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What to Know About AI in Procurement

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EXECUTIVE SUMMARY

The Hackett Group is seeing a strong focus on artificial intelligence (AI) in the marketplace. Compared to other functional areas, such as research and development (R&D), global business services (GBS) and contact centers, the application of AI to procurement has been slower to develop. However, compelling procurement use cases for AI are emerging so procurement leaders should keep an eye on developments in this space to ensure that they have an AI strategy in place that allows them to liberate the full value potential of procurement. In this "What to Know About" report, each of the four things to know discusses why each is important, market implications and recommendations.

WHO NEEDS TO KNOW?

- Procurement, IT, business stakeholders

WHY THIS MATTERS?

- With the recent buzz around generative AI (e.g., ChatGPT), it is likely that **your manager will ask you about your plans for using AI**.
- **AI is being incorporated into more procurement technologies**, so it will impact your technology landscape.
- Early adopters **will use AI to drive competitive advantage**, but it won't be long until AI-enabled procurement solutions will be required to keep up with the pack.
- The technology **will affect jobs** in unexpected ways, changing the nature of work and skill profiles required for procurement personnel.
- The use of AI has the potential to **enhance business partnering and unlock additional value**.
- The AI strategy **will influence service delivery model elements**, such as data management, talent management and the operating model.

WHAT SHOULD YOU DO?

Educate	yourself on the potential that can be unlocked in the procurement space by using AI-enabled technology.	
Assess	where AI solutions will bring the greatest value to your procurement organization and wider enterprise.	
Determine	whether you will use off-the-shelf solutions, build your own or partner with tech providers to develop the functionality you need.	
Road test	the technology and use cases to see if business objectives are met, followed by a full rollout for areas with promising results.	
Keep up	with this developing area by working with your Hackett advisor.	

BACKGROUND

There is nothing new about AI itself; it's been used for decades, whether to allow Siri to help you use your Apple iPhone, assist Roomba to keep your floors dust free or to provide optical character recognition (OCR) systems with the ability to seamlessly upload supplier invoices. What is new is the recent buzz around AI due to the release of ChatGPT – a text interface conversational tool that uses generative AI built on a large language model (LLM). Generative AI is bringing the whole topic of AI into sharp focus. Generative AI provides the ability to generate content (i.e., text, images, sound, other data types) and has the potential to transform keys areas of the procurement process, such as delivering supply market research on demand, accelerating the sourcing process by generating tender documents, supporting contract development, or generating and analyzing supplier performance reports.

The other thing that is new is that AI is being incorporated into more procurement technologies. For example, contract lifecycle management (CLM) technology – where AI can transform CLM tools from expensive repositories to systems that identify contract-related actions to take, create streamlined workflow to guide users to correct templates, automatically track contract obligations, provide insights into when to intervene in the supply market and shorten contract review cycles. However, the adoption of AI at scale in procurement is still low. The Hackett Group's 2023 Procurement Key Issues Study found that only 3% of respondents have large-scale deployments of cognitive computing/AI/machine learning (ML), with a further 23% piloting this technology. However, there are some impressive use cases emerging for AI-enabled procurement solutions, so it is imperative to think through how your procurement team will optimize the potential of AI to drive value generation while meeting business objectives.

WHAT YOU SHOULD KNOW

The Hackett Group highlights four main things you should know about AI in procurement.

What AI Is … and What It Is Not

We have all been through the hype cycles of new technologies and how they will change life as we know it. Sometimes they do and sometimes they do not. While AI appears to be in one of these hype cycles, there are promising use cases for AI to enable procurement technology, especially if you shift the focus beyond core transactional processing. In an Advisory Member webcast in June 2023, The Hackett Group asked over 100 attendees, "Which areas of procurement do you think would benefit the most from AI-enabled technology?" Respondents were limited to provide three responses.

Supply market intelligence topped the list at 58%, followed by contract management (46%) and bid optimization (43%) **(Fig. 1)**. Interestingly, responsible procurement (e.g., environmental, social and governance [ESG]), where it is challenging to manage data and information, was at the bottom of the list (15%). Does this indicate a lack of imagination around the art of the possible? Or is it merely seen as a lower priority when compared to other areas where a direct link can be made to cost savings?

FIG. 1 Procurement functionality that will most benefit from AI
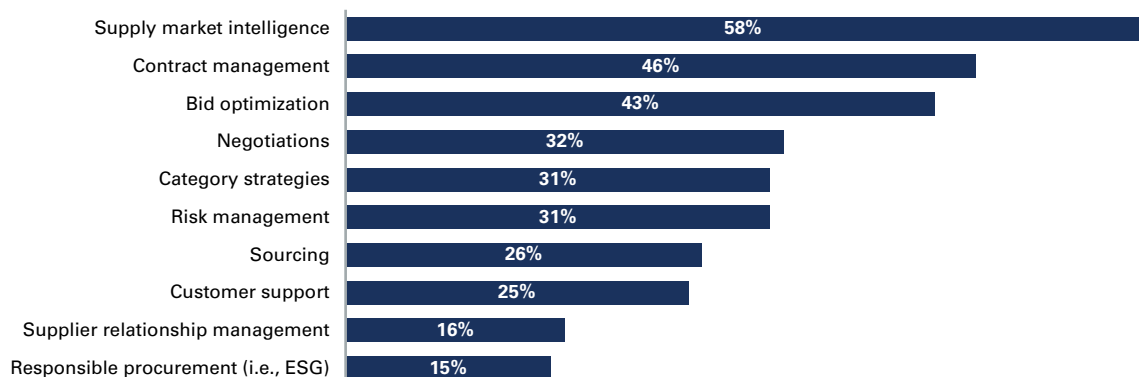
Source: The Hackett Group June 2023 Webcast

