

# 2022 Key Issues

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While business leaders expect a return to growth and expansion, disruption continues to come from multiple directions – including the supply chain, inflation, talent and other risks, not to mention new developments in the pandemic. These factors will impact what was already an ambitious agenda in 2022 as procurement continues to modernize and transform.

In late 2021, The Hackett Group conducted its annual Key Issues Study, revealing procurement executives' priorities as they look ahead to 2022. Three key themes emerged from this research:

1. While managing continuing supply disruption and its impact on revenue remain procurement's top concerns, sustainability rose more than any other priority on the function's 2022 agenda, compared to the previous year. Together, these priorities reflect a continuing elevation and broadening of the function's role and value contribution beyond only delivering cost savings.
2. Digital transformation remains a front and center enabler, but now refreshed with increased rigor around data management; the need to deliver up-to-date insights to inform supply risk, sourcing, and supplier management; and greater realization of the importance of obtaining value from technology investments. Historical projections around growth in adoption haven't fully come to fruition, and predictions for 2022 adoption are somewhat tempered. However, procurement executives are concerned about their ability to deliver on digital transformation, as well as certain enablers of it.
3. Executives remain concerned about maintaining an efficient, productive workforce with the evolving skills needed to meet the broader enterprise mandate. Developing capabilities in areas such as supplier relationship management, sustainability and data-driven insights will be critical to enabling business success. Functional leaders must find a way to do so while also navigating disruption due to resignations and normalization of the work-from-anywhere model.

# Continued uncertainty, new risks and digital disruption shape the 2022 procurement agenda

The crisis of 2020 and 2021 has cast a long shadow over business conditions and continues to cloud the 2022 planning cycle. According to The Hackett Group's 2022 Key Issues Study, procurement executives expect more fallout. While cyber/information security remains the highest business risk by a wide margin, concerns increased dramatically around the risks posed by supply chain disruption, inflation and commodity price volatility, and the limitations from structural shortages of labor capacity and skills. Furthermore, the phenomenon that began in 2021 – now generally referred to as the Great Resignation<sup>1</sup> – will continue to compound these structural talent challenges in 2022. This perfect storm of supply-side factors, pent-up demand and massive injections of cash into the economy has triggered an inflationary wage/price spiral, causing procurement organizations further headaches.

Yet, at the time of the study – during the fourth quarter of 2021 but before news of a new Omicron variant – about one-third of companies reported stabilized business conditions. Over one-half predict stabilization in 2022, and only 11% expect instability to continue into 2023 or beyond. Study respondents across all general and administrative functions project average revenue growth of 9% in 2022 and staffing increases of 4%, implying a need to improve productivity by 5%. They also expect an 8% increase in capital investment and technology costs, signaling greater reliance on new digital and insight capabilities and assets. It is not surprising then that digital transformation is the No. 1 enterprise initiative for the second consecutive year. In the study, 61% of companies expect accelerated technology innovation to be an enduring characteristic of the post-pandemic business environment, and 58% anticipate a permanent shift to digital channels.

The 10 priorities on the following page reflect the top 2022 objectives of procurement executives, as ranked in the most recent Key Issues Study.

<sup>1</sup>The abrupt, very significant increase in voluntary employee turnover experienced since early 2021 – generally considered to be a response to the COVID-19 pandemic.

# 2022 procurement priorities

**1 REDUCE SUPPLY RISK TO ENSURE SUPPLY CONTINUITY**  
Enhancing business resilience and minimizing the impact of supply disruption to protect revenue and profitability have become the top priority for the first time in our annual Key Issues Study. We expect procurement organizations will continue to enhance visibility, agility and capability.

**2 REDUCE SPEND COST**  
Reducing the cost of supplier spend remains a core priority, though the focus has shifted to mitigating the cost effects of the current inflationary environment, whether through supplier relationships, contract terms or even hedging.

**3 ACT AS A STRATEGIC ADVISOR TO THE BUSINESS**  
Procurement organizations continue to view becoming a strategic advisor to the business as a key enabler to achieving performance goals and delivering on an expanding list of enterprise and functional objectives.

**4 ENABLE CORPORATE SUSTAINABILITY**  
The expectations and demands of procurement's stakeholders (e.g., employees, customers, governments) around supplier sustainability (e.g., environment, social, governance) have elevated this priority more than any other on procurement's agenda – from No. 8 in 2021 to No. 4 in 2022.

