2023 Strategic Roadmap for Source-to-Pay Technology

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Initiatives: Procurement and Strategic Sourcing Applications

> Transforming the procurement technology portfolio requires understanding where technology is now, where it is going and how to get there. Procurement and IT leaders should use this research to guide their long-term strategy and the steps they must take to deliver their vision.

Overview

Key Findings

- Sourcing, contract management and spend analytics technologies represent excellent opportunities to introduce AI-enhanced automation while controlling risk.
- Procurement technology stacks are often assembled over time as a procurement organization matures. This piecemeal approach limits integrations across the end-to-end process and reduces automation opportunities.
- Fragmented back-end ERP and financial systems force users to learn multiple systems and reduce data integrity.

Recommendations

Procurement and IT leaders should:

- Maximize the return on technology investments by implementing solutions that enhance the workforce through the use of AI/ML technologies and deliver smarter analytics and improved efficiency.
- Maximize automation by optimizing how functional modules interact from a reporting, work handoff and collaboration perspective. Compare existing capabilities against the future-state capabilities in this research to identify gaps.

- Standardize master data and reduce technical complexity by using sourcing and procurement systems as a simplification layer that reduces complexity for end users.

Introduction

Procurement technology leaders are faced with the daunting task of arming the organization with the optimal technology across the wide source-to-pay (S2P) process. However, the demands to quickly modernize operations often forces very tactical investment decisions that weaken the impact of future technology. Without a complete vision of what an intelligent and hyperautomated technology landscape could look like, procurement technology leaders are bound to make investment decisions that will not hold up over the long term. What if there was a way to know not only what technologies are out there, but how they could work together as a force multiplier with each additional investment? This strategic roadmap research will cover what capabilities to look for and how to build a long-term plan that includes the art of the possible, rather than just what is needed now.

Modern organizations should view sourcing and procurement technology as a strategic force multiplier, rather than as simple tools to complete specific tasks. Enhanced, extensible technology across the source-to-pay spectrum (S2P) is becoming widely available, but this forces a rethinking of how to buy and deploy these solutions to maximize their effectiveness. Building a world-class S2P technology infrastructure requires embracing a highly automated and integrated future state where sourcing and procurement is consumerized and open to everyone.

The move to an intelligent, highly automated S2P technology stack does require change on multiple fronts.

