

A Forrester Consulting
Thought Leadership Paper
Commissioned By Ivalua

April 2019

Executing A Successful Procurement Transformation



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Executive Summary

Procurement functions must raise their game to play a more significant role in their organizations' digital transformations. The allure of digital transformation is the chance to disrupt markets and overtake competitors via innovation, such as digitizing interactions and implementing emerging technologies. In most enterprises, procurement has played a minor role in such transformation, or even held it back. But as ePurchasing technologies evolve, so must the procurement function, to drive innovation and increase business agility while protecting the organization and its customers from supplier-related risk.

In January 2019, Ivalua commissioned Forrester Consulting to evaluate the current state of procurement and the maturity of the procurement function within its respective organization. Forrester conducted an online survey of 417 respondents who were responsible for or had influence over procurement activities within their organizations. Forrester also conducted six in-depth interviews with the same respondent group to explore this topic further.

KEY FINDINGS

- › **Leaders significantly overestimate their true procurement maturity level.** A large majority of respondents felt their procurement organization was advanced – creating a competitive advantage. Our own assessment found the overall self-assessments to significantly inflate reality. Procurement leaders have much to do to be truly advanced, from driving much higher levels of digitization to driving greater value in areas beyond cost such as product innovation, revenue growth and supporting business agility. A more realistic assessment is required if leaders are to drive the required improvements.
- › **C-level support underpins success.** Lack of executive support is a critical obstacle to successful transformation, particularly early in the journey. It impacts obtaining the necessary budget and launching the change management efforts required. Successful leaders think beyond their function to both gain support for initiatives and ultimately establish procurement as a more strategic department.
- › **Modern ePurchasing software is a vital enabler of transformation.** More advanced organizations are empowered by superior technology and less mature ones encumbered by inferior tools, whether spreadsheets, homegrown systems or ERP purchasing tools. Poor tools create a series of problems, including access to unreliable data, inconsistent adoption by employees, and inadequate adoption by suppliers. While the right talent is critical, successful transformation requires the right tools.
- › **Organizations often regret their technology choices.** Despite the importance of technology, success with initial choices is very mixed. The vast majority of respondents switched or are considering switching technology. It is not enough to purchase modern technology. Leaders must be very diligent in their selection criteria, considering both current and future requirements to avoid technology becoming a roadblock in their transformation.

Procurement Can Lead The Way For Digital Transformation

Leading chief procurement officers (CPOs) have shifted their focus beyond the traditional goal of cost savings into value-adding priorities, such as accelerating product innovation and improving responsiveness to customer needs. But traditional objectives have not disappeared. CPOs are just now expected to do so much more with an ever-growing list of objectives (see Figure 1).

Digital transformation is the new prerequisite — organizations must digitally equip themselves to keep up with a rapidly evolving world. The procurement function is no different. Cost reduction and savings are still important but insufficient. CPOs must rethink how the procurement function contributes to the organization’s success. They must answer some difficult questions, like “Which parts of what we do actually matter to our firm’s customers?”

One of the senior decision makers that Forrester interviewed, a CFO of a telecommunications firm, said: “We’ve gone through a huge transformation over the past few years. We’ve managed to lower costs, increase efficiency, and radically improve both customer and supplier relationships. Before we digitized, it was never this efficient.”

Another interviewee, a supply chain and logistics director, explained, “A lot of the processes are still manual — the business is looking at investing in new IT solutions to help support the entire ecosystem, all the way to procurement and collaboration with suppliers for performance management.”

Over the next 12 months, organizations will equally prioritize (see Figure 1):

- › **Enhancing the overall employee experience.** Traditionally, employees involved within the procurement function often work on time-consuming manual activities that hinder productivity. However, procurement leaders highlighted the need to improve the employee experience (67%) over the next 12 months to improve and boost productivity levels.
- › **Increasing innovation supported by suppliers.** CPOs must help their organizations better collaborate with suppliers to obtain more innovative ideas and to improve quality and/or reliability, without jeopardizing cost. This is a crucial or important priority for 66% of survey respondents. In fact, the director of procurement center of excellence (CoE) deemed it critical that “quality, risk, and innovation are becoming more important for the procurement function.” The director added, “What suppliers think of you will contribute to the amount of innovation that you can extract from the supply days.”



- › **Boosting business insights.** The future belongs to those who maximize their data; those who don't will be left behind. The director of procurement for a global postal service explained: *"We started out placing our resources focused solely on analytics capabilities to understand the data and its trends. This then evolved into optimization, forecasting, etc. in order to support the company in achieving its digital transformation goals."* Analytics has long been at the heart of business strategies; the ability to make the most of the data not only makes businesses smarter but provides better purchasing activity (66%) to better monitor reporting and analytics to help business leaders make better decisions.
- › **Improving operational efficiency.** Siloed approaches have forced sub-optimization of organizational processes, which has been reflected in slow and inefficient methodology with many manual interventions. However, 65% of organizations today are looking to improve the overall efficiency of their procurement processes. One firm's solution is to seek out an *"EDI platform, a collaboration platform that would enable us to actually improve the operational relationship and performance around better planning with the suppliers given the visibility of our requirements."*

