An aerial photograph of a surfer riding a wave. The water is a vibrant teal color, and the wave is breaking into white foam. The surfer is positioned in the lower right quadrant of the frame, riding the face of the wave. The overall scene is dynamic and energetic.

2022 Global EY Chief Procurement Officer Survey

Procurement in a
post-pandemic
world

Introduction

When the ground beneath your feet is shifting, do you stand still or take a leap forward?



CPO Survey Editor

Hamish
McKechnie-Sharma
EY Associate Partner, Business
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Is every year harder than the last?

Well, to some degree, yes. However, the last two years have been harder than most, although in some cases, resilience and focus have become a necessity.

That is the overriding message from our 2022 Chief Procurement Officer (CPO) survey. Despite this, a number of themes that were emerging are now a cornerstone of procurement, while others remain stubbornly the same.

This year, we asked nearly 100 CPOs across multiple industries across the globe for their views on the major trends and issues they are facing as the global context for procurement evolves and business priorities change and adapt at an unprecedented pace. We have created a miniseries of findings and some reflection on how businesses, facing similar challenges, can respond to drive greater value and resilience for their organizations.

Of the three themes, “digitalization” and “talent management” are as familiar as ever and “sustainability” has firmly emerged as the lode stone for the next decade of procurement and supply chain – never has something more prevalent surfaced for procurement to make such a difference for now, our future generations and the world as a whole.

So, what did we uncover at the macro level?

- ▶ Nearly **68%** of the respondents noted that procurement’s role is increasingly important for the delivery of their business’ strategic outcomes, with a predictable shift toward supplier and third-party risk management as top priorities of the function. While this is not surprising in some respects, what is a surprise is the scale of importance being placed on this. In part, this is due to the nature of our macroeconomics-driven environment; on the other hand, maybe procurement has finally realized the opportunity that resides in the end-to-end supply chain. It will be key for procurement functions to embed this into working practices and underlying technology.
- ▶ Procurements’ historic role in delivering cost reduction remains important with **40%** seeing this as a key source of investment for transformation and **80%** listing this in the top three priorities of the function. While we recognize this is part of the outcome from procurement, we are witnessing different forces at play to drive out cost, ensure compliance (regulatory or otherwise) and increase relevance to an organization’s outcome. It is significantly more about ensuring greater supply chain and procurement resilience than a pure commercial play.
- ▶ Almost **98%** of the respondents include sustainability measures in supplier evaluations but only **17%** include environmental sustainability as a priority measure. By the time this report is published, however, we expect this percentage to have doubled. The scale of opportunity in sustainability, and the wider environmental, social and governance (ESG) footprint is going to be greater than digital, and procurement has finally woken up to this. Ensuring clarity on how operations tackle sustainability will require depth in understanding impact, focus and organizational interdependency.
- ▶ Overall recruitment remains a challenge with **44%** stating that access to talent is an issue. Digital skills remain a lower priority for recruiting managers with stakeholder management ranked nearly twice as important. We would counsel that this must be an equal priority as there has never been a more important time to nurture talent and cultivate diversity – making a difference and driving procurement with purpose mean more to our emerging generations than ever before.



Lessons from the last year

In the last 18 months, procurement has played a frontline role in enabling businesses to respond to the challenges of COVID-19.

- ▶ Identifying and contracting new suppliers to compensate for those constrained by disruption
- ▶ Resetting supplier and supply chain risk parameters on a daily, weekly and monthly basis to allow manufacturing and logistics to plan effectively
- ▶ Redesigning category strategies to allow for changing demand patterns, and supporting new products and services
- ▶ Providing commercial controls to protect business from downside risk and to enable access to upside opportunities provided by the inconsistent recovery

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As the world becomes more of a constant living with the pandemic rather than against it, CPOs are asking where to go from here – what should their new priorities be and how do they manage their old ones? Unsurprisingly, 80% of survey respondents confirmed that they are rewriting their procurement strategies and focusing on three areas:

1 Searching for value from investment in digital solutions

The challenge of delivering value for investment in technologies remains unchanged – an issue that has driven one-third of respondents to report they have not deployed their investment budget and those that have struggled to achieve the benefits intended. Sweating existing assets is more meaningful than simply swapping solutions and technology because of ill-informed approaches to adoption.

2 Managing a generational shift in employee-employer relationships

Despite two-thirds of respondents reporting procurement is more strategically important than ever for their organization, two-fifths are struggling to find the right talent to support even core procurement capabilities. To build procurement as a strategic platform to respond to uncertainty with agility, organizations must reinvent their approach to developing more nimble, flexible and resilient procurement professionals.

3 Recalibrating strategies to place sustainability at the heart

While many organizations are struggling to keep up to date with the right technologies and relevant talent, sustainability represents a powerful opportunity to invest in lasting change. Although two-thirds of organizations feel they have a structured sustainability plan in place, over half lack specific targets. Procurement functions will play a critical role in closing the gap to value-led sustainability, but only when they recognize that ESG and financial goals can be mutually reinforcing objectives.