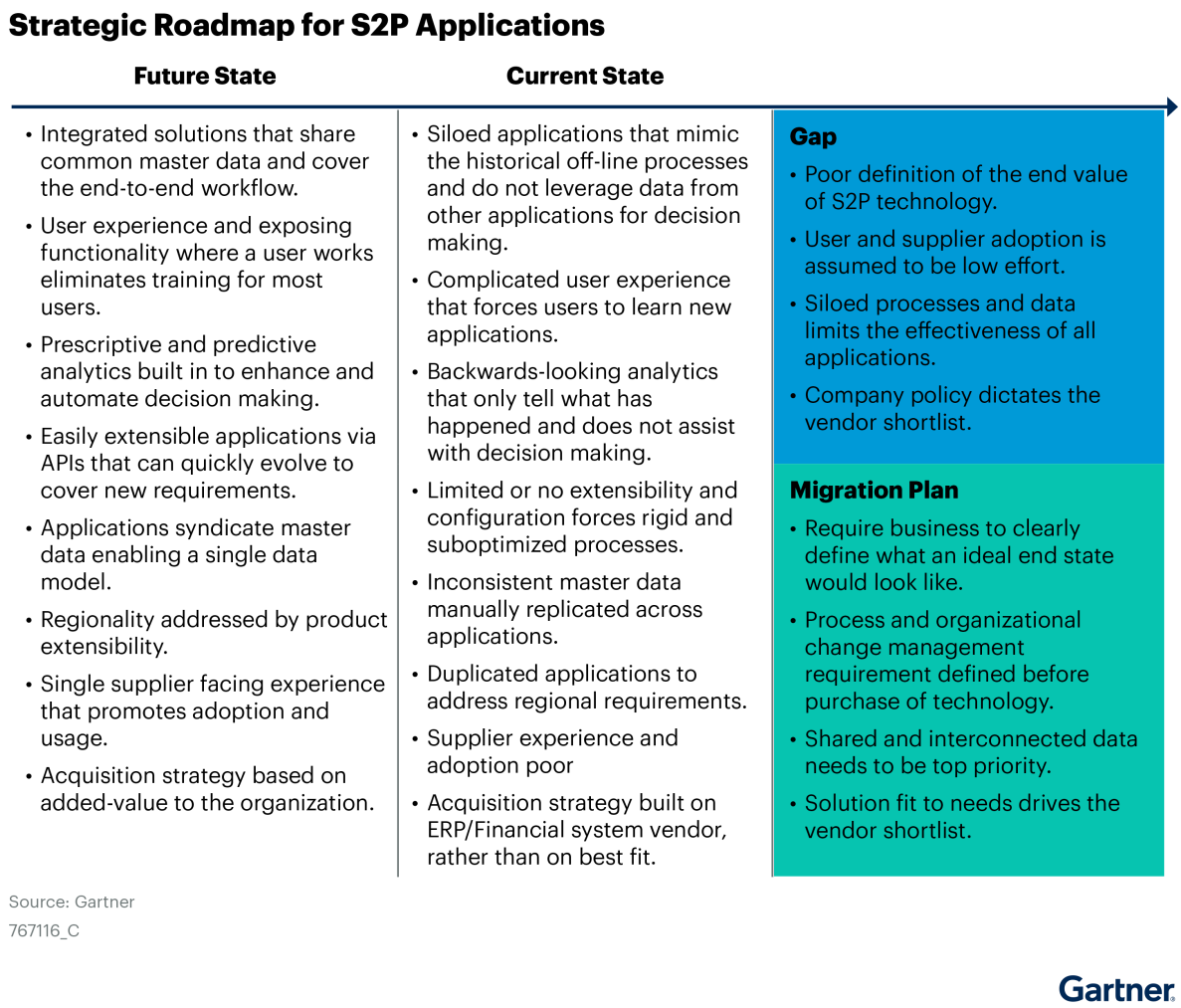
- Clean data must be accessible in abundance to train AI engines.
- Processes and policies will need to be updated and optimized so clear rules and boundaries can be encapsulated into automation engines.
- Organizational trust in AI must be built. AI should make decisions that are not obvious, but that does not mean that its decisions are incorrect. Staff and leadership need to get comfortable with the fact that, in some cases, AI should be trusted to run without requiring constant oversight.

The sum result of these changes is that sourcing and procurement capacity will be increased, as will compliance with organizational goals and policies — all with the same or less resources.

Each organization will start this journey from a different place, some may have little or outdated starting technology, others may have many of the building blocks in place. The key to getting to the future state is to know what to look for, and what needs to change to maximize the return on the technology investment.

Figure 1 shows the roadmap to move to that future state.

Figure 1: Strategic Roadmap for S2P Applications



Source: Gartner
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Gartner

Future State

Sourcing and procurement applications are evolving into tightly integrated solutions, even if solutions from multiple vendors are required. Organizations will benefit from consistent data models and real-time integrations that will facilitate hyperautomated processes that border on autonomous operations. Additionally, shared intelligence that solutions will bring from their larger customer base will further enhance decision making, cost reductions and risk avoidance.

The key technologies that will underpin these advancements include:

- Cloud-based applications with API-enabled interfaces that allow for development of unique capabilities without requiring customization that would silo users into hard to upgrade technology.
- Machine learning models based on very large multicustomer datasets that allow for predictive decision support engines beyond what any single organization could build on their own.
- High-quality supplier data sources and networks that enable automated onboarding, sourcing, collaboration and risk management capabilities.
- Document digitization, classification and analysis technologies that shrink the time and effort required to manage key sourcing and procurement documents.
- Anywhere user experience for exposing functionality where a user works, eliminating training for most users.
- Applications automatically syndicate master data enabling a single data model.
- Generative AI assisting with the automation of text heavy use cases and simplify user interactions through natural language interfaces.

