Predicts 2022: Embrace a Composable Procurement and Strategic Sourcing Application Strategy

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Initiatives: Procurement and Strategic Sourcing Applications

Sourcing and procurement technology is a key part of an organization's operational stack. Application leaders for sourcing and procurement must understand how the space will evolve to better anticipate change, inform strategic decision making and stay aligned with enterprise application strategy.

Overview

Key Findings

- Organizations are looking to reduce the number of platforms they use to manage their core business. To that end, modern cloud ERP solution vendors have vastly improved the procurement capabilities from their old on-premises options.

- Organizations using stand-alone source-to-pay (S2P) suites find that they have extensive API capabilities for connecting to complex back-end infrastructure and suppliers.

- Sourcing and procurement process pain points are often driven by industry- or customer-specific use cases that rarely are addressed by out-of-the-box solutions.

Recommendations

Application leaders responsible for modernizing sourcing and procurement applications must:

- Identify the appropriate P2P solution by defining the scope of procurement's requirements. If the scope is limited to procure-to-pay, an ERP may be good enough. When e-sourcing, contract life cycle management (CLM) or spend analysis are required; a stand-alone solution might be a better option.
Reduce the complexity of back-end infrastructure by using S2P suites to standardize and optimize procurement in multi-ERP scenarios.

Improve operational flexibility by using vendors’ prebuilt APIs to enable unique or advanced capabilities. Both internally built and third-party composable modules can extend the base system to deliver innovative capabilities.

**Strategic Planning Assumptions**

By 2026, more than half of all organizations implementing a cloud-based ERP will leverage the solution to manage the procure-to-pay process.

By 2026, Fortune 2000 buyers of stand-alone S2P suites will have less than four viable choices due to ERP vendor expansion into the space.

By 2026, 70% of large enterprises will have implemented a composable strategy to deliver advanced capabilities for their sourcing and procurement processes.
Analysis

What You Need to Know

Sourcing and procurement applications support one or more processes related to managing spending. Historically, ERP applications provided very basic purchasing capabilities with limited support for upstream sourcing and contracting needs. Moreover, when an organization uses multiple ERP suites, application leaders tend to buy “best-of-breed” procurement solutions to centralize purchasing in a single tool. These twin challenges have fueled the growth of stand-alone procurement and sourcing solutions. Prominent vendors in this market have grown their portfolios to support multiple processes through integrated modules, commonly known as a suite.

As buying organizations strive to digitize procurement and sourcing, they are considering both cloud-based ERP and procurement suite vendors. Emerging cloud-based ERP solutions have quickly added new features and are more on par with the specialized procurement vendors than ever before. Still, application leaders are worried that even the most modern ERP is not adaptable enough to meet procurement’s ever-evolving requirements. Specialist solutions, with broader and deeper functionality, aim to address these goals, with new market entrants introducing disruptive innovations that redefine best-in-class functionality.

Organizations are also starting to embrace a composable sourcing and procurement strategy that enables connectivity, access to data, better spend visibility, streamlined processes and improved supplier collaboration. They are prioritizing connectivity in their vendor selection process as the future prioritizes a composable application strategy to meet customer demands (see Figure 1).
Procurement and sourcing applications support processes that are most effective when tightly integrated. To generate the most value, they must interface with other business applications, such as core finance, human capital management (HCM), supply chain, and risk and compliance systems. Procurement professionals and end users alike want connectivity and access to data to expand their spend visibility, streamline processes and improve supplier collaboration.
Strategic Planning Assumptions

Strategic Planning Assumption: By 2026, more than half of all organizations implementing a cloud-based ERP will leverage the solution to manage the procure-to-pay process.

Analysis by: Patrick Connaughton

Key Findings:

- In a 2021 Gartner poll, 48% of respondents indicated that they intend to leverage their cloud ERP for P2P. ¹

- When upgrading to or implementing a new cloud-based ERP, buying organizations increasingly expect fully operational P2P capabilities natively embedded in the solution. In response to this, ERP vendors such as Oracle and Workday have been investing heavily in building out their native procure-to-pay functionality.

Near-Term Flag: As cloud-based ERP adoption increases, so will the percentage of organizations using the solution for P2P versus having a separate, speciality provider. Current adoption levels will continue to rise a few percentage points a year.

Market Implications:

- The increase in P2P adoption in ERP solutions does not necessarily mean that these solutions are displacing procurement suite vendors such as Coupa or GEP. The majority of new P2P adoption in cloud-based ERPs is a byproduct of a complete ERP replacement or upgrade program. For example, Oracle EBS customers moving to Oracle Cloud ERP are likely to enable P2P, given that it has additional capabilities over EBS. This and net new customers rolling out the entire ERP suite make up for most of the uptick in adoption. For buying organizations, this is good news as there are more viable P2P options available within cloud-based ERP solutions.