2022 Global CPO Survey

To understand how procurement organizations are responding to the uncertainty of the post-pandemic world, the EY organization reached out to nearly 100 global CPOs, obtaining perspectives on the largest priorities and challenges being faced today.

We received responses from across the globe and industries including retail, energy, public sector, consumer products, telco media, health care and transport, with an average spend of US\$1b–US\$2.5b.

At a glance:

- ▶ In the next 12 months, procurement organizations are focused on efficiencies to manage and reduce costs, with a third of functions funding wider transformation through cost-reduction activities.
- ▶ COVID-19 has highlighted a greater need for procurement agility and three-fifths of respondents are adopting hybrid governance models to respond more proactively to future disruption.
- ▶ Two-thirds of procurement organizations are increasing investment in procurement digitization to improve supply chain resilience.
- ▶ Core procurement and data science skills remain key capabilities, but almost half of the respondents struggle to find the right talent.
- ▶ Sustainability continues to emerge as a priority, with three-quarters of respondents expecting to invest significantly in the short term.



Top focus areas for procurement

Supply issues arising both from and in addition to Brexit and the COVID-19 pandemic are the biggest concerns that procurement functions are focusing on at this point in time.

Top areas of concern for procurement organizations

Aside from Brexit and the COVID-19 pandemic, supply issues arising from price and capability challenges were identified as the top areas of concern for procurement.

- 1 Increase in commodity or input prices
- 2 Increased perception of supplier risk
- 3 Less supply availability due to logistics

Managed spend and savings target

Organizations with large spend of at least US\$10b control a larger part of procurement third-party spend, indicating a strong shift toward accountability and overall influence.

50-80%

of third-party spend in the Americas was managed by procurement.

74%

of small- to medium-sized firms (annual spend less than US\$2.5b) have seen their savings targets reduced or unchanged.

Top focus areas for procurement organizations at this point in time

- ▶ 8%: ESG (sustainability)
- ▶ 5%: recruiting talent
- ▶ 3%: autonomous procurement
- ▶ 47%: supplier risk
- ▶ 26%: recovery from 2020-21 impact
- ▶ 11%: digitization of source-to-pay (S2P)



Priorities for procurement transformation

In the next 12 months, organizations are focusing on realizing cost efficiencies, with the increased strategic importance of procurement giving way to increased investment in technology.

Priority areas for procurement transformation

In the next 12 months, procurement transformation priorities are focused on cost, efficiency, responsiveness and resilience improvements, most commonly being funded by cost reduction activities by 36% of the respondents.



Strategic importance of the procurement function

Almost 68% believe the strategic importance of the procurement function has increased within the organization.



Nearly 68% believe the adoption of procurement technology is a pathway to achieving resilience in their supply chains.

COVID-19 impact

COVID-19 has had a surprisingly positive impact on some industries, while simultaneously highlighting a need for more agile approaches to disruption and risk management.

Impact of pandemic on overall business

Consulting, life sciences, industrial products, public sector, retail, and telecom and media experienced a positive impact on their organization's business during the pandemic.

Key supply chain risks in the near term

- 1 Supplier financial risk due to bankruptcy and supply-base consolidation
- 2 Price risk due to increased raw material costs, logistics costs and decreased productivity
- 3 Service delivery risk, longer lead times and raw material shortages
- 4 Sustainability risk

