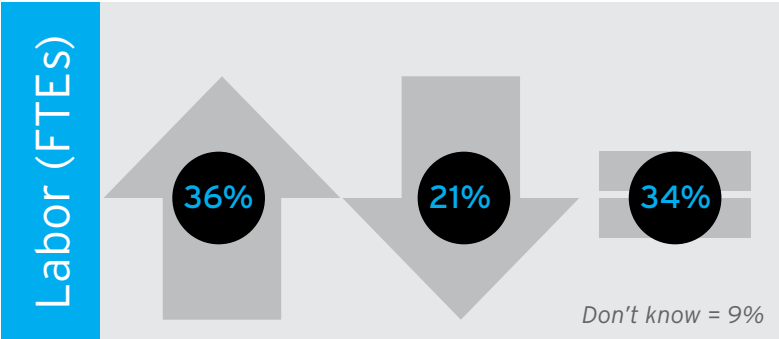
Percent reporting increasing budgets compared to 2017.



Corporate support for procurement capital investment (typically in enterprise software) remains strong as well in 2018 with 75% reporting stable to rising budgets. Over time, as procurement technology solutions continue to migrate from enterprise- to SaaS and Cloud-based, funds formerly designated for capital spending will likely migrate over to operating budgets.

+4pts

Percent reporting increasing budgets compared to 2017.



While corporations clearly continue to invest in automation and other technologies for procurement, there is little evidence that they are trading people for technology. Some 70% say labor (full-time equivalent/FTE) budgets are stable to rising this year, and the percentage of procurement groups increasing labor budgets gains 4 points this year, following a 7-point increase in 2017.

PROCUREMENT top priorities

Business media often likes to focus on exciting new trends – AI, Blockchain, IoT, and so forth – but the reality is that roughly half of procurement organizations continue to grapple with transforming their daily work from being mostly tactical – bidding and negotiating with suppliers, placing orders – to mostly strategic.

When procurement leaders say they want to be more strategic, they typically mean undertaking such activities as understanding markets and proactively managing supply risk; optimizing supply-chain performance to be better than the competition, and spotting important new technology trends emerging in the global supply base then establishing relationships to leverage those trends into market wins. The percentage of procurement groups focusing primarily on tactical to strategic transformation has remained relatively stable over the past several years of the **Pulse of Procurement** study. Other top priority areas for procurement leaders include:

Leveraging Big Data / analytics	19%
Achieving better synergies with suppliers	15%
Mobile procurement	6%
Green procurement	3%
Other	3%



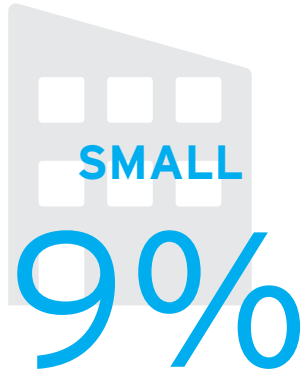
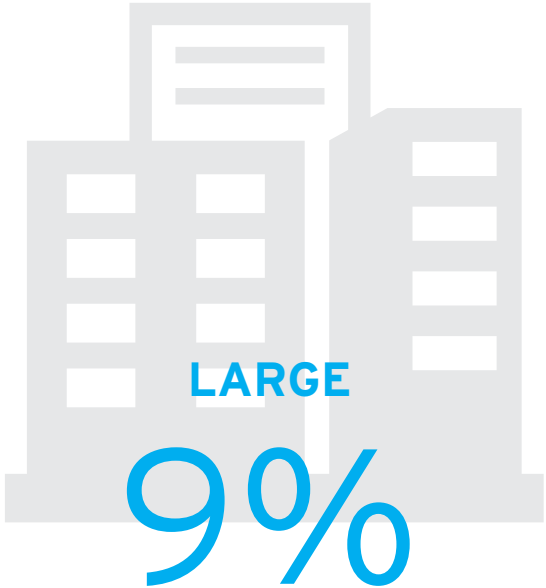
53%

Tactical to strategic transformation

“Continued advancement to Supply Management Excellence through improved technology tools, continuously updated skills, and competency improvements.”