- The case for going outside of a new ERP for P2P will get harder to justify as time goes on. For many organizations, the ERP forms the foundational platform with which other applications must integrate. It also serves as the single source of truth for master data. There are undeniable benefits of having a P2P solution within the same platform as core finance, such as better invoice matching capabilities and reporting.
Procurement suite vendors will have to push innovation and differentiation to continue the growth they have experienced in the past and compete with ERP vendors. This may result in a bifurcation in the market where less-mature buying organizations adopt ERP P2P solutions while more-advanced and highly specialized buyers choose procurement suite vendor solutions.

**Recommendations:**

- Identify the appropriate P2P solution by determining whether procurement aims to manage direct spend as well as indirect spend. The specialized S2P suites on the market are most mature in managing indirect spend. ERP suites are often a better solution for direct spend if it is also being used to support manufacturing and supply chain processes.

- There is usually significant functional overlap between stand-alone P2P and cloud-based ERP solutions, especially in terms of invoice automation and payments. However, ERP suites rarely offer market-competitive e-sourcing or CLM capabilities. If the scope is limited to procure-to-pay, an ERP may be sufficient. When e-sourcing, CLM and spend analysis are required, a stand-alone solution or procurement S2P suite might be a better option.

**Related Research:**

- Infographic: Peer Insights on Procurement Technology Investments
- Magic Quadrant for Procure-to-Pay Suites
- Can I Use One Vendor to Digitize Source-to-Pay?

**Strategic Planning Assumption:** By 2026, Fortune 2000 buyers of stand-alone S2P suites will have less than four viable choices due to ERP vendor expansion into the space.

**Analysis by:** Micky Keck

**Key Findings:**

- Buyers looking outside of their ERP ecosystem for S2P technology are finding small differences across vendors outside of industry-specific or niche capabilities.
Buyers will gain material advantages in supplier adoption and enhanced automation by going with large market share S2P vendors that can maintain investments across their suite.

Buyers now find that a single-vendor S2P strategy is viable. S2P vendors have resolved material functional gaps in submodules of S2P that prevented a successful single vendor strategy in the past.

Near-Term Flag: ERP vendors continue to push out end-of-life support dates for legacy procurement solutions that will potentially move to S2P suite vendors. S2P market consolidation should follow Fortune 2000 upgrade patterns to cloud-based ERP solutions.

Market Implications:

- Point solutions that support advanced e-sourcing, CLM and supplier relationship management will grow in sophistication and integrate tightly with native cloud ERP procurement solutions.

- Customers looking for an S2P suite should focus on the nontransactional parts of the solution and how they support internal use cases. Transactional capabilities will be table stakes, while advanced artificial intelligence/machine learning (AI/ML) that supports prescriptive and predictive process support and high levels of automation will be the differentiator. Customers will also demand automation of sourcing, category and supplier management processes.

- Industries with unique use cases will continue to look to niche solutions that cater to their specific requirements. Existing S2P vendors that do not capture large market share likely differentiate via deep industry-specific capabilities to remain viable.

- Customers will demand support for product extension via third-party apps or custom-API-connected development. The ability for customers to self-innovate to address minor use cases will free S2P vendors to invest in further procurement of adjacent technologies.

- Market share winners will have the largest supplier networks as network effects make them more attractive to suppliers. The larger networks will reduce the cost of collaborating with suppliers through lower onboarding and change management costs.

Recommendations:
Assess the machine learning capabilities of S2P suites by evaluating vendors’ ability to access the large amounts of data required to keep ML engines learning. Multitenant solutions offer many advantages when it comes to mining and learning from data used in predictive ML engines.

Derisk long-term S2P investments by evaluating vendors’ sales-growth track record. Vendors not growing at market rate or above should be heavily scrutinized for growth plans or their ability to support industry-specific use cases.

Review the extensibility of each solution by requiring proof of:

- API call volumes
- Amount of certified third-party apps in use
- The percentage of customers using extensions or apps

Maximize value from collaboration platforms by evaluating not only raw supplier counts, but also participation rates across the collaboration functions that you will require.

Related Research:

Critical Capabilities for Procure-to-Pay Suites

Quick Answer: What Are the Most Common Integration Scenarios Between Procure-to-Pay and ERP Systems?