Recommendations
- Learn about the AI capabilities that are being added or considered by the technology vendors you are already using.
- Keep yourself abreast of developments in the procurement technology marketplace.
- Talk to other procurement professionals to gain an understanding of what specific solutions can really do and key elements required to implement successful use cases.

Make Informed, Deliberate Bets

While all procurement teams have a primary objective of optimizing third-party spend, there is no one-size-fits-all approach that addresses all elements. One element will be the maturity of your procurement team's capabilities. AI often involves automation, so if you have poor processes, do you want to expedite them? Another element is the specific operating environment for your company. For example, are you in a growth industry, where cost savings are important, but procurement also needs to support R&D and innovation to be successful? Additionally, consideration should be given to your current technology landscape and any limitations that may bring. For example, if you have integration gaps in the data flow between ERP instances, source-to-pay suites (e.g., Coupa, SAP Ariba), and/or point solutions that make up your landscape, will you be able to unlock the full value of the AI-enabled solution?

Recommendations
- Ensure the use case(s) for AI will support improved procurement capability, elevate your performance and deliver tangible benefits.
- Consider your operating environment and select technology that allows you to meet the specific business objectives for your company.
- Improve your processes and data flows so you are ready for AI.

Decide Whether You Will Build or Buy

Many of the early use cases that we've seen for AI have involved custom development. For example, many teams have built custom chatbots to support end users or procurement services, or some companies have developed negotiation "bots" to agree on price concessions with smaller suppliers that would not otherwise be engaged in commercial conversations. There is now purpose-built autonomous negotiations software that can be used to automate supplier negotiations, speeding up cycle times and generating costs savings. This software has been developed for this purpose and is configured to operate within the guiderails established by the company using the software. It is vital to understand what off-the-shelf functionality is available to meet your requirements before venturing down the do-it-yourself path.

Recommendations
- Ensure that you will be creating a competitive advantage or filling a critical functionality gap before you consider building your own tool.
- Aim to buy AI-enabled functionality where possible to take advantage of what others have already learned.
- Be aware of the specific limitations of off-the-shelf solutions and understand whether the tool can be configured to meet your requirements.
- Talk to your trusted vendors to see if they offer or have an interest in developing functionality you need that is not currently available.

Lay the Groundwork to Seize the Full Opportunity

Successful technology projects are not about rolling out the technology, but rather about bringing together the various elements that will ensure the implementation of a new procurement capability, whether that is enhanced contract management, supply market research on demand, more effective e-auctions or any other capability you can think of. If you want to ensure you capture the full potential of AI-enabled solutions, it is key to lay the groundwork required to unlock the value. Consider elements, such as managing data cleansing and integrations, helping the organization and suppliers through the change, ensuring the right skills sets exist within the team, and updating the ways of working.

Recommendations

- Develop a data strategy which includes any required data cleansing (i.e., to avoid the age-old garbage-in, garbage-out challenge), a plan for data migration and a clear understanding of how integrations with other systems will work.
- Look at the technology that you will be implementing, assess the current skills in the team and identify gaps that need to be filled. Define whether you need to hire new talent and/or train existing talent.
- Help both your organization (i.e., the procurement team and business stakeholders) and suppliers through the transition. Execute a deliberate communications plan that is tailored to their specific viewpoints.
- Challenge the status quo and consider the art of the possible when updating the ways of working.

BOTTOM LINE

AI is not new; however it is being incorporated into more procurement technologies and delivering compelling use cases. The Hackett Group expects to see AI being used to enable more procurement functionality over time, which provides procurement teams with a unique opportunity to determine if they will lead the charge or hold back to see what happens. As the technology continues to evolve, procurement teams should monitor development, assess value potential for their operating environment and implement use cases that will clearly deliver value.

Thank you for taking the time to read our research. We value your feedback and ask you to rate the business value you derived from this report.

Very low   Low   Moderate   High   Very high

RELATED RESEARCH

REPORTS

Alert: What to Know About Generative AI and ChatGPT

2023 Procurement Agenda and Key Issues Study Results

Alert: AI in the Enterprise Quick Poll Results

PODCASTS

ChatGPT and the Enterprise

AI and the Enterprise

About the Advisor

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Ms. Hillcox leads the research agenda for The Hackett Group's Procurement and Purchase-to-Pay Advisory programs to deliver practical, best practice-based research and insights for CPOs and other business function leaders. Ms. Hillcox has more than 25 years of experience in procurement, supply chain and working capital management consulting, advising, and supporting blue chip clients in both the US and Europe to achieve improved performance.