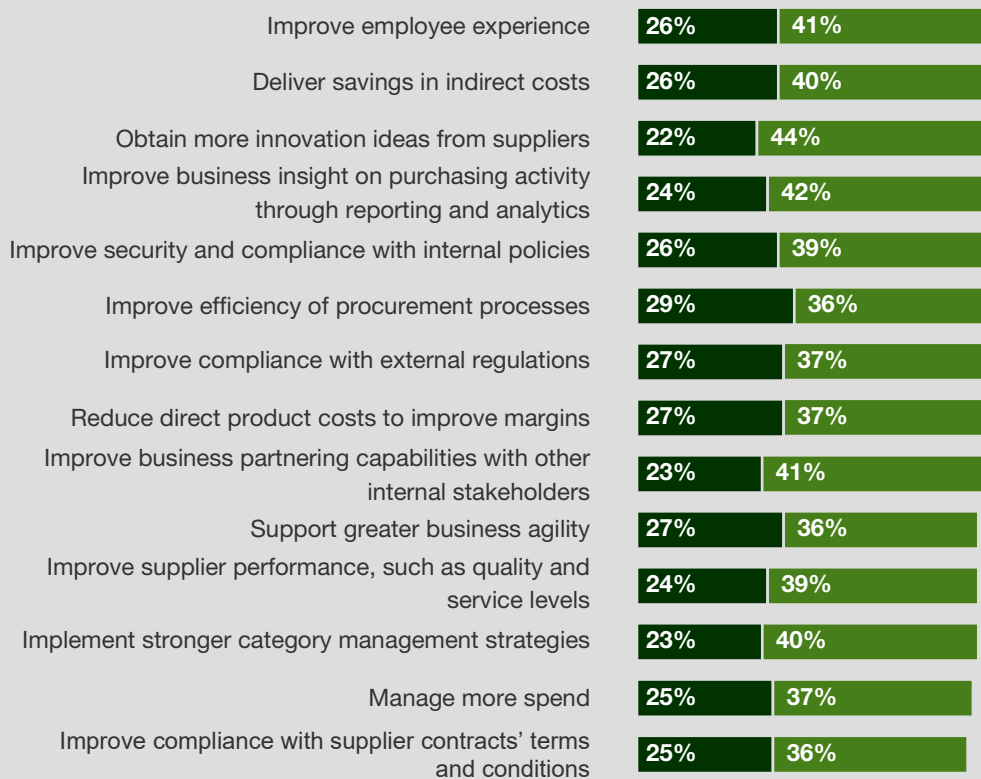


Figure 1

"Which of the following are the highest priorities for your company's procurement function this year?"

(Showing "Crucial" and "Important" priorities)

■ Crucial priority, which we need to improve this year ■ Important, and it is one of many areas we would like to improve



Base: 417 respondents who make decisions or have knowledge of procurement technology
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

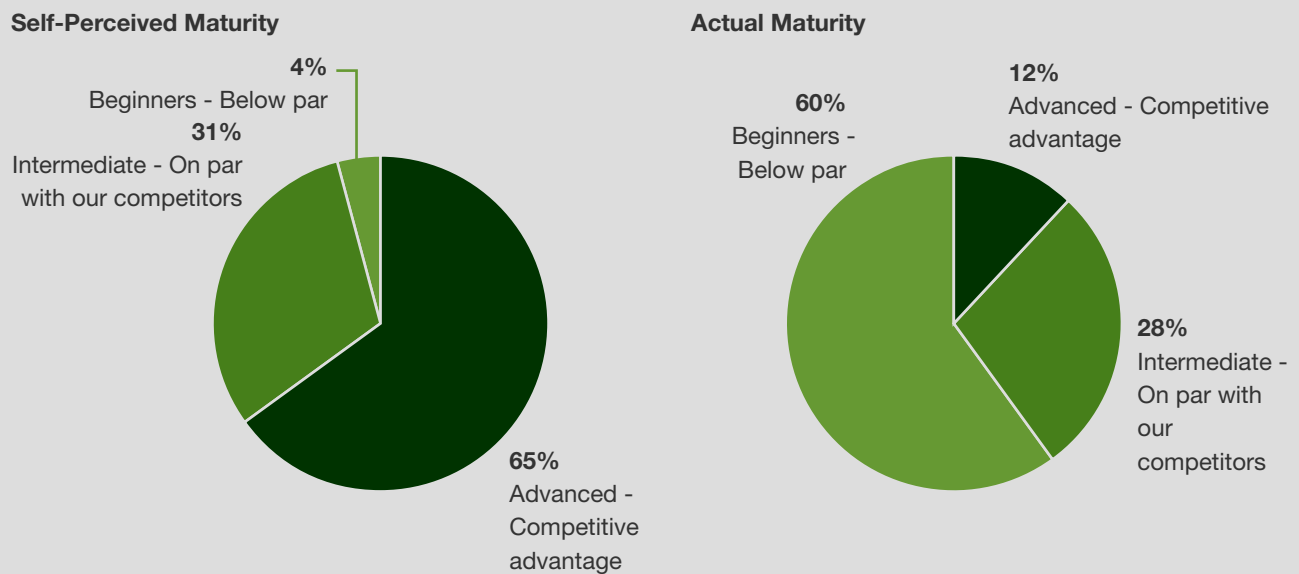
Procurement Leaders Are Less Advanced Than They Think

Forrester's survey found a gulf between respondents' actual and claimed maturity levels. In the self-assessment, 65% identified themselves as being in advanced procurement functions, delivering competitive advantage to their organizations (see Figure 2). Statistically, they can't all be right.

To assess their *actual* maturity levels, Forrester explored the richness and depth of organizations' procurement functions and the extent to which their systems were digitally aligned with the overall business. We asked respondents to rate their digital procurement readiness across five dimensions:

- 1) **Strategy:** The procurement function's high-level goals are aligned with and supported by the wider organization.
- 2) **Structure:** Procurement has the organizational model and skills to achieve its goals.
- 3) **Technology:** Procurement has the right tools to execute on the strategy, and to promote efficiency, innovation, and collaboration.
- 4) **Process:** Procurement has modern policies and procedures, streamlined workflows, and effective collaboration with colleagues and suppliers.
- 5) **Measurement:** Transparent measurement of business results drives continuously optimization, in line with the strategy.

Figure 2: Self-Perceived Maturity Vs. Actual Maturity



Base: 417 respondents who make decisions or have knowledge of procurement technology
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

Forrester scored the responses against our target model for a leading procurement function to determine each respondent organization's true maturity level. Forrester then applied weights to each criterion to provide an overall maturity score. Our study found:

- Only the top 11% are truly **advanced**: 47 out of 417 procurement functions are really delivering competitive advantage to their firms.
- Just under a quarter are **intermediate**: Those who are on par with their competitors comprised 28% (118 out of 417 firms).
- More than half of organizations are **beginners**: The remaining 60% of respondents scored less than the benchmark we had set for intermediate maturity.

These results show that procurement professionals are greatly overestimating their own maturity. They are not driving the competitive advantage they think they are; indeed, their competitors may actually be accelerating away.