Hybrid model of governance

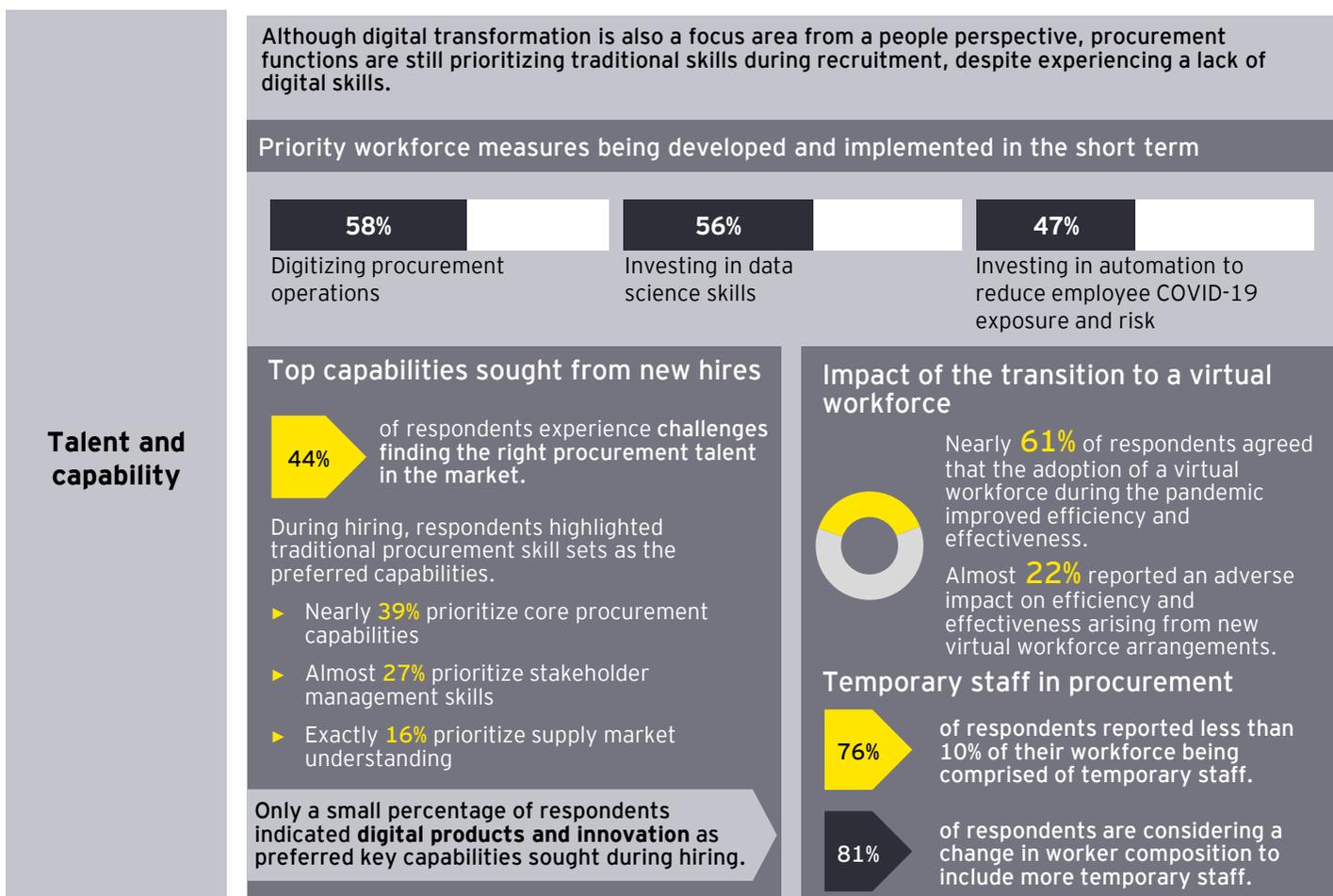
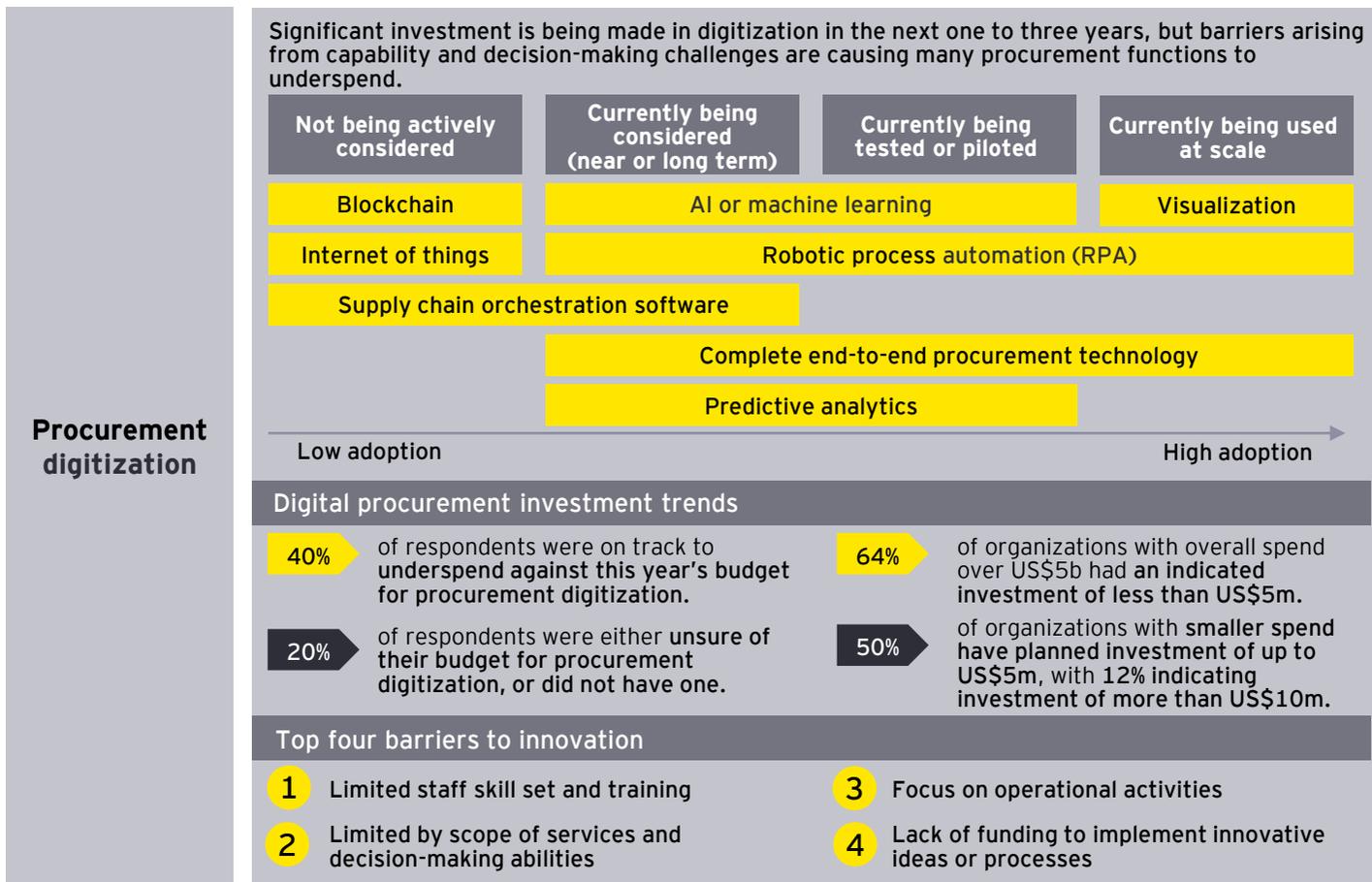