Sourcing and procurement processes will look similar to today at a base level, but the touchpoints that require human interaction will be reduced. Policies will need to be streamlined to account for higher levels of automation and real-time error/fraud detection that is not possible with manual processes.

Table 1 is a list of capabilities that will be found across the S2P spectrum. Note that these capabilities may be found in standard packaged solutions, or enabled via customer/vendor enhancements that integrate via APIs:

Table 1: Advanced Capabilities Available in Source to Pay Modules

(Enlarged table in Appendix)

Functional Module	Advancements
E-Sourcing	▪ Automated sourcing event creation based on user requests or sourcing projects identified in other procurement, planning or collaboration systems. ▪ Requirement creation and enhancement via generative AI. ▪ Intelligent suggestions for requirements that may have been overlooked. ▪ Intelligent source of supply identification that considers not only which suppliers currently offer the product or service, but also which suppliers could be developed to help meet company ESG or diversity goals. ▪ Automated should-costing for setting reserve pricing and as a basis for automated negotiation. ▪ Automation of tactical tasks, such as monitoring supplier participation and supplier communications. ▪ Automation of award scenario-building and analysis based on cost, quality, business goals and policies. ▪ Automated awarding of business to suppliers and the creation of contracts and/or purchase orders to execute the award. ▪ Intelligent capturing of sourcing requirements from requestors, and then the organization on those requirements into a clear structure suppliers can respond to. ▪ Supplier-facing capabilities to enable them to quickly respond to a sourcing event without having to log into the solution if they would prefer not to. ▪ Automate feedback to suppliers based on price points generated by smart should cost estimation engines.
Contract Life Cycle Management	▪ Automated, risk-based negotiation of contract terms. ▪ Real-time, simultaneous internal collaboration with versioning and audit control. ▪ Automated obligation tracking and KPI measurement. ▪ Integrated supplier data, sourcing, and invoicing data for contract setup and postcontract management. ▪ Automated reporting of spend against contracts with task triggers based on contract terms. ▪ Automated contract delegation based on user requests. ▪ Automate contract creation based on awards made in the E-Sourcing solution, including pricing, terms and other conditions that have been finalized in the sourcing event. ▪ Generative AI that automates contract analysis and authoring.
Supplier Information Management	▪ Standard supplier onboarding templates that suppliers can respond to with a single click if they have already supplied answers to the templates in the past. ▪ Automated data validation across a wide variety of third-party data sources and/or marketplaces. ▪ Automated document analysis to validate any document submitted by a vendor is actually what they claim it is. ▪ Automated checks to ensure that suppliers are known and legal to do business with, based on government guidance. ▪ Integration of performance and risk analysis from public and private data sources during the onboarding process. ▪ Active project management for pre- and post-onboarding activities. ▪ Automated access to supplier data and documents from a common repository that suppliers make available to their customer base.
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Procurement Analytics	▪ Prescriptive and predictive analytics that identify spend and policy improvement opportunities. ▪ Prescriptive analytics that guide sourcing to emerging spend to increase spend under contract. ▪ Tight integration of opportunity tracking with project execution. ▪ Analytic highlights pushed to users, rather than logging into a solution. ▪ Near real-time cleansing and enrichment of incoming data, eliminating the time lag spend that analytics have historically required. ▪ Generative AI based chat interface to assist users with creating reports and dashboards.
Category Management	▪ Automatically populate spend data, suppliers, contract data and activities into a single dashboard. ▪ Intelligent suggestions on actions that can improve cost/quality/policy for a category. ▪ Integration of risk analysis and taggged actions to take to reduce risk profiles. ▪ Collaboration tracking and automated support to keep projects on time. ▪ Automated information from third-party data sources as input into the category strategies.
Intake Management	▪ Single channel for all end user requests that will route and track status of requests (e.g., a request for a contract will launch a contract request questionnaire). ▪ Accessible via third-party collaboration tools such as Slack, Teams or email. ▪ Ability to respond to policy and process questions.

Source: Gartner (April 2023)

Current State

Most organizations have a mixed collection of technology that digitizes the source-to-pay process, but has limited end-to-end technical integration and is focused on putting more structure around tasks than automating them or making them smarter. The goal of optimizing a single functional task, such as sourcing, was a reasonable goal when initially implemented, but more comprehensive process automation suffers from that strategy.