**5 ACCELERATE PROCUREMENT'S DIGITAL TRANSFORMATION**  
Digital transformation has become an essential enabler of procurement organizations' ability to deliver new services amid constrained budgets, with better intelligence and increased speed, customer-centricity, and competitive advantage.

**6 IMPROVE ANALYTICAL, MODELING AND REPORTING CAPABILITIES**  
Procurement now recognizes that success increasingly requires a data and insight-driven approach to value identification. A critical enabler is making ever-expanding sources of reliable, up-to-date and forward-looking data and intelligence available to end users. 2022 will require specific focus on modeling and projecting the impact of inflation.

**7 ALIGN SKILLS AND TALENT WITH CHANGING BUSINESS NEEDS**  
The modern vision of procurement requires strengthening skills and competencies, whether to improve stakeholder engagement, meet raised business expectations, or develop new capabilities in areas like sustainability, supply risk, and data intelligence. The Great Resignation has exacerbated this challenge, requiring specific focus on retention.

**8 MODERNIZE PROCUREMENT APPLICATION PLATFORMS**  
Procurement continues its shift from on-premises legacy systems to cloud-based suites, while filling functionality gaps in the suite and/or substituting some suite modules with cloud-based point solutions.

**9 IMPROVE PROCUREMENT AGILITY**  
Agility is about more than being flexible and change-ready; it also includes the ability to anticipate, predict and rapidly react to shifts in the external marketplace. This in turn is critical to rapidly changing business priorities, supply markets and a robust supply risk management capability.

**10 IMPROVE STAKEHOLDER-CENTRICITY**  
Study respondents understand that being a modern, strategic, business-enabling function requires a focus on the needs and expectations of stakeholders (e.g., customer, internal business, supplier), as well as procurement itself. The function's operating model must be designed through the lens of these groups.

Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

□ Critical development focus; largest gap between importance and ability to meet business expectations

# Critical areas for development

The analysis looked at these objectives from the perspective of both relative importance and executives' confidence in the ability to meet business needs. Five objectives ranked high in importance but low in confidence to deliver. These are deemed critical development areas.

Supply risk is the new No. 1 – up from second in last year's study. This jump reflects the continuing disruptions to the supply chain, workforce and other aspects of operations. Procurement executives are reasonably confident in their ability to achieve supply risk objectives. Nevertheless, several of the critical development areas – improving analytical, modeling and reporting capabilities; aligning skills and talent with changing business needs; and improving procurement agility – are closely linked to their ability to do so. It will be difficult to achieve supply risk objectives without a good handle on data sources that drive risk management decisions, teams that understand how to use data, and capabilities for sensing and reacting to shifts in the market.

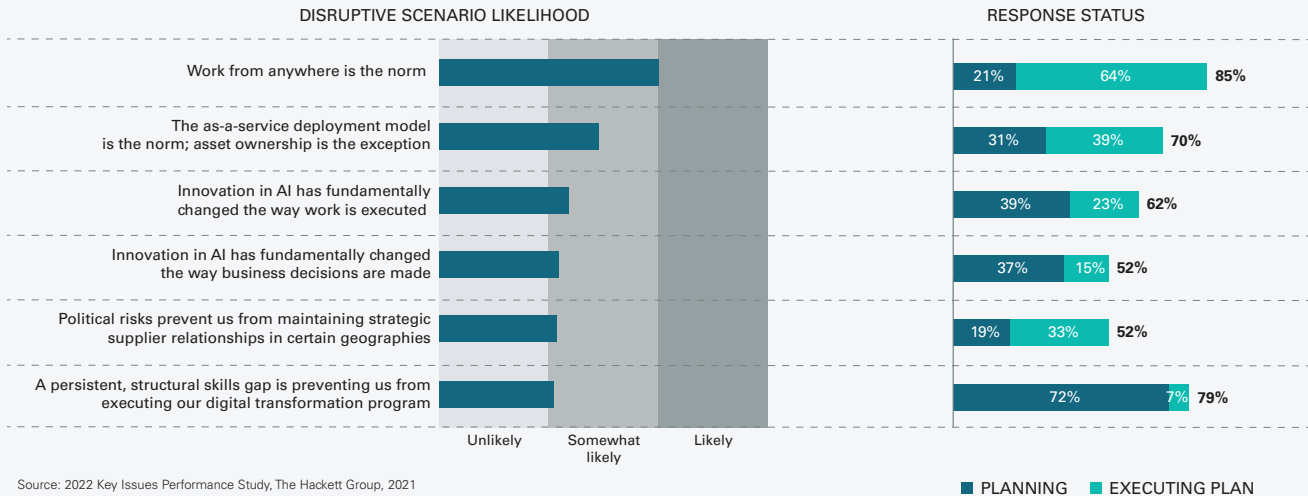
Reduce spend cost is consistent as the core mission for procurement organizations. It remains high on the 2022 list – although with a shift in negotiating power from buyers to suppliers, the focus now is as much about planning for the impacts of shortages, inflation, and market volatility as it is about retendering and saving money. Here again, insight is key, so addressing certain critical development areas around skills/talent and supply market insight and analytical capabilities will be prerequisites to achieving this objective.