Nearly 59% of respondents are shifting toward more flexible and adaptable supply chains by adopting a hybrid model of governance for procurement, building both reactive and proactive capabilities to respond to disruption.

Contingency planning and risk mitigation



Almost 81% of respondents are incorporating contingency planning and risk mitigation as key components of updates to their sourcing strategies.





ESG initiatives are considered to be a key investment focus for many organizations, but this is not frequently aligned with specific targets and practical initiatives to drive sustainable supply chains.

Investment in improving sustainability efforts



Nearly **75%** of respondents expect to invest significantly in improving sustainability in the short term, with 64% having a structured approach to addressing sustainability.

Although the majority of respondents stated sustainability factors are included as part of their supplier evaluation criteria, these are not frequently included in all contracts, which ultimately is minimizing leverage.

Sustainability targets in procurement



Almost **53%** of respondents have little to no sustainability targets, or organization-wide targets are not aligned with procurement.

Sustainability in supplier evaluation and contracts



Approximately **94%** of respondents stated they include some level of sustainability factors as a part of their supplier evaluation criteria.

ESG

66% of contracts include fair working conditions and wages

41% include diversity and inclusion

18% include environmental sustainability

9% include community improvement initiatives

9% include apprentice and training schemes

Top priorities for sustainable procurement

- 1** Increase awareness with suppliers on sustainability
- 2** Increase supplier collaboration to improve capabilities and achieve sustainability targets
- 3** Increase visibility across supply chain to locate source
- 4** Improve supplier visibility



Digitization

How do you shape your future in a world where technology works on your behalf?

The key takeaways:

- ▶ Having a core, nimble and operable digital procurement framework is critical to maintaining any form of “getting ahead.”
- ▶ The interaction of individuals with procurement technology and its core interface has increased focus at an unprecedented rate.
- ▶ Industry is witnessing continued and prolonged investment in procurement technologies – however, existing technology needs sweating.
- ▶ However, this is being met with an increase in the number of failed digital innovations which have either not met their original outcome or failed in their business adoption.
- ▶ The dial is shifting from deploying new core S2P solutions to supplementary, easily scalable and cheaper innovative products that can be deployed quickly onto core backbones of existing technology.
- ▶ When organizations stand firm with an outcomes-driven approach to innovation, technology becomes a true servant to procurement.



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Changing the tool should not be the first port of call. Leveraging what you have in the context of your defined adoption approach and user base is equally as powerful.

Hamish McKechnie-Sharma
EY Associate Partner,
Business Consulting,
Supply Chain

Digital procurement is rapidly evolving

Despite continued and prolonged investment in digitization, the procurement landscape is littered with failed digital innovations – technologies that never delivered their intended outcomes, seemingly outdated before they were even deployed.

Many organizations respond by blaming the technology, rather than looking internally at how the value case was originally drawn out and how business adoption was managed. In the aftermath, feeling a need to do something to catch up, they rush to do anything, only to become further entangled in the collective uncertainty.

In the ensuing panic, the same mistakes are repeated and the cycle continues.

This year, two key findings from Global CPO Survey triggered us to pause and reflect on strategies to digitize procurement:

- ▶ **Almost three-quarters** of survey respondents are attempting to drive greater resilience through procurement technology in response to COVID-19.
- ▶ **Only a third** have kept to budget, and **almost half** will be unable to spend their technology budget this year.

Faced with these challenges, we have identified four principles for procurement functions to break the cycle and retake control of their digitization journeys.

Never has there been a greater time to ensure these are exploited.

1 Sweat what you have got

Disruptive technologies are everywhere you look. It is paramount, however, to ensure the discovery of fancy new tools do not reign as a distraction. Too often, we witness organizations substitute technologies rather than exploit their previously deployed foundations.

Following the disruption caused by COVID-19, two-thirds of survey respondents are rethinking their entire strategic operating model for procurement, coupled with major investment in all of the digital technologies we surveyed.

Blockchain, for example, which two-thirds were not considering in 2022, will see three times as many respondents planning to have the technology deployed in the next three years. Meanwhile, although over half of respondents are currently piloting or deploying RPA, only a fifth plan to have deployed the technology at scale by 2024.