Differentiation can be found on a more granular level in the modules themselves. Functionality in modules such as e-sourcing, e-purchasing and supplier risk management can vary between suppliers. However, the utilization and implementation of these software is where some organizations trip up. Even when implementation goes well, maintaining adoption when the technology adds little more than moving the process out of email to a centralized server is not enough to maintain long-term usage. Users want technology that makes their jobs easier, makes them more effective and saves time. Sadly, most legacy procurement technology's main value proposition is to make repeatable tasks quicker to perform, but they do little to make that task go away, or help with making better decisions while performing the task.

Siloed Applications

The S2P suites are sold to companies as an exhaustive solution that will manage and automate the full process from sourcing goods and services right through to the receipt and payment. In a vacuum, these tools have a lot of potential. However, S2P suites are never implemented into a company without some sort of preexisting technologies in place, such as ERPs that are usually required to support various categories of spend. Additionally, while most S2P suites look tightly integrated in the user interface, they often have a mix of data models and underlying technologies that can put a limit on the amount of automation and intelligence that can be directly embedded.

Problems arise when applications are siloed as they inevitably lead people to operate in the same manner that they used to without the help of an application. Processes are completed offline and datasets need to be pulled from all applications in order to collate them. That can then lead to doubt as to the veracity of data, as customers spend endless time cleaning and formatting data.

This is not to say that all S2P buyers face this issue, but it is a likely probability if the correct steps aren't taken during technology selection and implementation to ensure that crucial systems are integrated and process maps are clearly laid out.

Inconsistent Master Data

Master data should be the source of all truth, information contained in master data should carry through to all applications. Vendor names, email addresses and bank details are a simple example of data that should be consistent and accurate throughout all applications in an ecosystem. Currently, organizations struggle to push that master data information through to all applications due to inconsistent data models and poor integrations across applications. As a result, they have to replicate the records to use them in other applications. This process is not only inefficient and time consuming, but it can result in errors in the data and confusion when it comes to updating the records with newly provided information.

Vendor master data runs across the entire S2P domain, and therefore has a huge impact on the ability to automate processes, manage suppliers and categories, and perform simple tasks like paying a supplier. Today's manual processes do not move fast enough to keep this critical data fresh.

UI and Journey

While UI is something that people take for granted at this stage, it is still a game changer to all users. Some S2P applications are perfectly usable and intuitive, but it's still the case that some UI's are overly complex and require a large amount of training to use them.

Supplier Experience

Suppliers have been plunged into a world where they need to navigate numerous platforms for numerous customers. Each platform and customer has nuances that require extra effort and commitment from the supplier's end, so there is no wonder why suppliers are pushing back on requests to adopt new platforms.

Suppliers, additionally, are an afterthought in the design of procurement technology, which leads to suboptimizing their processes to participate. When suppliers are considered, it can come at the expense of license fees to get access to more advanced functionality. This leads to poor adoption by the suppliers, which in turn creates a bigger burden on old manual processes and increases supplier training costs.

Descriptive Analytics

Descriptive analytics are commonplace in S2P suites, however, it is limited in its ability to support decision making. Descriptive analytics is based on historical data and can tell you "what has happened." The last few years have reminded us that we cannot solely rely on past data to help us dictate what might happen in the future.

Procurement Strategy is Aligned for Convenience Not Best Fit

Often, we see clients consider a S2P vendor because of its current placement in their business. For example, it might be tempting to expand with an ERP vendor into the S2P space due to the existing relationship, cost and integration expectations. However, just because a vendor provides coverage in another area of the business does not mean it will be the right S2P fit for you. ERP vendor solutions typically have prebuilt integrations, but often have very different UIs, data models and supplier collaboration capabilities that eliminate the "fully integrated" part of the value proposition.