HOW ADVANCED FIRMS CREATE A COMPETITIVE ADVANTAGE

The new digitally powered procurement functions are delivering more strategic value to their wider organizations while continuing to drive down costs. Their colleagues see them as a source of innovation and agility, not merely a back-office support function. One head of project procurement told us: *“If we didn't make the move towards digitization, we'd probably be left way behind. At least now, we're on par and can increase market share, improve the overall experience of both procurement function and suppliers, and have better transparency on price. In other words, if you have better tools, you're quicker and have easy access to the innovations of your suppliers.”*

Procurement leaders who are too comfortable with the current way of doing things and are overly risk-averse may contribute to their firms becoming vulnerable to more innovative, forward-thinking organizations. However, those who are prepared to step out of the past and embrace the new procurement revolution can create a competitive advantage across a broad set of areas. In addition to their comfort zones of cost savings and policy compliance, some CPOs are strategically and tactically prioritizing the following:

STRATEGIC PRIORITIES

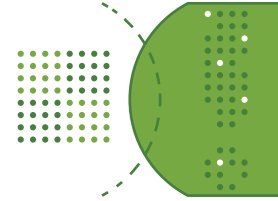
Identifying areas of improvement helps firms better strategize and meet business priorities (see Figure 3):

- › **Accelerating time-to-market.** Businesses that are more advanced are more concerned with accelerating time-to-market for their products and services (49%) compared to just 35% of beginner firms.
- › **Driving increased awareness on social and corporate responsibility.** An often-overlooked aspect is the important issue around corporate and social responsibility. Advanced firms are more likely to have a heightened awareness (43%) compared to less mature firms (37%).
- › **Improving margins for end products.** Improving margins by reducing material costs is also a top priority; in fact, advanced firms (47%) are more likely to accomplish this than beginner firms (43%).



TACTICAL PRIORITIES

Firms that are less mature are still good at implementing risk management procedures and improving margins, but they're twice as likely to focus on reducing indirect costs (48% beginners versus 28% advanced firms).



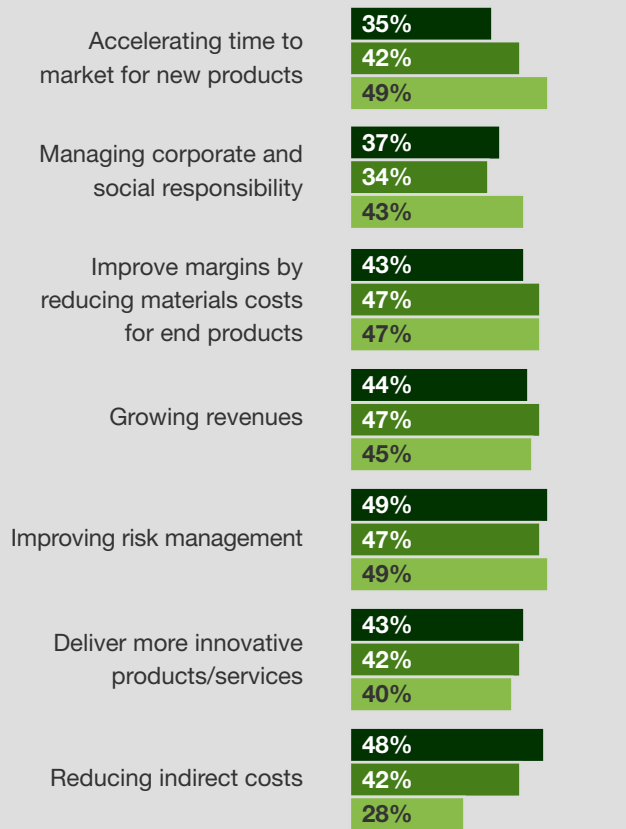
- › **Making full use of their data.** The ability to make the most of data will not just be a competitive differentiator, but *the* competitive differentiator (see Figure 4). Advanced firms are improving margins by reducing material costs for end products (55%), many by improving data analysis and insights to better support decision making (51%). The head of project procurement told us: “A way to see an actual tangible different is through the data. Data is the lifeblood of our organization, and we make sense of it by using tools like machine learning and early elements of AI.” Although beginner and intermediate firms are doing the same, they're not as advanced as they think they are since they do not have the right personnel, tools, or systems in place to make full use of their data.
- › **Improving collaboration and alignment with colleagues.** Smart CPOs realize that strict enforcement isn't an effective way to achieve traditional priorities, such as getting spend under management and ensuring compliance with policies and regulations. That's why improving employee experiences and partnering better with other stakeholders are equally high priorities for advanced organizations.
- › **Obtaining more innovation from suppliers.** Sixty-six percent of respondents identified this as a high priority. The best innovations in many product areas come from suppliers rather than original equipment manufacturers (OEMs). Business priorities such as product improvement and accelerating time-to-market rely on closer, faster, more effective collaboration with suppliers (see Figure 4).

Figure 3

“Where do you see the greatest potential for procurement to create a competitive advantage for your organization?”
 (Select your top three in each)

Strategy “What”

■ Beginner ■ Intermediate ■ Advanced



Tactics “How”

■ Beginner ■ Intermediate ■ Advanced



Base: 417 respondents who make decisions or have knowledge of procurement technology
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

Figure 4

“Which of the following are the highest priorities for your company’s procurement function this year?”
 (Showing top three “Crucial” and “Important” priorities only)



Base: 417 respondents who make decisions or have knowledge of procurement technology
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

TRUE DIGITIZATION IS A LONG WAY OFF FOR MOST

Digital technologies will assist procurement functions in increasing collaboration, making smarter decisions with the right data, and better planning and sourcing to contract negotiations. However, fewer than 30% have over half of any process digitized (see Figure 5). In other words, organizations will need to look carefully at both their technological maturity and the impact it will have on their IT architecture. A director of procurement CoE said, “At a basic level, digitizing processes improves our interdepartment communication; the way that we operate with these new business conquests enables us to make smarter decisions much more quickly.”