It can be easy to find yourself caught up in what is new, but frequently starting over means you are left with the basics. Standard automation, for example, is now considered a reference point and if you are not breaking ground, you are falling behind. Given leading protagonists are now focused on what we would term RPA 2.0, it is important to at least “get even, to get ahead.”

Meanwhile, simple automation can have a material impact on performance, providing spare operational capacity to support strategic change. The most cost-effective success factor for incremental improvement today is the creation of a personified, context-driven user experience (UX) for existing automation.

We would recommend the variables across the UX landscape are truly considered, as no two are the same, whether this is a regular user, an infrequent user, sourcing or category manager, an approver in the process, accounts payable or importantly, a supplier.

Put simply, before you reconsider the core technology you have in place, take stock of where you might have more impact by getting ahead with the technologies you already have.

Have the right business decisions and requirements been surfaced to ensure the appropriate configuration has been set up?



2 Solve the right problems

Too often, conversations are started by new innovations and what they could solve, and we go looking for these problems. AI allows us to think about the behavior of an organization's category plans and driving better smart contracts to direct settlement, regardless of whether these requirements exist in our organization.

When technology solutions are used experimentally, we are often faced with unexpected outcomes. For example, accelerated supplier verification can compromise key accounts payable data capturing bank details, driving significant exceptions in invoice processing.

Given procurement's role in facilitating relationships between third parties and the business, systems rarely stand in isolation. Although pain points are much easier to find (and solve) than isolating root causes, strategic pathways require an understanding of the end-to-end impact to the procurement value chain to be effective.

Even so, we are seeing massive change being driven by vague, reactionary strategies.

 **Two-thirds** of survey respondents are prioritizing significant change to procurement digitization in the next one to three years, with **half** aiming for complete transformation.

 **A quarter** of organizations ranked "recovery from 2020 impacts" as their priority outcome at this time, shifting to "manage and reduce costs" for 2022.

Though enthusiasm to improve and innovate is vital, understanding the specific root causes you want to solve – or indeed user cases, when looking at RPA – remains critical. Your procurement function is unlikely to benefit from experimentation.

Before you start on your innovation journey, are you confident in your ability to solve the right problems instead of creating point solutions that will likely exacerbate your organization's issues?

3 Keep your priorities aligned

Even when you have your strategy and goals in place, it can be hard to stay focused when faced with the excitement of rapid prototyping, hybrid delivery outcomes, minimal viable product solutions and the attraction of working with the next start-up. Do not lose sight of your priorities and ensure they align as close to your corporate objectives as possible.

Across the top four barriers to innovation identified through this year's survey, practical priorities are rarely aligned with the problems procurement organizations are facing.

1. **Limited staff skill set and training** but retaining and upskilling staff was ranked as the lowest priority at this time by a quarter of respondents, and two-fifths are not planning on significantly investing in data science skills in the next three years.
2. **Limited scope of services and decision-making abilities** despite predictive analytics being ranked as one of the lowest investment priorities by a quarter of respondents.
3. **Too much focus on operational activities** while two-fifths ranked cutting operational costs as their top priority for the next 12 months.
4. **Lack of funding to implement innovative ideas or processes** even though two-fifths of respondents will underspend against their technology budget by more than 10% this year.

To achieve the results you have worked hard for, keep focusing on adoption, relevant integrations and touchless interaction to ensure your challenges are driving your outcomes.

Is your entire strategy aligned to the priorities that will help deliver your desired procurement outcomes?



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Focus on procurement first and foremost. Digital technologies are your servant; do not let them become your master.

Jim Abery
EY Partner, Business Consulting, Supply Chain

4 Make technology work for you

In many circumstances, organizations approach digital innovation by changing existing processes and systems to accommodate technology.

When we take this approach to digitizing procurement, however, significant effort is spent on designing building and deploying technologies. If we are lucky, we make some incremental improvement with some cost and time consumption. However, we fundamentally risk losing sight of the value being delivered by procurement.

Of the technologies we surveyed, Figure 1 demonstrates how all eight will be more actively deployed or considered for pilots in procurement organizations within three years.

While we have explored the importance of considering whether and why, these technologies are necessary, the sequencing of procurement technologies is even more critical. Deploying them in a relevant order to maximize benefits for your future footprint is what counts.

Even when you have identified appropriate technologies for the right problems, it can be tempting to want to skip straight to the end with rapid investment. Being driven by technology, however, tends to blind us from the fundamental procurement functions our business values most. Thankfully, it does not have to be like this.

Innovative technologies might promise a lot, but technology does not solve problems; your procurement function (and you) does. Do not lose sight of what matters most to your business.

Equally, you do not have to do it alone. EY experience shows the benefits of structuring a multiyear plan to develop digital technologies, prioritized to meet the specific needs of your procurement function.

By making small changes in line with your overall maturity and infrastructure, you can make digital innovation more likely to succeed and create a structured platform for enablement. More than that, you can make sure it succeeds in a way that contributes the most impact toward your most crucial procurement objectives.

