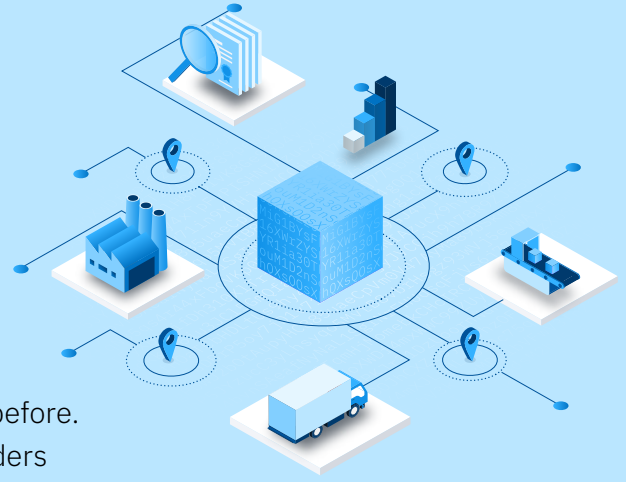


Amplify your buying power



Generative AI is unlike any technology that has come before. It's swiftly disrupting business and society, forcing leaders to rethink their assumptions, plans, and strategies in real time.

To help CEOs stay on top of the fast-shifting changes, the IBM Institute for Business Value (IBM IBV) is releasing a series of targeted, research-backed guides to generative AI on topics from data security to tech investment strategy to customer experience.

This is part 16: Procurement

Procurement is a pressure cooker

Procurement leaders feed an insatiable appetite. From product components to transportation services to commercial property, they manage the deals that make the business world go round. But no matter how much they buy, their work is never done. The business *always wants more*.

And the demands are getting more intense. As expectations rise, budgets shrink, and complexity grows, procurement teams are feeling the pressure. But generative AI can offer some much-needed release.

For instance, generative AI can support strategic sourcing and negotiating by identifying patterns in market data then quickly uncovering opportunities to aggregate purchases or dramatically cut costs that employees might miss in the rush to meet daily deadlines. And by automating transactional tasks, such as payment processing and requisition management, generative AI frees up procurement teams to focus on more strategic work that boosts the bottom line.

Generative AI-powered tools also help procurement teams prepare for a future characterized by uncertainty. It can simulate different scenarios, predict outcomes, and suggest ways to optimize procurement strategies—giving teams the confidence they need to innovate through volatility, form strategic partnerships, and inform new product development based on real-world intel.

With the right data foundation, generative AI opens new avenues for CEOs to improve profit margin and cash flow—and strengthen alliances to help their organizations navigate disruption whenever and wherever it appears. But only if procurement teams lean into innovation using generative AI.

The IBM Institute for Business Value has identified three things every leader needs to know:

1. Your Chief Procurement Officer (CPO) may need convincing.



2. Procurement can be the pioneer in your supply chain transformation.



3. Generative AI is like a procurement insurance policy.



And three things every leader needs to do right now:

1. Get your CPO to build the business case they believe in.



2. Take the first-mover advantage by optimizing generative AI for procurement.



3. Anticipate. Adapt. Accelerate.



1. Leadership + Generative AI

What you need to know



Your Chief Procurement Officer (CPO) may need convincing

CPOs are a skeptical bunch. Because they hold the purse strings, someone is always trying to sell them something. Or trying to get them to buy something they don't want.

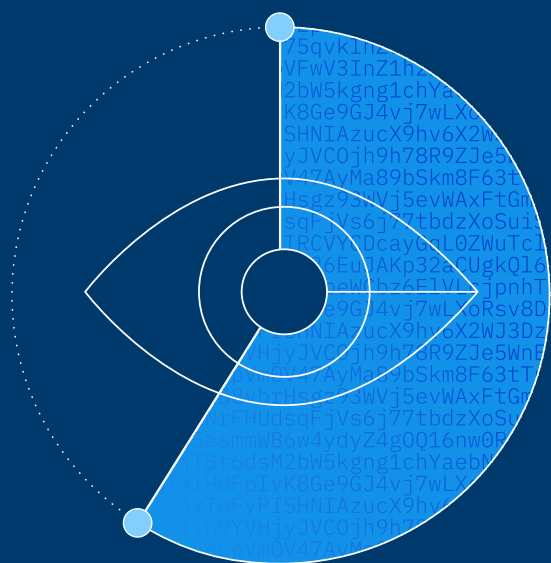
That means they must be diligent. In partnership with the CFO, it's their job to meet the strategic performance goals set by the CEO. To manage costs while also enabling top-line growth, they need to be critical about every investment the business makes. And they're not fully convinced that generative AI is advanced enough to drive meaningful ROI—at least not yet. Compared to other C-suite leaders, they're 60% more likely to believe generative AI isn't important to their organization.