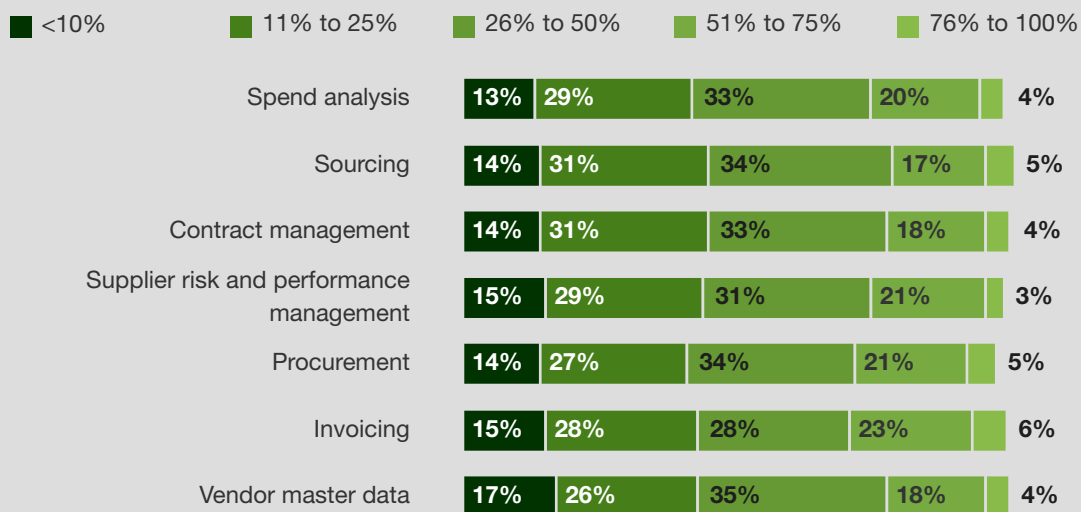
The obstacles impeding digitization differ significantly by maturity. Beginners’ top challenge was lack of budget, indicating a lack of organizational buy-in. Intermediates noted suppliers’ inability to support digitization efforts while advanced procurement functions noted poor integration of tools across the source-to-pay (S2P) process as the top factor. Leaders must proactively address their current and future obstacles.

Digital procurement processes include digital procurement collaboration, procurement risk analysis, and even spend analysis. Nevertheless, it’s important to note that digital tools are a means to an end, not exactly the end itself. Digitizing procurement is just the first step in a constantly evolving journey, helping free capacity and improve access to insights so leaders can be more strategic. That is a key reason organizations must start their digital procurement journeys now to ensure they’re not left behind in an increasingly competitive market.

Advanced firms within the procurement function have more influencing power in shaping future strategies and leading digital transformation.

Figure 5

“How would you assess the level of digitization of each part of your source-to-pay process?”



Base: 417 respondents who make decisions or have knowledge of procurement technology

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

Separating The Best From The Rest

Procurement leaders who approach their digital transformation strategies as a lethargic process will face adverse consequences and find themselves left behind while the competition steamrolls ahead. The majority of CPOs understand that the procurement function will fundamentally evolve into a new model where it not only enables the function to align more effectively with the business, but also guides its future strategy (see Figure 6). Advanced firms are more likely to have CPOs who:

- › Shape and influence its future strategies (53%).
- › Are key players in leading digital and analytical transformation within the organization (51%).
- › Pioneer change and inspire others to do the same (43%).

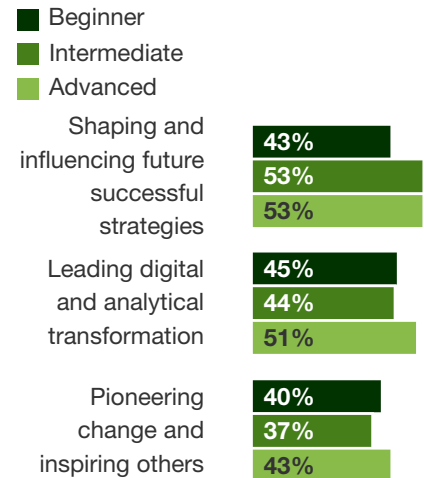
EMERGING TECHNOLOGIES WILL RESHAPE THE PROCUREMENT FUNCTION

Understanding what is possible with emerging technologies will shape the road map for digital transformation. More mature companies have optimized their use of technology within their existing structures and processes. They have built digital experience platforms to unify the procurement function (see Figure 7):

- › **The procurement function underpins digital transformation.** Almost all advanced firms (98%) agree or strongly agree that procurement is a provider of strategic value to its executive leadership compared to 91% of intermediate firms and only 58% of beginner firms. A supply chain and logistics director stated: *“Procurement is at the heart of digital transformation for us because digital technologies help increase collaboration, engagement, analytics, whilst using a wide spectrum of tools to plan, source, and negotiate. The benefits won’t be simply to reduce costs but free up the function from mundane, menial tasks and instead focus on delivering real value to the business.”*
- › **The next technological evolution is around the corner.** Emerging technologies like AI, robotic process automation (RPA), and blockchain are set to remove menial tasks and automate processes while also helping the organization become smarter in how it functions. The head of project procurement told us: *“New, emerging tools like AI and ML (machine learning) enable us to become smarter and more informed of our decision-making process . . . but it’s other technologies like RPA that make it possible to automate tasks like utilization of robots.”* It’s no surprise then that the biggest advocates of these new emerging technologies are advanced firms, nearly 80% of which strongly agree or agree that these technologies will be transformative. A supply chain and logistics director said: *“Investment in new technologies helps us remove inefficiencies that we’ve been fighting for a long time, and it removes waste within our internal processes. We couldn’t do this before because the technology simply was not ready.”*

Figure 6

“What do you think should be the key leadership traits of procurement leaders?”
(Showing top three ranked)