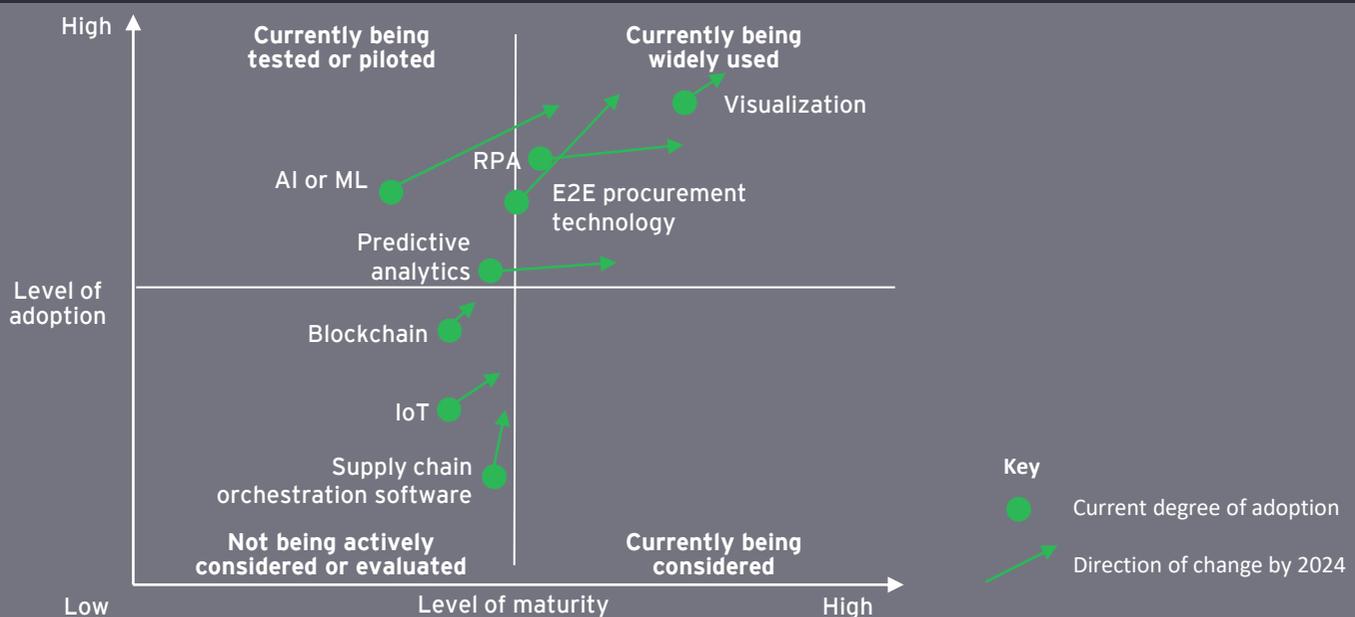


Figure 1: Digital technology adoption trends



Talent and capability

Do you change your people or change the way your people work?

The key takeaways:

- ▶ Procurement creates value from what it delivers to the organization – if it does not, it will cease to exist.
- ▶ Procurement talent has never been more sought after, with the market very active to hire procurement professionals.
- ▶ Key procurement skills are centered on heavy business partnering with internal functions, balancing a strong understanding of end-to-end supply chain as well as core procurement cost reduction skills.
- ▶ It is increasingly important for procurement professionals to be nimble, flexible and ultimately resilient to balance market uncertainty.
- ▶ Digitization capabilities remain under-invested, resulting from the continued lack of recognition that “adoption” needs to play within procurement functions.



Procurement strategy needs to harness key talents from procurement and the wider corporate functions to be successful

Procurement's strategic role – that of building robust plans to ensure the organization's other functions have what they need to meet the organization's core objectives – has been tested during the COVID-19 crisis.

With the recognition that procurement has a lot to influence at the bottom line (as well as continued top line) impact, 68% of recent EY CPO survey respondents confirmed that their procurement function has taken on a more strategic role in their organizations.

In part, this shift is evolving as organizations are forced to recognize and appreciate that an increasing resilience in their supply chain base and de-risking of their exposure are now the fundamental remit of the procurement department. Consequently, this has resulted in the need to operationally demonstrate a greater organizational resilience, with 58% of respondents highlighting their organizations' increased investment in procurement digitization and 47% suggesting that new technologies require continued investment.

The trend is therefore not only confirming that procurement is becoming more strategic to the organization, but that more investment will be required to maintain that position.

1 Procurement needs to hire talent which will build on its strategic platform

However desirable this trend for an increasingly strategic procurement department might be, the day-to-day practices and realities within the procurement department show a different story, when 38% of survey respondents confirmed that their focus for the next 12 months remains on reducing costs.

Although the focus in the market relates to digital procurement, resilience and sustainability, there continues to be a need to address both the fundamentals of procurement capability and the talent serving this. This is not uncommon in our own client base where there is a sustained need to "fix the basics" before folding in more advanced procurement thinking.

Additionally, 39% of respondents said that the key skills they look for when hiring are core procurement skills, which encompass, most often, traditional nonstrategic procurement skills. There is an ideological gap as, on the one hand, the procurement department needs to deliver strategic objectives, yet on the other, the procurement focus is on delivering nonstrategic outcomes.