“Expanded role, integrated with the business, technology driven.”

COST SAVINGS objectives for 2018



Cost-savings objectives for procurement have remained remarkably stable in the 10% vicinity over the past several years. This year, there is virtually zero variation in procurement cost savings objectives by company size, despite the fact that mid- and small-sized companies typically have less leverage to actively drive down supplier pricing for goods and services.

With global oil and other commodity prices now trending upward, labor markets tightening, and potential trade wars brewing, procurement teams will need to be quite creative in figuring out how to get this done in 2018.

All	9%
Low savers	7%
Mid savers	10%
High savers	10%

Of note: Procurement teams with higher historical cost-savings rates tend to also have greater ambitions for future savings, according to the study.

KEY FOCUS areas & objectives



54%

Cost savings

The **Pulse of Procurement 2018** finds little change in the *order* of procurement key focus areas (by popularity), but there are interesting shifts in the numbers. For example, 63% cited cost savings as a top focus area in 2017, while just 54% say the same this year. This might signal a general shift in market leverage from buyers to suppliers as global economies appear to be hitting labor and other constraints on growth.



54%

Process efficiency

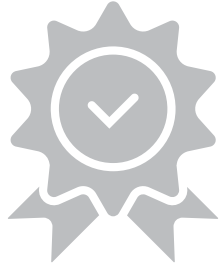
The percentage of procurement professionals citing process efficiency as a key focus area gains 4 points this year compared to 2017 and actually ties with cost savings, marking the first time ever in the history of the study that cost savings has not been a clear leader. Again, this is likely a function of declining market leverage and a need to look elsewhere to achieve procurement cost savings objectives.



39%

Cross-functional collaboration

While maintaining a number three rank in terms of relative popularity, pursuing cross-functional collaboration loses a few percentage points as a key procurement focus area for 2018. In general, cross-functional collaboration tends to rise during tough economic times; when various teams face budget-cutting they often turn to procurement for help. The opposite occurs, however, when companies are flush with cash.



38%

Supplier performance

Working with suppliers to improve performance remains at number four in this year's ranking of key focus areas for procurement; its percentage of votes also remains unchanged from 2017 as supplier performance always seems to be a key concern for procurement. Of all procurement technology areas, this one shows the most upgrade/investment planning this year as well (see p.33).

KEY FOCUS areas & objectives (cont.)



31%

Compliance

Tracking and driving compliance to standard spend processes, preferred supply relationships, enterprise supply contracts, and so forth rises from eight to six in the key focus areas ranking this year. As with cross-functional collaboration, this may be a function of economic growth and rising corporate profitability as cooperation with procurement-led cost and other performance initiatives tends to wane in times of plenty.



30%

Risk management

Supply risk management slips one spot in the key focus areas ranking this year, but gains three points in terms of percentage citing. Given the recent dramatic rise in global political instability and posturing around tariffs and other means of waging trade wars, it is somewhat surprising that supply risk management is not seeing a bigger boost.



23%

Contract utilization

Improving utilization of established enterprise supply contracts drops both by position and percentage in this year's ranking. This is also somewhat surprising as, with market leverage in general shifting from buyers to suppliers, the ability to deliver volume to enterprise supply contracts becomes an important lever for procurement to achieve its savings objectives.



23%

Sourcing cycle time

Cutting sourcing cycle times moves up three spots in the key-focus areas ranking this year; it also gains five percentage points in terms of total votes received. Much like the rise in focus on procurement-process efficiency, this may signify an inward turn in the never ending hunt for procurement-led cost savings as market-based opportunities become increasingly difficult to identify and pursue.