They're not easily swayed by the promise of new technology. Unless they see real ROI. But it's a catch-22. CPOs won't get ROI from generative AI in procurement unless they start using it—and only 13% have reached advanced levels. While 41% have begun piloting or implementing generative AI—on par with other operational functions—progress in procurement remains in its early stages.

By underestimating the potential of generative AI, CPOs are missing out on opportunities to steer their teams toward higher-value activities. Perhaps they're too busy doing the work to see how generative AI can do things better, faster, and cheaper. If so, they need help focusing on the forest rather than each tree. CEOs can encourage them to take advantage of both opportunities on the near-term horizon—and those that they can introduce today. Because the competition will be.

CEOs can direct CPOs to start in the areas of greatest potential. For example, 59% of CPOs believe it's very important to apply generative AI to predictive spend and sourcing analytics. If your CPO is among them, start with that. And once initial investments begin to pay off, CPOs themselves can deliver proof points needed to win over other skeptics, becoming champions for generative AI across the enterprise. Plus, they'll be more likely to expand the organization's progress and catalyze change across the supply chain ecosystem.

59% of CPOs say it's important to use generative AI for predictive spend and sourcing analytics.



1. Leadership + Generative AI

What you need
to do



Get your CPO to build the business case they believe in

Address reservations hindering generative AI outcomes. Elevate the role of procurement from the transactional to the strategic.

Flip the script. Show your CPO the opportunities behind the obstacles and inspire them to do the hard work of driving change. Encourage them to become strategic business advisors and ecosystem orchestrators—not just do-ers and administrators. And make progress non-negotiable.

Push sourcing beyond price. Build the data foundation that will empower procurement teams to deliver enterprise value with suppliers. Centralize, clean, and enrich data from internal and external sources, including ERP systems and supplier databases, into a single platform. Employ predictive modeling to manage supplier networks and co-create strategic value across the ecosystem.

Equip your CPO to improve cash flow. Provide generative AI tools that can analyze data to predict future cash flow requirements and identify opportunities to release trapped cash in the supply chain. This includes optimizing payment terms, inventory levels, and other working capital components.

2. Transformation + Generative AI

What you need to know



Procurement can be the pioneer in your supply chain transformation

Supply chains are complex. And procurement is at the hub. It touches every contract, every purchase order, and every request for proposal. The flow of information never ebbs and tracking it all can feel like drinking from a firehose; often more painful than productive.

But there is relief on the horizon. Generative AI helps manage the flow, diverting essential data, in the right form, to the right person in real time. For example, using generative AI in source to pay can increase visibility into non-delivery and overdue commitments so that teams can respond. By analyzing relevant supplier performance data, 80% of Chief Supply Chain Officers (CSCOs) and Chief Operating Officers (COOs) say generative AI can improve supplier management.

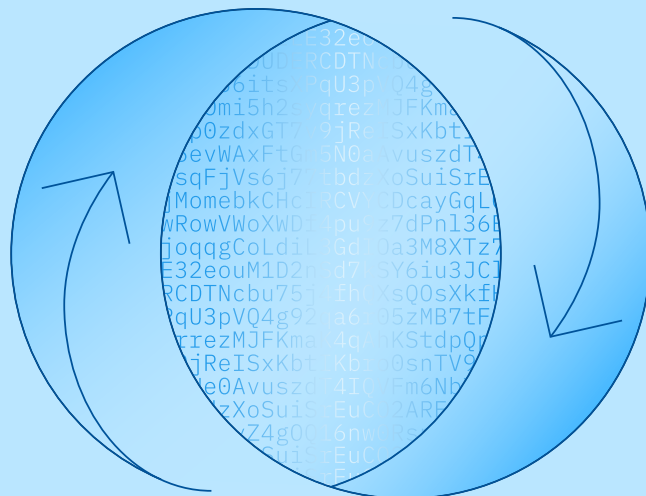
Measuring cost and performance more quickly and accurately helps teams improve upstream procurement and make the organization more competitive. In fact, the potential is so great that CSCOs and COOs expect procurement to be the top supply chain and operational workflow affected by generative AI in both 2024 and 2025.

And they've started to act: 64% of CSCOs and COOs say generative AI is already transforming supply chain operations workflows today. But transformation will only happen as quickly as people adapt. Leaders must train teams to make the most of generative AI to truly move the needle. CPOs understand this workforce imperative: 73% agree that AI won't replace people, but people who use AI will replace people who don't.

Offering self-service generative AI assistants can empower teams to transform workflows through orchestration. With a quick query, teams can access insights and recommendations to gain cost efficiencies, steer supplier and category management strategies, and inspire product innovation, while reducing the burden of compliance reporting.