2 Procurement has to reinvent itself to both attract and retain relevant talent

Procurement organizations need to take a step back and assess what their role in the organization will be going forward. They need to take stock not only of what it is that they have to deliver for the organization, but also assess what skills and organizational structures they will need in the next three to five years to remain relevant and useful to their organizations.

This will ensure they can refocus their hiring practices to build more strategic procurement functions. The new ways of working with more people working from home, more digitalization, less micro-managing, and trusting that people will do the work to the required quality and output has required a paradigm shift for many organizations, not just its employees, but also its leaders.

As millennials, tech-natives, more ecologically aware and social-justice-attuned demographics join the workforce, they are expecting that their employers exhibit similar values to them, which means that the challenges to the old ways of working are not over. Procurement leaders need to work closely with their teams to shape a working style that will meet both the needs of the procurement function, and the lifestyle needs of the individual to ensure they can attract, retain and develop the best people.



3 There is a hiring war on procurement talent across all industries

COVID-19 has dealt a blow to most industries and countries, and one of the casualties has been the availability of labor to the markets and industries. Forty-four percent of respondents confirmed that the market is not able to provide them with their required talent.

Procurement departments have also seen a higher-than-normal level of attrition and movement of staff away from the function. This has resulted in a somewhat perfect “procurement storm” where globally there is a war for talent and yet only 3% of the respondents say that they will focus on recruiting talent for the function. How will it be possible for procurement to operate if it is unable to recruit staff or retain them, given hiring staff is so low on the priority agenda?

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The biggest barriers to innovation we have in procurement relates to the skill sets of the existing procurement staff.

**Chief Procurement Officer,
Life Sciences industry**



Digitizing procurement operations



Investing in automation to reduce employee COVID-19 exposure and risk

Organizations have realized that they need to invest in procurement digital tools to help de-risk key elements of production which is underscored when 58% of respondents confirmed that their organizations have invested in this area.

However, investment in the upskilling of existing talent in the respondents' organizations has been neglected, where 40% of the respondents confirm that their organization's procurement training budget is unspent.

It goes without saying that for the procurement department to remain a strategic function, the organizations have to invest in building their people's skills and capabilities for the future, and not, as it seems, disregard this important factor of production.

In light of the war on talent which exists, it benefits the organization to work on ways to retain its existing teams by investing in and nurturing the talent pool to organically grow, and fundamentally provide reasons for teams to flourish and remain.

“

Our biggest challenge is the ability to develop and train talent to address the changing business and consumer landscape, and demands to support the operations.

**Chief Procurement Officer,
Transportation industry**

A person with glasses is sitting on a wooden bench, looking out over a city at sunset. The scene is bathed in warm, golden light, with the sun low on the horizon and some greenery visible in the upper left corner.

Sustainability

Is your strategy planning for the future or creating it?

The key takeaways:

- ▶ Faced with the rising importance of ESG agendas, organizations have an opportunity to create competitive advantage through value-led sustainability.
- ▶ Never has there been a more powerful and decisive opportunity to make change.
- ▶ Over a third of organizations believe they are driving sustainability, but a lack of consistent understanding of what this means results in an absence of structure, specific targets and a method of effectively measuring these targets.
- ▶ Procurement plays a critical role in closing the gap to value creation by influencing and incentivizing greater sustainability capabilities across traditional supply chains.
- ▶ When procurement functions recognize that ESG and financial objectives can be mutually reinforcing, the full potential of value-led sustainability can be unlocked.

Organizations can no longer afford to ignore sustainability

Nearly 30 UK FTSE 100 companies have signed up to the Race to Zero campaign of the United Nations.¹ Three in five of the world's largest public companies support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TFCD) recommendations.²

As sustainability and ESG issues rise to the top of global agendas, however, organizations no longer have the luxury of investing in sustainability by choice.

Today, more than two-thirds of consumers expect companies to be a driving force in positive social and environmental change.³ The most recent EY Global CPO Survey highlighted key themes that summarize how organizations are responding:

- ▶ **Three-quarters** of survey respondents are planning significant investment in improving sustainability in the next 12 months.
- ▶ **Over half** have no sustainability targets aligned to procurement and **almost a third** have no plan in place to become carbon neutral.

Combining our responses with EY experience, we have considered five areas why organizations struggle with their sustainability targets and how you can drive desired outcomes in your procurement function.

“

One of the key challenges regarding sustainability in the marketplace is the lack of consistent understanding of what sustainability really means for procurement.

Gillian Bright
EY Director, Business Consulting, Supply Chain



1 Confusion reigns

Ask people what sustainability means and you will rarely get a unanimous response. Perspectives might range from net-zero targets, more efficient use of resources and corporate social responsibility (CSR) to regulatory response.

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Sustainability means different things to different people in different age groups, markets and channels. In Brazil, consumers are much more likely to put a premium on initiatives that support ecosystem diversity. For Indian consumers, the key issue is water pollution.

Ray MacSweeney
Associate Partner, Consumer and Retail, EY Parthenon

This ambiguity is compounded when organizations lack a structured approach to sustainability. In this year's Global CPO survey, we witnessed the impacts of this confusion in procurement.