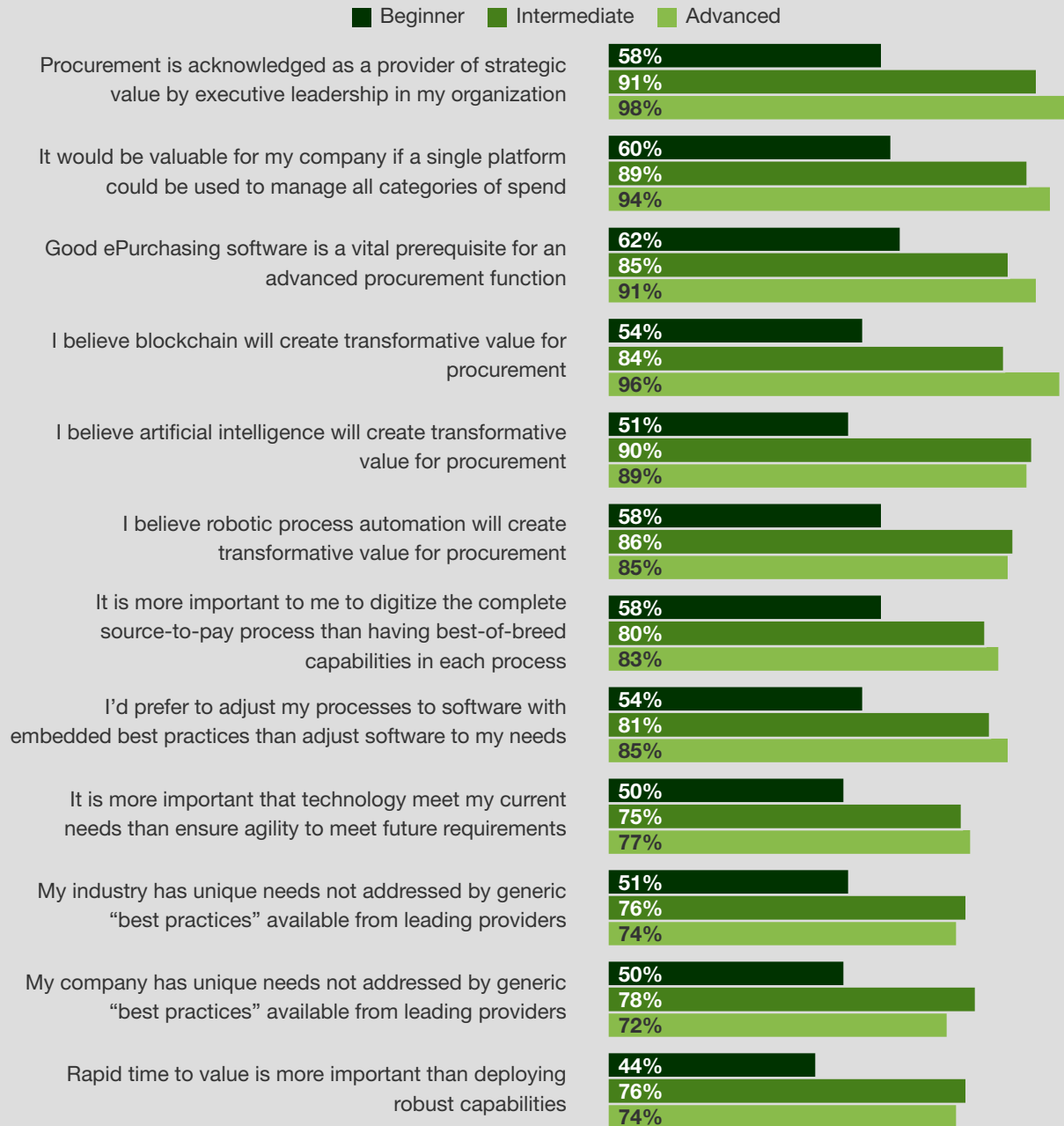


Base: Up to 201 respondents who make decisions or have knowledge of procurement technology
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

› **Technology is set to support innovation of the future.** Companies must have formal processes and technology to support innovation so that the right strategies are identified, cultivated, and nurtured. Seventy-seven percent of firms believe that technology is important to meet current needs and ensure agility to meet future requirements. The director of procurement told us, “We’ve actually announced a companywide transformation effort, and part of that transformation is updating the tools and technologies we have at our disposal in order to be able to forecast on things like customer demand.”

Figure 7

“To what extent do you agree with the following statements?” (Showing “Strongly agree” and “Agree” only)



Base: 417 respondents who make decisions or have knowledge of procurement technology
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

Address Challenges Now To Catch Up With Market Leaders

Beginners face more obstacles to progress than they realize; many of the challenges will only appear after they've overcome the ones they currently see.

All our respondents cited several key obstacles that impede their progress, but differences between beginner and advanced organizations suggest that new issues become more significant as you move up the maturity curve. CPOs who aspire to advanced maturity should prepare to deal with every hurdle, not merely the ones they currently perceive (see Figure 8):

- › **Align with business goals to win vital executive support.** It's a cliché, repeated in every "lessons learned" slide, but it's not easy to achieve. Beginners (12%) and intermediates (13%) highlighted this as a major obstacle in their procurement transformation. A CFO told us: "Without executive support, you can't get anything done, especially if something goes wrong. There needs to be support from the top no matter what." Only 6% of advanced respondents cite this as a barrier, indicating that they've found ways to get that backing, such as by aligning their priorities better with the CEO's.
- › **Provide easy access to reliable data.** Organizations must tackle data-related obstacles today to avoid being left behind even further. Yet inaccurate data prevents effective decision making. Beginners (11%) and intermediates (15%) indicated this as a significant obstacle compared to only 6% of advanced respondents. They now want to move to the next level, with 17% citing lack of integration between S2P tools as a top issue. One CPO told us, "Bringing in enterprise data and content into one central platform is what we're currently doing and actually need to do; otherwise, we're not going to make use of any data and therefore not make any beneficial decisions."
- › **Strive for willing user and supplier participation.** A highly skilled, customer-obsessed workforce is a powerful competitive advantage in the digital age. Workers need to both possess customer-facing skills and be technologically-savvy. Beginner firms struggle the most, with 13% identifying insufficient training, knowledge, and skills as a significant obstacle. Advanced firms (9%) highlighted the same, but to a lesser extent. They were more likely to complain about procurement's resistance to change (13%) and suppliers' ability to support the digitization program (13%). Modern, smart, easy-to-use software is key to overcoming all these obstacles. The director of procurement CoE revealed: "Elder statesmen don't really want to embrace the new technology . . . but for the younger generation, it's important to put more functionality in there."