Gap Analysis and Interdependencies

To move from the current state of fragmented and lightly integrated sourcing and procurement technology toward a highly integrated, automated source to pay landscape, organizations must fill these gaps:

Strategy

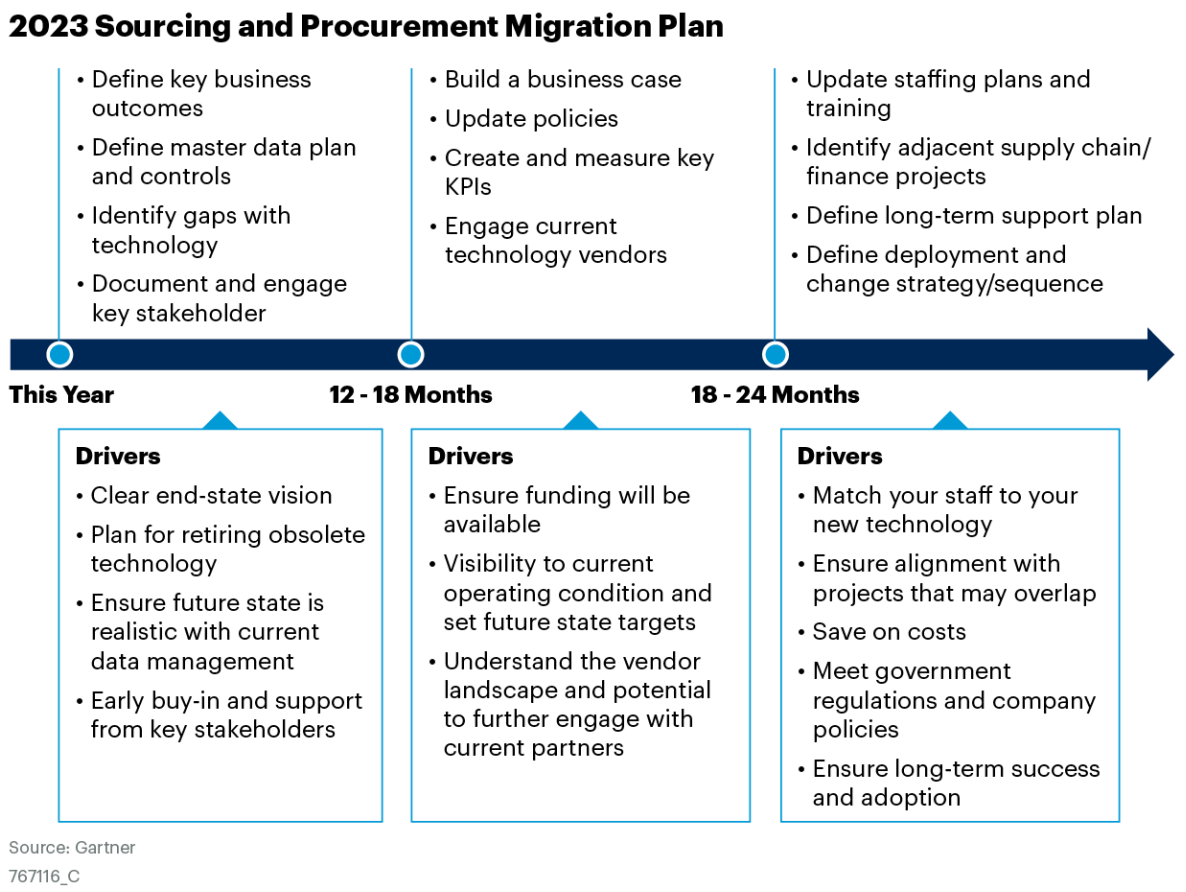
- **ERP-first strategies need to be challenged.** S2P is very functionally diverse and restricting technology buying policy will restrict the level of success that can be obtained.
- **Process silos restrict the natural flow of data and information.** These need to be torn down with the understanding that interconnected processes offer the best path to high levels of automation and transformation.
- **Identify where existing technology simply mirrors what a manual process looks like.** Technology should be used to drive process improvement, speed and intelligence. Getting the organization to identify solutions to limitations with existing technology is a great way to expose what a future-state landscape will add value.
- **There should be specific business justification for all technology deployment.** This justification shapes what is deployed and which solutions are the best fit. Poorly defined use cases will lead to technology deployed for technology's sake, resulting in at best poor adoption and value, and at worst, a rejected funding request.
- **Procurement data will need cleansing, enrichment and normalization.** New technology will help with this, but starting sooner will speed time to value. Service providers and third-party data sources can help jump-start this process at a relatively low cost.
- **Document process bottlenecks.** Identify where people are manually entering the same data across multiple systems, or are entering data provided to them by someone else.