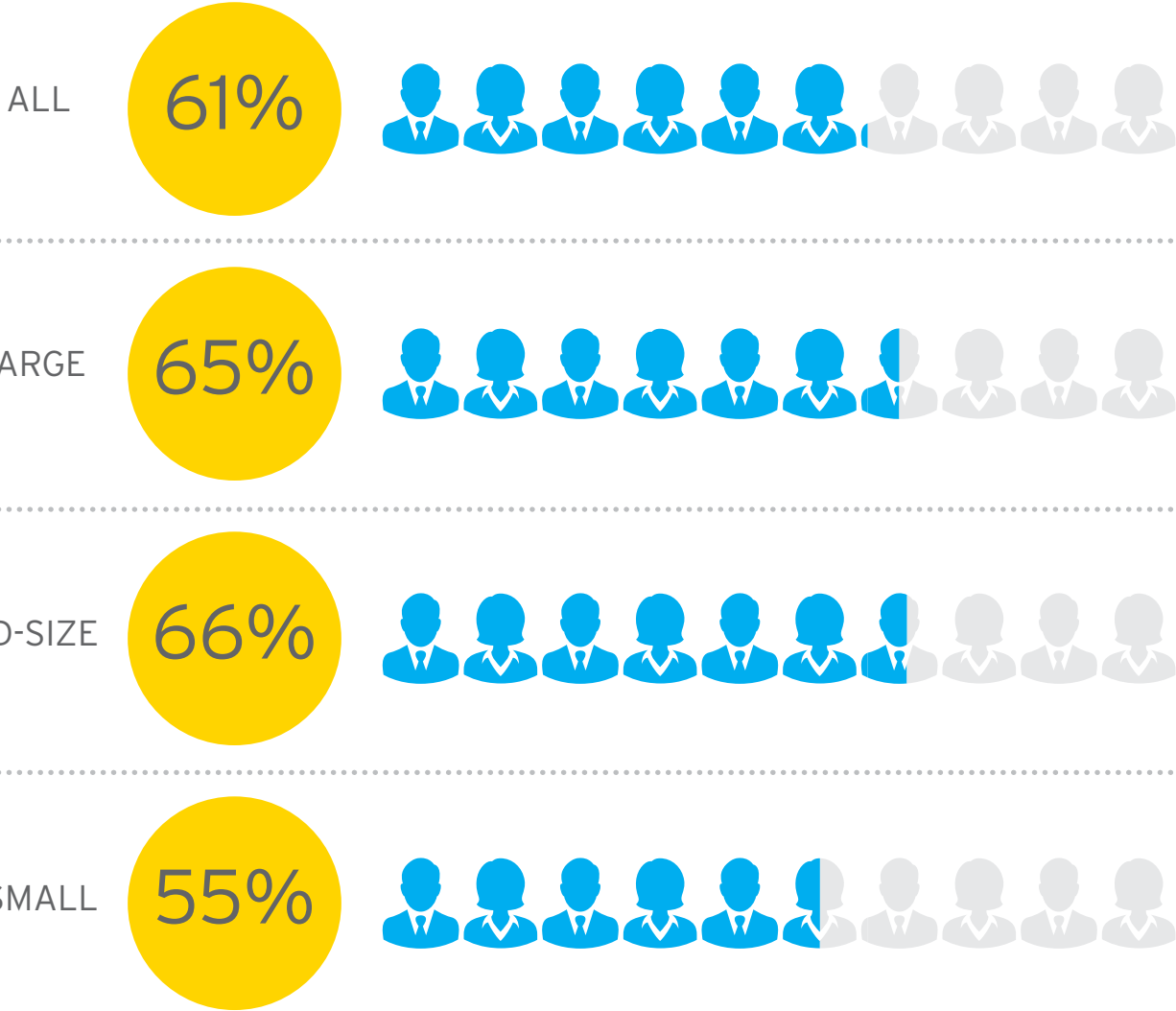
STRATEGIC mandate

For the past three years, the percentage of corporations worldwide empowering their procurement functions to control and manage spending from an enterprise level has been stable in the vicinity of 60%. But that figure belies diverging trends by company size.