Augmenting and elevating the work people do every day promises to cast procurement in an entirely new light. By evolving how teams operate, procurement can demonstrate why it deserves a seat at the table—and drive transformation across the supply chain.

CSCOs and COOs expect **procurement to be the top workflow** affected by generative AI.



2. Transformation + Generative AI

What you need
to do



Take the first-mover advantage by optimizing generative AI for procurement

Commit brainpower—and bandwidth—to push generative AI projects past pilot phase to unlock your supply chain's full potential.

Map the blind spots in your supply chain. Make a mission of identifying data sources and gaps limiting the ability of your generative AI-infused operating models to gain efficiencies and contain costs. Venture into quantum computing to supercharge your simulation and visualization models and find new opportunities for supply chain optimization.

Free up working capital. Optimize end-to-end supply chain processes focused on inventory, such as forecasting demand, identifying logistical bottlenecks, and leveling inventory in real time. Unlock trapped capital by reducing the need for inventory buffers—then use that cash to drive growth and innovation.

Celebrate supply chain innovators. Find the AI champions doing tomorrow's jobs today and give them a platform to share their successes. Incentivize innovation by rewarding people who are already rethinking supply chain workflows with AI assistants. And publicly applaud when changes begin to move the needle on KPIs.

3. Disruption + Generative AI

What you need
to know



Generative AI is like a procurement insurance policy

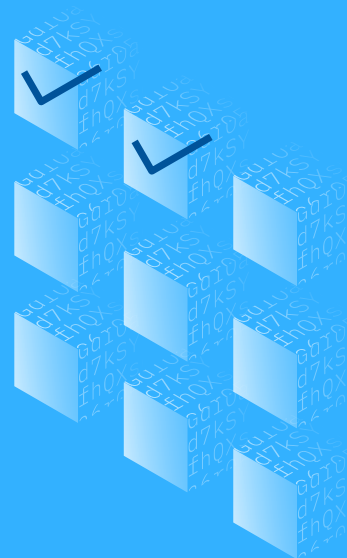
In the world of procurement, risk of disruption lurks around every corner. Sustainability issues, in particular, loom large. Teams must be prepared to pivot at any moment to manage risks before they materialize, from extreme weather events to resource scarcity to rapidly changing compliance mandates.

Generative AI can help keep procurement teams from getting blindsided. Across the board, executives rank risk management and resilience as the top sustainability use case for generative AI—and 64% say generative AI will be important for their sustainability agenda overall.

But better defense is only half of the opportunity. Generative AI also helps businesses go on the offensive to advance integrated sustainability programs that often struggled in the past. If generative AI makes tracking and reporting on these initiatives easier and more cost-effective, organizations may feel more empowered to lean into sustainability strategically. And there's a lot of room for progress. Only 22% of organizations have fully integrated sustainability into the procurement function.

CSCOs and COOs see the opportunity on the table. 77% say generative AI can identify potential geopolitical and climate risks and recommend proactive risk mitigation. Three in four also say that generative AI enables better visibility, insights, and decision-making across ecosystems—which are so important to sustainability and compliance. And for their part, CPOs say supplier performance monitoring and compliance reporting is the most valuable—and most feasible—generative AI use case for procurement teams.

CPOs say **supplier performance monitoring and compliance reporting** is the most valuable generative AI use case for procurement.



3. Disruption + Generative AI

What you need
to do



Anticipate. Adapt. Accelerate.

Report on a broader set of key supplier sustainability metrics more frequently—and set a higher bar. Put partners on alert and hold them accountable.

Scale procurement insights with ecosystem partners for sustainable innovation. Pool resources, expertise, and models with ecosystem partners to create shared solutions that can be used across multiple organizations to drive sustainability outcomes.

Incorporate sustainability data, KPIs, and insights into every procurement decision. Make sustainability KPIs a central part of how vendors are evaluated and selected. Use generative AI to monitor vendor sustainability performance against your sustainability standards and objectives.

Detect and manage reputational, compliance, and regulatory risk with generative AI. Evaluate supplier compliance with regulatory requirements, industry standards, and ethical practices. Reevaluate your vendor relationships to align with your sustainability objectives and reduce risk.

Procurement

The statistics informing the insights in this report are sourced from four proprietary surveys conducted by the IBM Institute for Business Value in collaboration with Oxford Economics. The first surveyed 200 US-based executives in September 2023 about generative AI and supply chain and operations. The second surveyed 400 US-based executives in October 2023 regarding their perspectives on the impact of generative AI on various business processes. The third surveyed 5,000 global executives across 20 business and technology roles from December 2023 to March 2024, examining generative AI use cases, readiness, and impact by enterprise-wide processes and workflows. The fourth surveyed 5,000 global CXOs about how their organization is operationalizing sustainability from August to November 2023.

IBM Institute for Business Value

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