- **Identify spend that does not follow the desired workflow.** Rogue spend that is handled outside the sourcing and procurement infrastructure often highlights where process and functional weaknesses reside. Documenting why this spend is handled manually will provide a punch-list for capabilities that the new solution will need to address to maximize ROI.

Migration Plan

Based on a gap analysis, we propose the use of the following roadmap and action items over the next several years as a template to modernizing sourcing and procurement technology portfolios. While this plan lays out tasks over a multiyear time frame, organizations that do not require the most cutting-edge technologies could reduce that time frame. Data and policy improvements often are the most challenging aspects as they touch areas outside of procurement, thus leading to more work to get full buy-in and signoff from key stakeholders. Intelligent technology is also rapidly evolving, so having key use cases and business outcomes well-defined will help ensure that the correct solution is procured rather than specific functional technology. Examples of this spend analytics is rapidly evolving to include category management and risk management, and the lines between sourcing and contracting are blurring. As these use cases mature at varying paces, organizations must assess their viability to make investments where readiness, technology maturity and benefits align (see Figure 2).

Figure 2: 2023 Sourcing and Procurement Migration Plan



Higher Priority

In the next 12 months:

- **Create a list of key business outcomes required from S2P technology that is underserved by existing technology.** This is the number one task on the list, what the reason for the transformation is, and what business problems it will solve for the organization. The vision of what a hyperautomated, intelligent end state will bring shapes how you will work with key stakeholders, build a business plan and dictate the types of technology you will need. You can map existing capabilities your existing technology provides versus the capabilities listed in the future state section of this research (see Infographic: Peer Insights on Procurement Technology Investment Focus and Performance).

- **Review the Gartner Sourcing and Procurement Hype Cycle for emerging technologies.** Technologies newer in their life cycle today are the mainstream innovation drivers of tomorrow. Use the Hype Cycle to identify up and coming technologies that address current pain points and start small pilots.

- **Work with existing vendors to understand their advanced technology roadmap.** Your existing vendors can be the quickest route to get access to advanced technology. Actively engage with them on where they are taking their technology. If they do not have a plan for using AI, machine learning, RPA, APIs and other drivers of next generation technology, plan a long-term exit strategy.

- **Map existing critical processes that new technology must support for success.** Understanding how a process is executed and the data generated and updated during the process will identify automation opportunities. Additionally, identifying required analytics that support critical business decisions will ensure a full visibility of the future state. Use Ignition Guide to Creating a Digital Strategy for Procurement to help support this.

- **Create a master data plan if one does not exist, define where data will be created and maintained, and where that data will need to be syndicated to.** Data is the lifeblood of all intelligent systems and analytics. Defining where both structured and unstructured data are created and how it is shared across systems is key to eliminating ambiguity in what data is correct and what it means. 3 Essentials for Starting and Supporting Master Data Management is a good starting point (also see Consider Value and Master Data Management Maturity When Picking a Tail Spend Solution).

- **Identify the ERP/Financial systems that will feed/receive data in support of the S2P technology transformation.** Procurement needs to support finance and the rest of the supply chain with critical information, so understanding where their data is shared allows for creation of standards. Ensuring that data such as categorization taxonomies are agreed upon, and meet everyone's needs reduces complexity and manual touchpoints.

- **Review contracts for existing technology to understand financial commitments and identify windows of opportunity where legacy technology can be retired.** Most procurement software is bought on multiyear contracts, so understanding when any existing technology would come up for renewal or expire is important to building a transition plan. Software that cannot meet future-state goals should be managed out with future-state technology taking its place. Having a calendar of expiring licenses will allow you to build a replacement or extension plan and reduce cash outflows for unused software.