Another critical development area is accelerating digital transformation. That remains a top-five priority for procurement organizations, just as it was in 2021. Finally, corporate sustainability jumped four spots on the 2022 priority list – a greater increase than any other topic and reflective of the increased importance globally.

## Potential disruptors to procurement operations

Several disruptive scenarios will change the way procurement organizations work. In the Key Issues Study, procurement executives cited the transition to virtual working as the most likely disruptor to their operating model, with the as-a-service deployment model and innovation in artificial intelligence (AI) as somewhat likely scenarios (Fig. 1). Many procurement organizations are actively planning for and/or already executing response plans around these. Nearly two-thirds are currently executing work-from-anywhere plans, while 39% are taking action to establish an as-a-service deployment model as the norm. Executives rated the persistent, structural skills gap as less likely than other areas to be a disruptive scenario in three to five years. However, the fact that so many are currently planning their responses suggest that they already consider this a very real issue rather than a potential one.

**FIG. 1 Likelihood of procurement's disruptive scenarios materializing in three to five years of time**



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

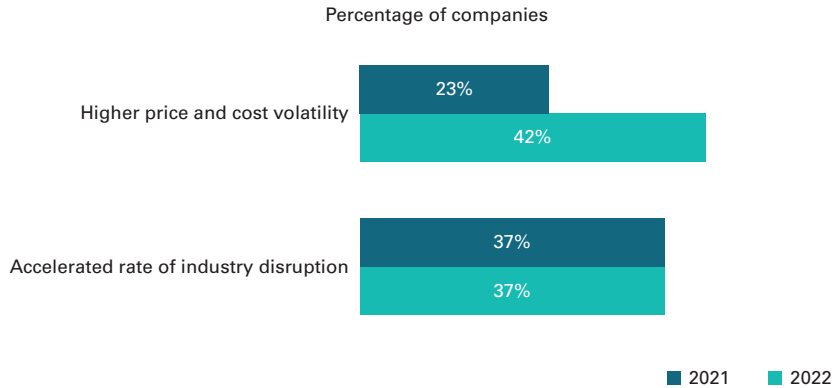
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## Developing new capabilities to deliver on broader value expectations amid changing conditions

Traditionally, procurement was viewed primarily as a cost-cutting function. Evolving supply market conditions and socioeconomic preferences continue to push supply risk mitigation and corporate sustainability higher in priority, reflecting the ongoing need to shift expectations around the function's role and value contribution.

Supply chain scarcity, pricing volatility and inflation have elevated topics, such as third-party risk management and visibility of supply, to the board level. Forty-two percent of companies expect higher price and cost volatility to be an enduring characteristic of the post-pandemic business environment – nearly double the percentage that expressed that view in last year's study (Fig. 2 on page 8). More than one-third expect accelerated industry disruption to remain.