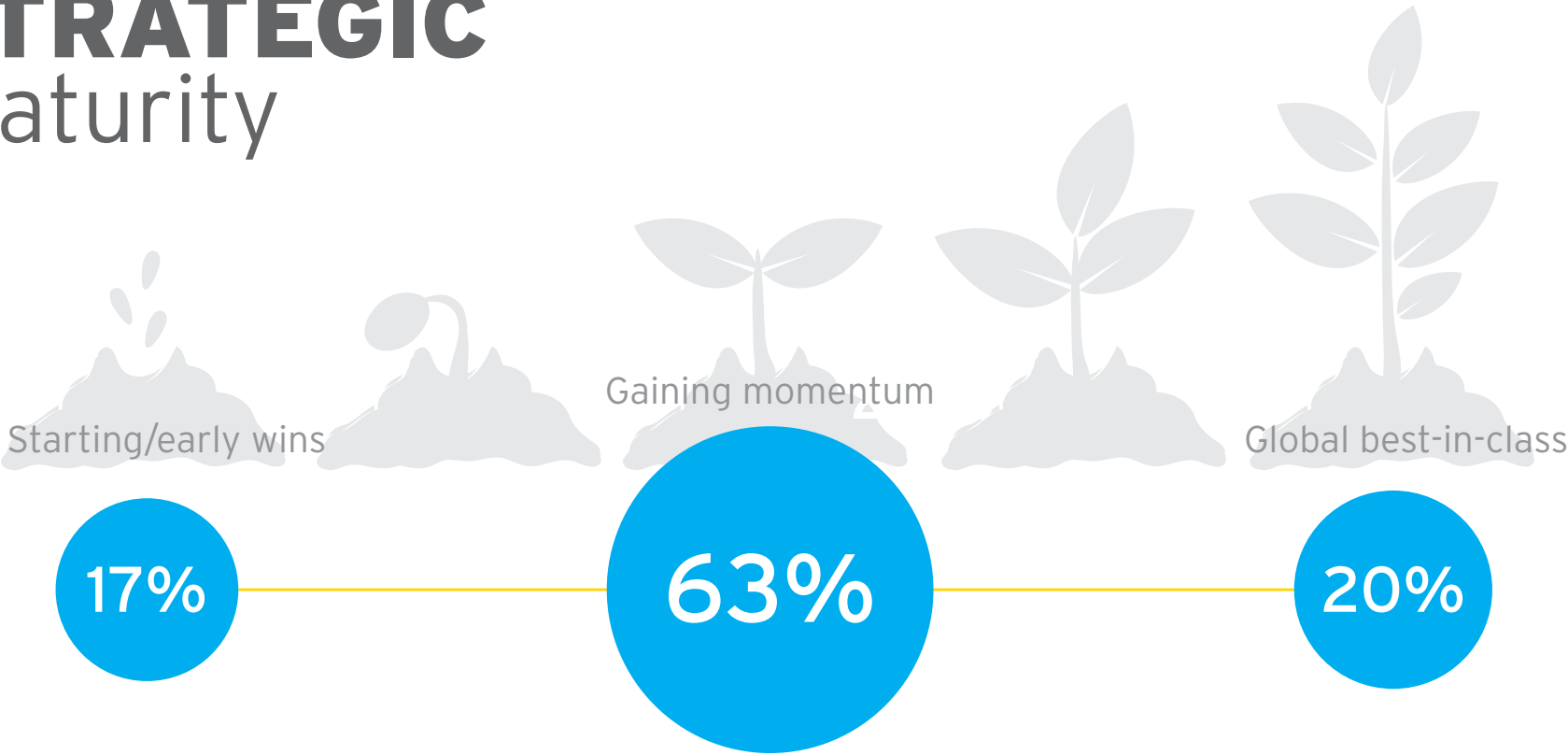
Among the largest business enterprises (\$2 billion plus in annual revenue), the percentage backing procurement-led performance improvement actually slid 5 points from 70% in 2017 to 65% in 2018. Also among large companies, the percentage of procurement pros claiming their C-Suite views procurement as important or critical to business strategy fell from 83% in 2017 to 76% in 2018.