- **Define reporting and analytic outputs that are required to support those key business outcomes.** Intelligent decision support making is a cornerstone of leading procurement organizations. Defining early what analytics are required, and how solutions can add suggestions or automate decision making, ensures that the right data is collected and combined to support that capability.

Medium Priority

In the next 12 to 18 months:

- **Build business cases for each module in the S2P technology stack to identify which technologies should be deployed sooner versus later.** Big-bang implementations are a viable option, but should your budget and resources not allow for a full S2P implementation, knowing which functionality is the most business critical is useful for developing a rollout plan. Delivering the biggest return capabilities first builds strong momentum and organizational buy-in for future investments (see The Must-Have Components of Procurement Technology Business Cases and Accelerating Procurement's Digitization — Presentation Materials).

- **Identify policies that could be updated given the controls and workflows that new technology will enforce.** Policies are made to protect the organization from breaking laws and reducing overall business risk. However, policies currently in place never accounted for what advanced software can do to reduce risk, while maintaining organizational controls. Evaluating how small policy changes could remove checkpoints and manual reviews is important when software can provide those same checks without losing automation (see Ignition Guide to Updating Your Procurement Policy).

- **Pilot technologies that can drive immediate incremental automation and intelligence across processes.** Examples of technology that can supplement existing technology would include predictive spend analytics, autonomous sourcing and advanced contract analytics (see Top Technology Trends in Procurement).

- **Identify key stakeholders inside and outside of procurement that will be impacted by the transformation.** Procurement impacts almost everyone in the organization, but some like finance, logistics and manufacturing are directly impacted by how procurement works. Identifying these key groups is critical to ensuring everyone is served by future-state technology. Case Study: Stakeholder Needs-Centric Storytelling (Umicore) provides an example of how to work with and communicate with key stakeholders.

- **Create a list of KPIs that map back to key business outcomes and start tracking them.** Tracking current processes will highlight where the biggest opportunities lie. Having baseline data before the transformation provides the proof that the transformation is achieving the expected results (see Hack Your Metric and KPI Dashboards by Answering 3 Simple Questions).

- **Monitor how technology usage is evolving in the market.** Advanced technologies often have an accelerated life cycle, some may quickly show to be a deadend, while other newer technologies could arise. Make sure your plan stays updated as technologies evolve.

Lower Priority

In the next 18 to 24 months:

- **Identify skill gaps in their current staff and put together a plan to update or acquire people with those skills.** Any technology transformation will change the types of work that needs to be done. Procurement transformations typically move people away from transactional — follow a predefined set of rules — to strategic work where critical thinking and data analysis is far more important (see Infographic: Which Strategic Skills Matter Most for Procurement Outcomes? and Build Staff Business Acumen to Advance Procurement's Strategic Ambitions).

- **Create a list of any policies that require data to be stored in any specific country, and any privacy or security requirements you would have.** Legal (or customer) requirements are often missed, catalog these before procuring any new software to make sure after the fact workarounds are not needed.

- **Catalog planned technology projects in adjacent spaces such as finance, HR and supply chain to ensure capabilities are not duplicated.** Others in your organization may be working on transformation projects that overlap into the sourcing and procurement space. Collaborating with those other projects early will ensure that a problem is not addressed multiple ways, and allows for data and support normalization on any shared processes.
- **Build a long-term ownership and support strategy. Technology investments can quickly become shelfware without strong leadership.** Transformations often lose their urgency and momentum once the initial rollout is complete. Define exactly who will own the technology and processes, how users will interact with that team, and how supplemental and new user training will be executed. The hand-off from the implementation team to the long-term support team should be well communicated to end users and stakeholders to reduce confusion and apathy.

Recommended by the Authors

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Procurement and Strategic Sourcing Applications Primer for 2023

Top Technology Trends in Procurement

4 Workstreams for Successful Implementation of Any Procurement Application

Ignition Guide to Creating a Digital Strategy for Procurement

Magic Quadrant for Procure-to-Pay Suites

Critical Capabilities for Procure-to-Pay Suites

Infographic: AI Use-Case Prism for Sourcing and Procurement

Table 1: Advanced Capabilities Available in Source to Pay Modules

Functional Module ↓	*Advancements* ↓
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