**FIG. 2 Expected enduring characteristics of the post-pandemic business environment**



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

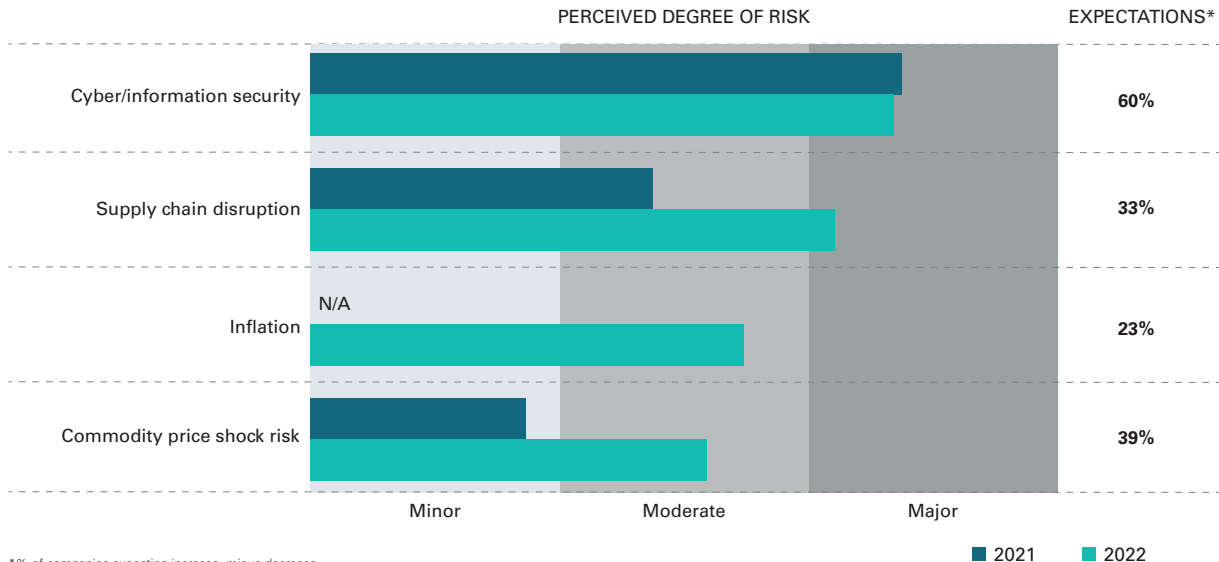
Additionally, sustainability – part of the environmental, social and governance (ESG) agenda – is rapidly becoming a strategic priority for many companies, even in North America. Diversity and inclusion rose to the second most prevalent enterprise initiative last year and held on to this spot in 2022, with 59% of companies now having a major diversity and inclusion initiative in place. Environment/sustainability is not far behind, with 39% of companies running or planning a major initiative. This has important implications for procurement organizations, which must adapt to support the ESG strategy and execution of operational plans.

Collectively, these are issues procurement has already been addressing but for which it traditionally hasn't been measured or given due credit when the singular focus was on cost.



The Key Issues Study also assessed perceptions about key risks to the business in 2022. While concerns about cybersecurity risk remain at a very high level compared to 2021 (Fig. 3) in light of the current business environment, executives surveyed expressed dramatically greater acknowledgment of supply chain disruption and commodity price volatility. Inflation, which wasn't even on the risk radar at the time of the previous year's Key Issues Study, is also considered a moderate business risk now. Most respondents expect these risks to intensify in 2022.

**FIG. 3 Perceived business risks**



\*% of companies expecting increase, minus decrease  
 Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Procurement will be at the center of efforts to address these issues. For example, many companies have had to scramble to address challenges and step up risk mitigation strategies. While this agility has been positive from a business continuity standpoint, compressing the prequalification process in order to onboard new suppliers faster can introduce information security or other risks – underscoring the need for good visibility and relationships within the supply chain. The shift to remote work, in combination with constant change in the procurement workforce as companies grapple with attrition, is also contributing to continuing concerns about cybersecurity.

On the other hand, expectations about the risks of disruptive regulatory change, financial crisis and political instability have all decreased significantly relative to a year ago and dropped from moderate to low-to-moderate levels.

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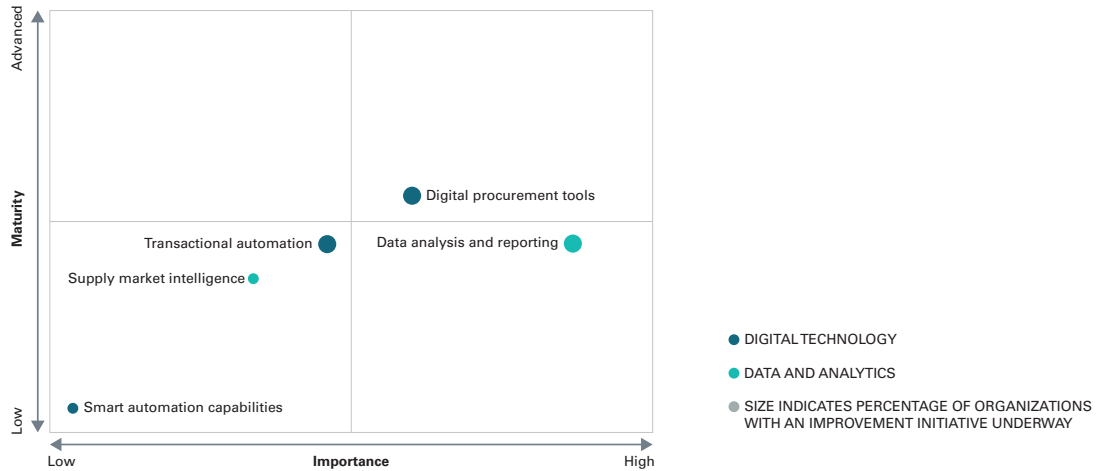
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## Ensuring the right rigor and focus around digital transformation