For mid and small-sized companies, by contrast, the numbers continued to climb this year.

Does your procurement and sourcing organization have a mandate to manage spending from an enterprise level?



STRATEGIC maturity



How would you rate the maturity of your organization in terms of its strategic procurement capabilities?

The big story on the strategic maturity benchmark for 2018 is a six-point gain in the percentage of procurement organizations that rate themselves as global best in class. Those gains are across the board in terms of company size, though both mid- and small-sized company tiers show the most progression up the strategic maturity curve. **Hallmarks of global best-in-class include:** strong C-Suite backing and procurement resource investment, state-of-the-art technology enablement, systematic internal/external performance measurement, standard/repeatable processes, and strong emphasis on communications, change management, and compliance.

	Starting	Extending	Global BIC
Large – \$2 billion+	10%	67%	23%
Mid-size – \$500M - \$2B	23%	59%	18%
Small – <\$500M	22%	62%	16%

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

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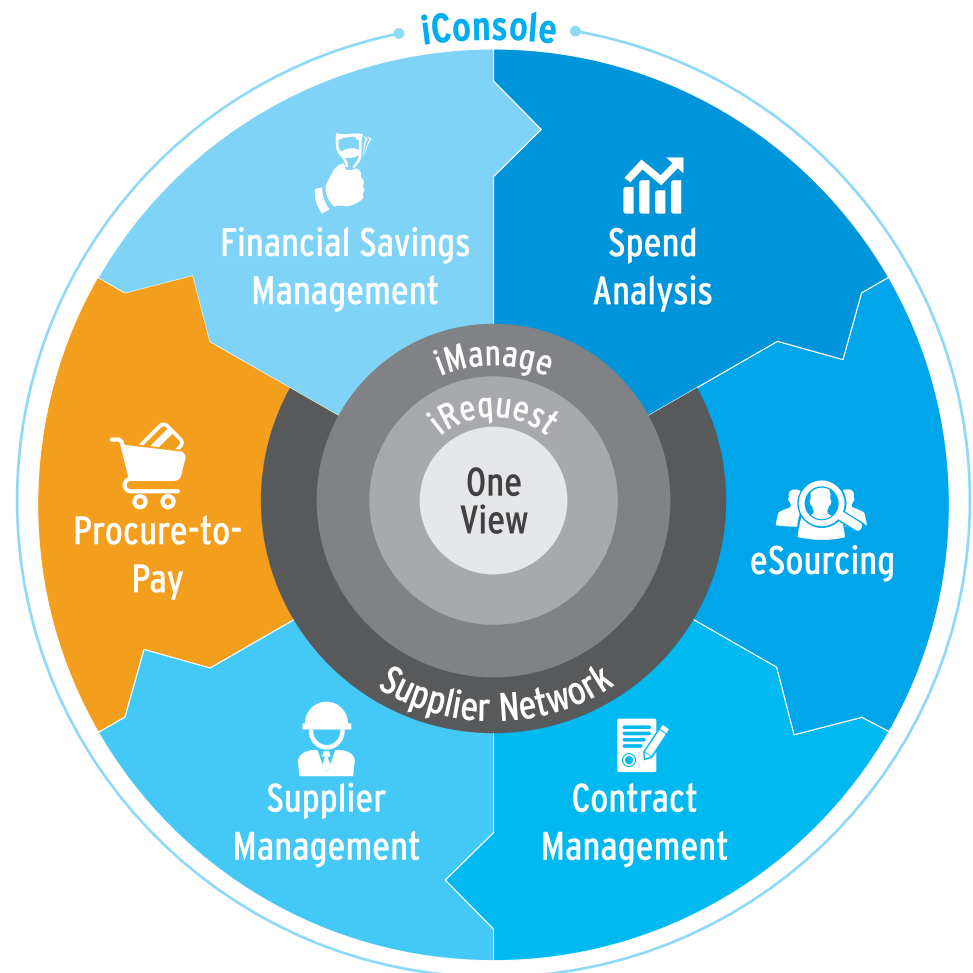
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