Quick Answer: 3 Options When Deploying a Supplier Portal

Strategic Planning Assumption: By 2026, 70% of large enterprises will have implemented a composable strategy to deliver advanced capabilities for their sourcing and procurement processes.

Analysis by: Kaitlynn Sommers

Key Findings:
In a recent Gartner survey, it was found that more than 75% of organizations that responded have already implemented or were piloting/evaluating core modules including spend analysis, sourcing, CLM, supplier management and procure-to-pay. With these core modules deployed, they are moving forward on making investments in advanced capabilities.

Suite vendors offer comparable capabilities for core modules, but innovation most often is delivered by specialty vendors. Most commonly, this is found in areas such as advanced analytics, robotic process automation (RPA), supplier sustainability, supplier diversity, autonomous sourcing and tail spend.

Leading organizations are already practicing business composability, which embraces modularity and the use of APIs and microservices to deliver new business value.

**Near-Term Flag:** Procurement organizations are establishing a multivendor strategy to support their process needs. In a recent Gartner procurement technology survey, procurement professionals indicated they were nearly two times more likely to engage a specialty vendor for advanced needs such as AI and RPA. Gartner expects to see this continue as the specialty market delivering emerging technology expands and composability takes a strategic foothold across organizational decision making.

**Market Implications:**

- S2P suite vendors will continue to expand their preconnected ecosystems to deliver quick, increased value across customer demands.

- Application leaders will focus on choosing vendors that enable their composable strategy to deliver core and cutting-edge capabilities. New vendors will vie for market share as suite vendors seek opportunities to acquire to keep pace with advanced functionality.

- Automation and advanced analytics are expected to mature greatly over the next two to five years, making investment in these technologies feasible even for risk-averse procurement organizations.

**Recommendations:**

- Strengthen your S2P technology portfolio by deploying core modules before seeking innovative or advanced capabilities from specialty vendors.
Increase value and strategic alignment across procurement and its related stakeholder groups by collaborating with finance or supply chain process and technology owners.

Create a roadmap for innovative technology based on business outcomes by focusing on processes where existing digital capabilities are either missing or deliver limited value. AI, advanced analytics and supplier enablement are strong target areas for composable technology strategies.

Related Research:

Becoming Composable: A Gartner Trend Insight Report

Infographic: AI Use-Case Prism for Sourcing and Procurement

Quick Answer: How Can Technology Support a Supplier Diversity Program?

A Look Back

In response to your requests, we are taking a look back at some key predictions from previous years. We have intentionally selected predictions from opposite ends of the scale — one where we were wholly or largely on target, as well as one we missed.

On Target: 2017 Prediction — By 2022, all major procure-to-pay software vendors will embed virtual assistants and chatbots for guided buying and self-service requests.

Previously published in Predicts 2018: Procurement and Sourcing Technology Will Benefit From Advances in AI, Data Visualization and B2B Marketplaces

Eleven of 12 P2P vendors included in the 2021 procure-to-pay Magic Quadrant included chatbots that support buying and other processes in their solution. Many solutions integrate with chat applications, such as Slack or Microsoft Teams, to allow users access to functionality without logging into the P2P solution. Support for virtual assistants such as Amazon Alexa, Google Assistant and Apple Siri is also becoming more common.

Missed: 2017 Prediction — By 2022, 50% of all legacy spend analysis software will be retired; replaced by AI-powered, cloud-based solutions.

Previously published in Predicts 2018: Procurement and Sourcing Technology Will Benefit From Advances in AI, Data Visualization and B2B Marketplaces
This prediction was a partial hit, but still a miss. Customers have been moving to cloud-based spend analysis solutions en masse, but the AI-powered part is still not there. AI is often used for data enrichment and normalization, but this capability is still heavily supplemented with rule-based engines. Modern AI-enhanced spend analysis systems are gaining traction, but are still the exception rather than the norm.

AI-enhanced prescriptive and predictive analytics that simplify how users interact with spend analysis tools are definitely the path forward, but pinpointing 2022 was too aggressive. An additional consideration is how users are consuming analytics. It is becoming common for users to interact with analytics as part of workflows, such as supplier management activities or even accounts payable processes. Stand-alone spend analysis will evolve as some capability is replaced with advanced analytics embedded directly into tools that automate sourcing and supplier management processes.

**Evidence**

1. 2021 Gartner Procurement Research Cohort Technology Poll.

**Recommended by the Authors**

Some documents may not be available as part of your current Gartner subscription.

- Magic Quadrant for Procure-to-Pay Suites
- Critical Capabilities for Procure-to-Pay Suites