A majority of companies surveyed this year expect accelerated technology innovation (61%) and a shift to digital delivery channels for goods and services (58%) to be enduring characteristics of the post-pandemic environment. Accordingly, digital initiatives are among the most prevalent major enterprise initiatives planned for 2022: 61% of companies have an initiative related to enterprise digital transformation – more than any other type of initiative – and 39% plan a major technology platform upgrade or new technology introduction.

For digital transformation to be successful, procurement organizations must focus on talent and data, as well as technology. Procurement executives understand the critical importance of developing data and analysis capabilities as means of achieving their top functional priorities. The percentage of companies that have data analysis and reporting initiatives planned for 2022 is comparable to those pursuing new digital procurement tools and transactional automation capabilities (**Fig. 4** on page 12). On the other hand, it is surprising to see that procurement executives consider supply market intelligence to be of relatively low importance. Fewer have planned initiatives, despite the critical nature of this capability in managing supply risk – the No. 1 overall priority for 2022.

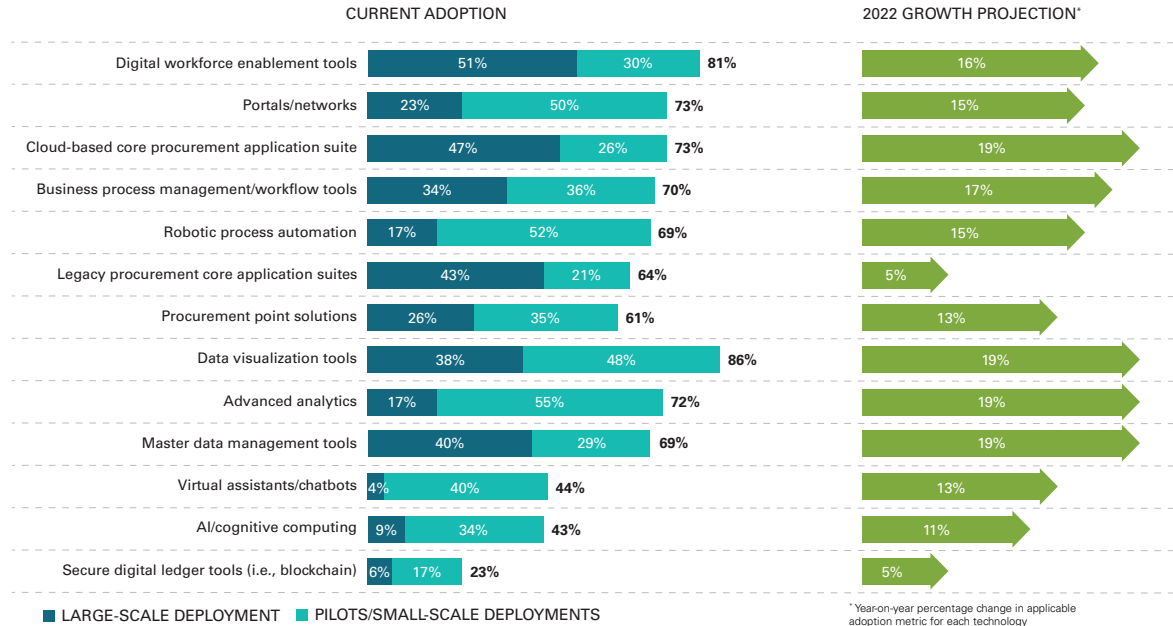
**FIG. 4 Digital procurement capabilities' importance and maturity**



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Digital workforce enablement and core procurement application suites (cloud-based and legacy) have the highest levels of large-scale adoption to this point, but data visualization and master data management tools are not far behind (Fig. 5 on page 13). The latter two, along with advanced analytics, are expected to be among the fastest-growing technologies in adoption in 2022. These projections reflect the recognition that data and analytics will be key to realizing key procurement objectives. Digital operating models require a modern digital architecture, and the research shows that cloud-based core procurement application suites are replacing legacy applications at a rapid pace. These will also be among the fastest-growing technologies in 2022.