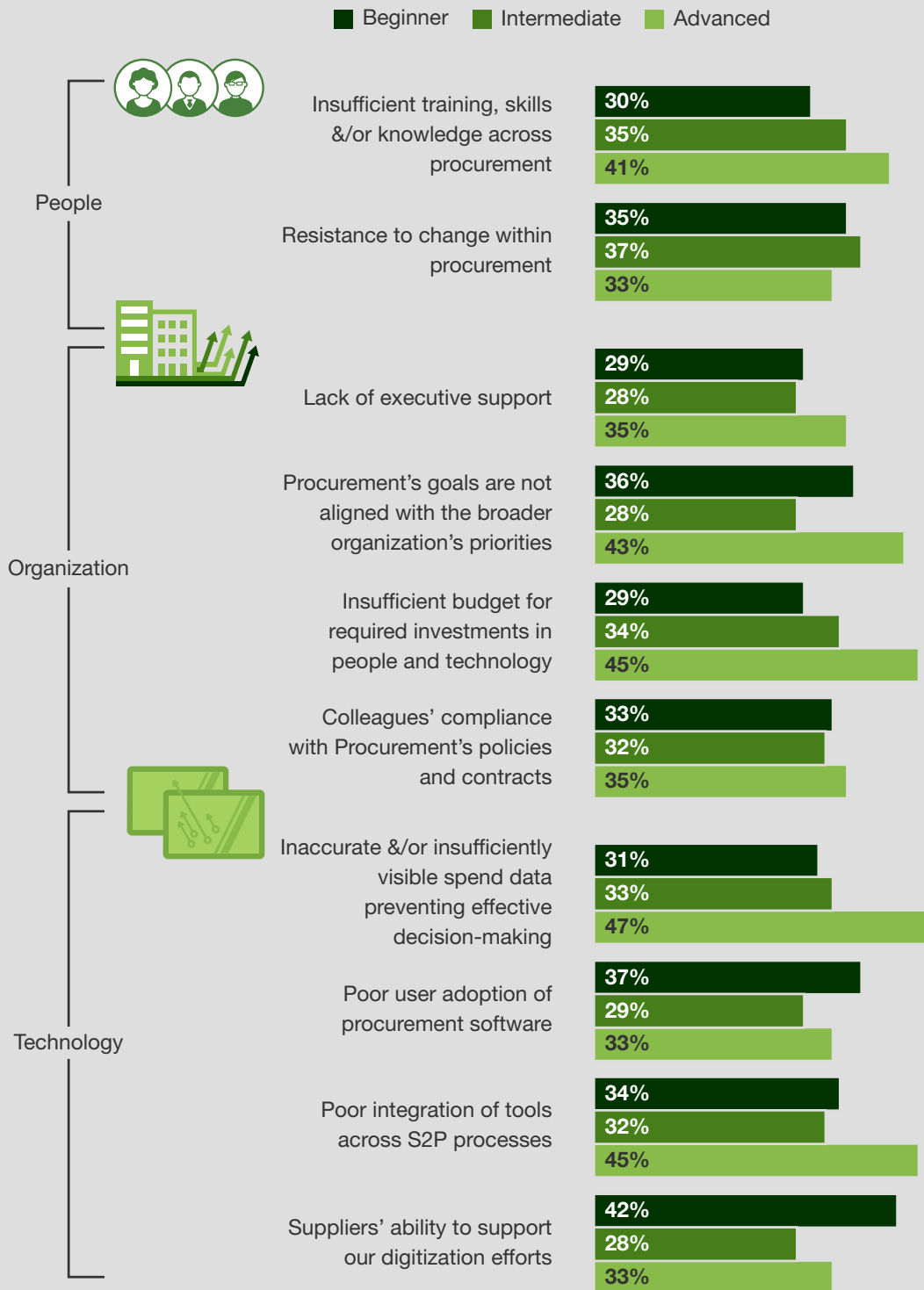
"Without executive support, you can't get anything done, especially if something goes wrong. There needs to be support from the top no matter what."

CFO of a European telco firm



Figure 8

“Which of the following obstacles have impeded progress in your procurement digital transformation?”
 (Showing only “Significant obstacles”)



Base: 417 respondents who make decisions or have knowledge of procurement technology
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

Advanced CPOs Ensure They Have The Tools They Need

More mature procurement functions are more likely to be using superior ePurchasing software products. Forrester's survey found that 55% of intermediate and 60% of advanced organizations use specialist ePurchasing products or full source-to-contract (S2C) suites, with advanced organizations most likely to leverage a full suite. In contrast, over 60% of beginners still rely on email and spreadsheets, home-grown software, or modules within their enterprise resource planning (ERP) suites (see Figure 9a).

Winning, serving, and retaining customers involves more than acquiring the right front-office tools and technologies — it also involves technologies for buying, sourcing, contracting, and managing vendors of the goods and services that go into the creation and delivery of customer value. Many stakeholders, and even some procurement leaders, misunderstand the value of good software in the purchasing process — as is apparent by the number trying to get by with inadequate tools.

Good ePurchasing software automates sourcing and procurement processes to make them more efficient, predictable, and transparent. They enable colleagues to buy the goods and services they need while mitigating supplier-related risk. Modern software-as-a-service (SaaS) ePurchasing products address the flaws that held back adoption of their on-premises predecessors.

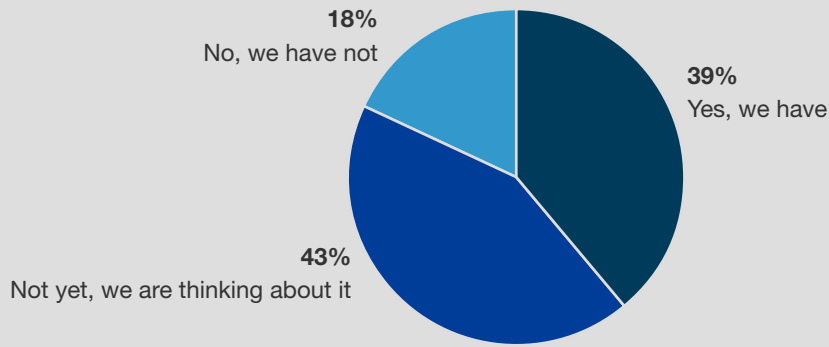
EVALUATE TOOLS BASED ON CURRENT AND FUTURE REQUIREMENTS

When selecting modern ePurchasing technology, proper evaluation is critical to avoid costly mistakes that hinder transformation. Many organizations struggle with their technology choices, as evidenced by the 82% of respondents who switched or are considering switching their technology (see Figure 9a). This large percentage indicates that it is not just organizations moving off of old, inadequate tools but also a sizeable portion of those that have selected modern technology but are not realizing the expected value of switching providers.