Two-thirds of respondents believe they have a structured sustainability plan in place and **almost all** stated they include sustainability factors into supplier evaluation.



Less than a fifth, however, consistently include sustainability factors into procurement contracts.

Indeed, a third have no specific sustainability targets at either organization or procurement level, meaning organizations must frequently start from the beginning with their approach and strategy.

What is becoming increasingly prevalent is the speed of change. Discussion on sustainability is having a far greater impact than the industrial revolution at an unprecedented pace.

This uncertainty is driving one of the largest challenges in sustainable procurement today.



2 Supply chains hold the key to unlocking true sustainability

Even though there is confusion surrounding what sustainability really means for organizations, it is top of mind. Looking beyond 2022, three-quarters of procurement functions are likely or very likely to significantly invest in sustainability.

While there is growing strategic importance around how supply chains can unlock the true benefits of sustainability, however, the function can also hold itself back. Three in five procurement functions, for example, do not always factor sustainability into their supplier evaluation criteria.

Even when they do, environmental sustainability is included in a relatively small number of contracts, only slightly more frequently than training schemes and community improvement initiatives.



Organizations cannot just buy sustainability. Procurement functions must reflect and adapt internal processes and policies to enable long-term sustainability. For example, the EY organization has become carbon negative in 2022 and is on track to be net zero by 2025. But this can only be done through continued collaboration with EY organization's own global procurement.

“

It is necessary to be skeptical of net-zero commitment as it usually does not involve supply chain. It is the key to focus and drive on the biggest impact rather than everything.

Doug Johnston
EY Executive Director, Climate Change and Sustainability

3 The gap is a structured road map

Approximately two-thirds of survey respondents have plans to be carbon neutral, but organizations must be realistic with the targets and goals they set to ensure they have the skills to deliver.

Currently, two in five procurement functions lack confidence in their ability to translate and deliver sustainability targets. This is not uncommon and the ability to quantify sustainability is going to be the next area of focus. Understanding what skills are required is challenging when the strategy, objectives and activities of sustainability remain in a state of flux.

As sustainability becomes the fundamental way of operating, the introduction of regulation will reinforce the agenda, and force organizations to adjust their operations and encompass their supply chains.

Procurement functions which act now can be on the front foot to deliver long-term value through embedding sustainability into business operations, particularly across the supply chain. For example, through:

- ▶ Sustainable sourcing through **evaluation of sourcing activities with holistic metrics** (costs, revenue potential, societal or environmental externalities and taxes)
- ▶ Increasing **supply chain visibility and traceability to assure quality and provenance** to buyers and consumers of the origin of materials, and quality of processes

This is already being witnessed at a global level.

In Hong Kong, the TFCO is mandatory across the relevant sectors. The EU Commission has adopted the Corporate Sustainability Reporting Directive (CSRD) and Biden's US government aims to achieve net-zero emissions before 2050.^{4,5} Businesses that resist adoption will not only risk financial penalties, but an increased level of pressure from activist investors.



4 Value-led sustainability is exponential

Though the sustainability agenda is a challenge for procurement, as demand for ESG outcomes increases, the sustainability issue offers an opportunity for competitive advantage by creating value-led sustainability.

Investment in sustainable supply chains adds approximately 12% to 23% revenue to the value chain.⁶ To unlock this value, procurement functions must reconcile the achievement of sustainability objectives with traditional procurement objectives of cost and quality.

Steve Varley, EY Global Vice Chair – Sustainability, highlights that in order to achieve the full potential of ESG, ESG must evolve and become more financially relevant, and become financially relevant ESG; otherwise, the true costs and opportunities cannot be properly measured.⁷

Procurement functions must rapidly determine whether sustainability and traditional procurement objectives are mutually exclusive or whether they can become mutually reinforcing, to ensure that value-led sustainability is achieved.

5 You do not have to do it alone

EY services are tailored to deliver value-led sustainability for shareholders, consumers and organizations. Our framework supports the identification of opportunities and defines ESG priorities, such as the introduction of circularity and sustainability into sourcing decisions, and supply chain visibility and traceability.

The journey towards sustainability is ever evolving, and EY services can aid development and delivery of a client's sustainability objectives.

For further reading on Sustainability:

Case for sustainable sourcing: [How to unlock the benefits of a sustainable sourcing strategy](#)

Embracing sustainable supply chains: [How to embrace sustainable supply chains to secure long-term value](#)

Support for net-zero targets: [How sustainable trade can support net-zero targets](#)

The potential of ESG+: [How to realize the full potential of ESG+](#)

¹ "Third of UK's biggest companies commit to net zero," *GOV.UK*, <https://www.gov.uk/government/news/third-of-uks-biggest-companies-commit-to-net-zero>, accessed on 17 February 2022.

² "Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs," *GOV.UK*, <https://www.gov.uk/government/consultations/mandatory-climate-related-financial-disclosures-by-publicly-quoted-companies-large-private-companies-and-llps>, accessed on 17 February 2022.

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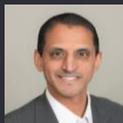
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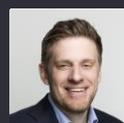
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