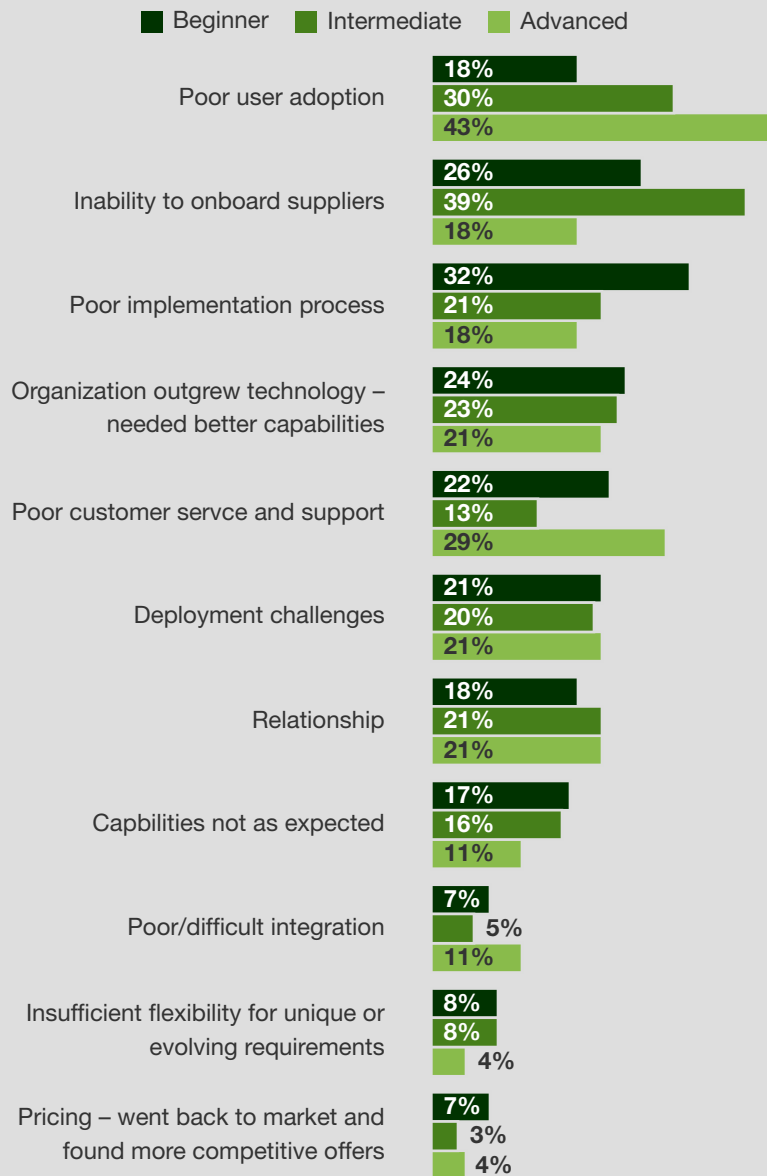
For those organizations that have changed technologies, the reasons vary based on their maturity, indicating the importance of evaluating not just against current needs but also those further along your journey. Beginners switched mostly due to implementation challenges, while intermediates struggled mostly with supplier onboarding and advanced with user adoption (see Figure 9b). To avoid hitting roadblocks later in your journey, ensure selected technology addresses these and other common obstacles effectively.

Figure 9a

“Have you switched eProcurement technology providers over the course of your transformation?” (Select one)



“What were the top two reasons that made you switch technology providers?” (Select two)



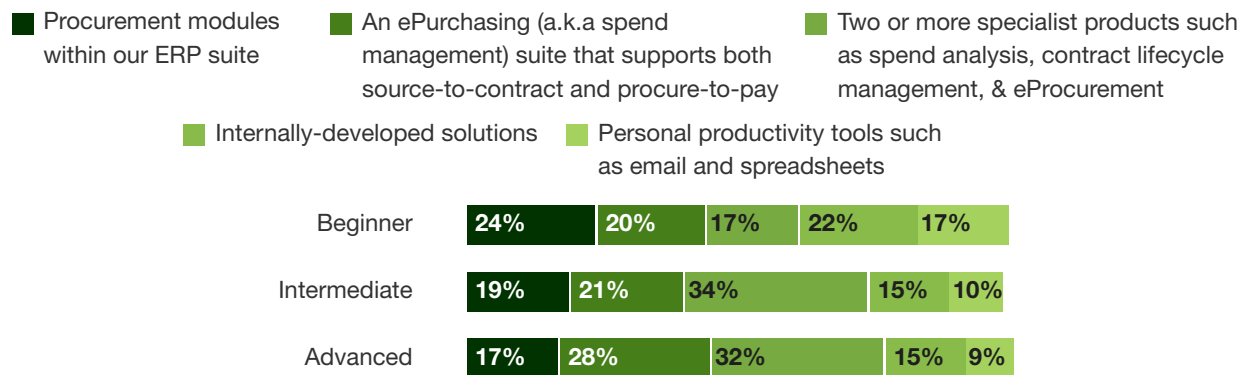
Base: 417 respondents who make decisions or have knowledge of procurement technology
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

Across all respondents, the top obstacles leading to changing technologies were supplier onboarding followed closely by user adoption. Two key lessons to note:

- › **Modern, easy-to-use products drive higher user adoption.** Poor user adoption was the main driver of an ePurchasing software change. Many of the older ePurchasing products originated in the ERP era and have similar usability flaws. Modern SaaS products don't merely look better; they also do more to help users navigate the system and find what they need.
- › **Advanced CPOs care about their suppliers' experience.** Inability to onboard suppliers was the most common reason for switching ePurchasing software. It is no longer acceptable for selfish CPOs to impose expensive and/or unwieldy software on their suppliers or force them to incur fees or agree to vendor terms. Digitizing procurement must include supplier interaction processes such as onboarding and responding to RFXs in addition to transactional processes such as ordering and invoicing. And organizations aiming to achieve objectives related to improving supplier collaboration or unlocking supplier-led innovation need to think beyond transactions and leverage technology that enables deeper collaboration. Such an approach is key if an organization is to establish itself as customer of choice.

Figure 9b

“Which of the following best describes the software that you primarily use to do your job?”



Base: 417 respondents who make decisions or have knowledge of procurement technology

Note: Percentages may not total 100 because of rounding.

Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019

Key Recommendations

Procurement priorities are shifting from the traditional focus on cost to innovation, quality, risk mitigation, and even revenue. To be a procurement leader today and have more of a strategic role across the business, it's increasingly important to view digital transformation as a critical means to support this shift. Beginners need to get started, intermediates must continue to accelerate their transformation priorities, and advanced firms should empower their teams to bring their best ideas to life and build an organization that is truly competitive. Your organization must therefore:



Get an independent assessment of your real maturity level. Don't be one of the 50% of beginners who think, incorrectly, that they are advanced. Compare yourself against what the leading procurement functions are doing to identify priorities for action. Look beyond traditional price benchmarks to find measures of your contribution to the wider organization's top priorities, such as accelerating product innovation.



Secure C-level support by highlighting which procurement functions really matter to customers. You can't secure the resources you need on the back of indirect cost savings. Align your goals, and the KPIs that track them, with your company's business objectives, such as product innovation, customer service improvement, or expansion of the corporate social responsibility (CSR) agenda.



Invest in modern ePurchasing software as a vital enabler of transformation. Inadequate tools will create a series of problems, including unreliable data, inconsistent employee adoption, and inadequate supplier participation. Replace your in-house software and ERP modules with smart, modern, flexible SaaS solutions. Start by implementing one or two modules enterprisewide, such as a central supplier risk and performance management solution, while creating a road map toward a complete S2P suite. Look for vendors that support high levels of supplier and user adoption and can combine your data with external information and apply AI tools and domain expertise to provide predictive, prescriptive recommendations.



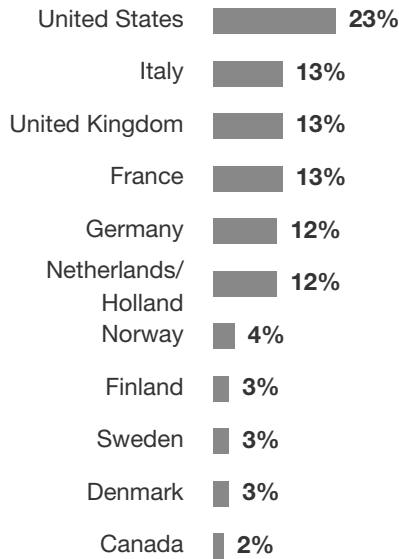
Plan your journey considering both today's and tomorrow's requirements. Your needs, from a people, process and technology perspective, differ as you advance on your procurement transformation journey. Making decisions based on immediate needs is likely to lead to hitting roadblocks in the future. Be sure to consider not just current requirements but those in the future and select technology and build a team that will be able to evolve with your organization.

Appendix A: Methodology

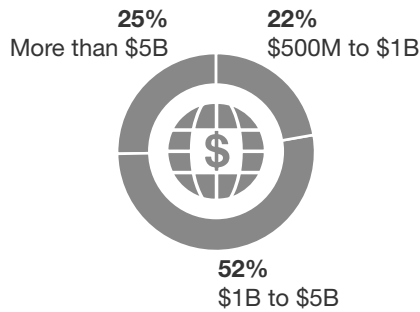
In this study, Forrester conducted an online survey of 417 respondents and five in-depth interviews to evaluate the level of maturity within the procurement function across a range of different industries. Survey participants included decision makers in procurement and supply chain roles. Questions provided to the participants asked about their top priorities, the software they currently use, what drives procurement priorities, and the roadblocks they face in their digital transformation journeys. The study began in February 2019 and was completed in April 2019.

Appendix B: Demographics/Data

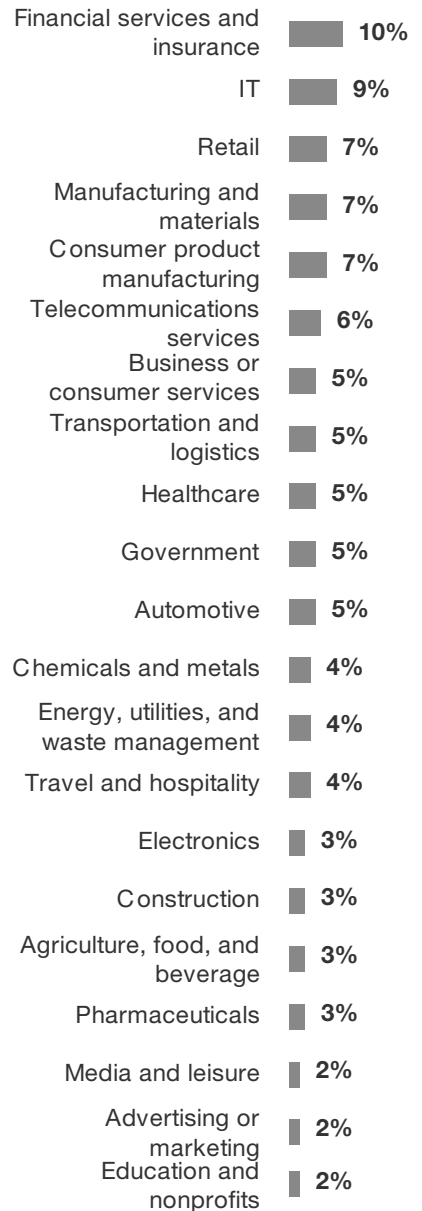
“In which country are you located?”



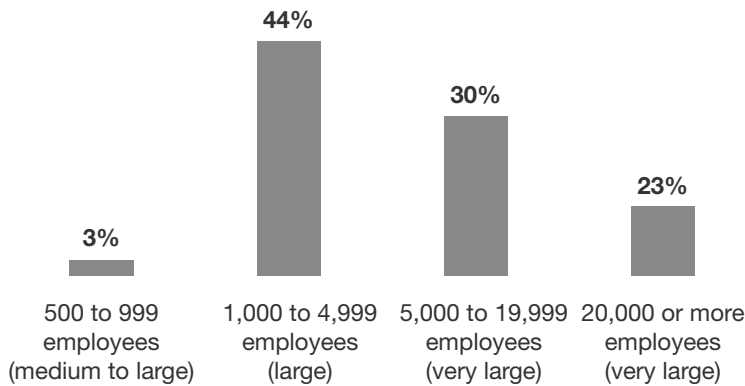
“What is your organization’s annual revenue (USD)?”



“Which of the following best describes the industry to which your company belongs?”



“Approximately, how many employees work for your work organization worldwide?”



Base: 417 respondents who make decisions or have knowledge of procurement technology
 Note: Percentages may not total 100 because of rounding.
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2019