**FIG. 5 Procurement technology adoption and growth**



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

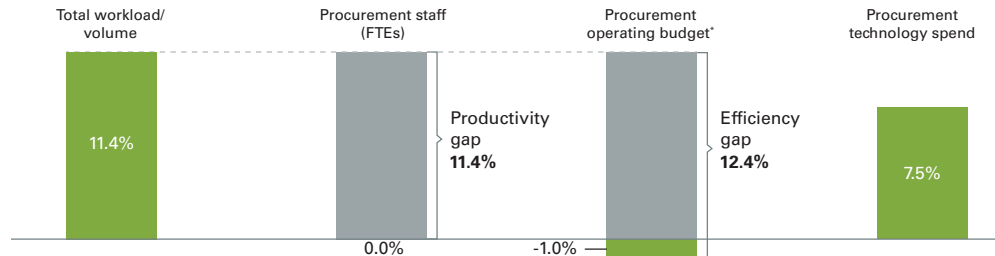
It is important to note that the technology adoption expectations of this year's panel are generally lower than in recent years, and historical projections have not fully come to fruition. For a significant percentage of companies, technologies fell short of expectations. For example, while the adoption of key emerging technologies such as virtual assistants/chatbots and AI/cognitive computing is nearing 50% in procurement, these are also among the least likely to meet business objectives.

# 3

## Defining the next-generation workforce

The Key Issues Study confirms and quantifies what procurement executives already know: Every year, they must find a way to do more with less. In 2022, the procurement workload is predicted to increase by 11% reflecting a broadening of priorities, but with no increase in head count and even a reduction in operating budget (Fig. 6). This creates a productivity gap of 11.4% and an efficiency gap of 12.4%. A substantial increase in technology spending – 7.5%, after remaining static last year – demonstrates the growing reliance on technology to increase procurement productivity, efficiency and effectiveness.

**FIG. 6 2021-2022 procurement workload, staffing, budget and technology spend projection**



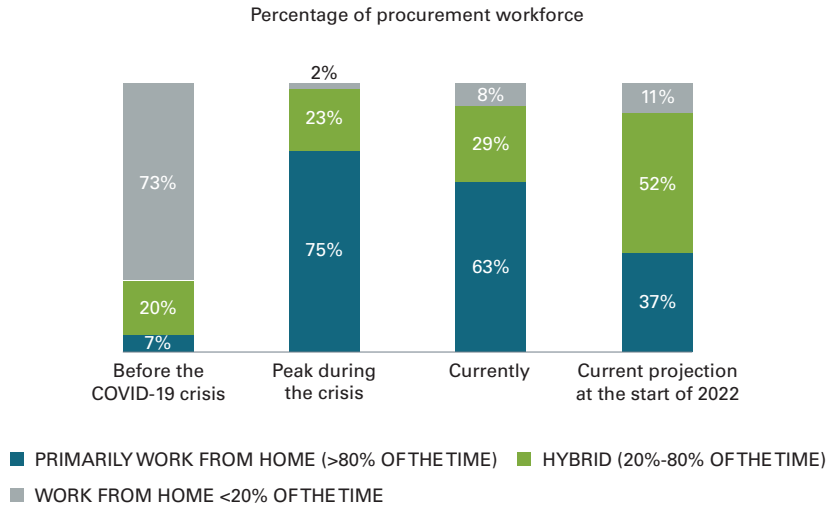
\* The '21-'22 budget growth projection was made in September to October 2021, at which point study participants did not yet fully appreciate the impact of accelerated inflation on the 2022 budget. As a result, The Hackett Group estimates the projection to underestimate '21-'22 budget growth by 2%-4%.

Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

This analysis, however, doesn't tell the whole story. For one thing, the efficiency gap does not take into account anecdotal feedback that procurement salaries are rising. This will lead companies to become more reliant on technology and assess lower-cost workforce options such as physical location. Additionally, the gap in full-time equivalent (FTE) staff does not consider the perspective of skills. The combination of significantly changing roles and external factors, such as escalating salaries and unprecedented voluntary turnover due to the Great Resignation, will put great pressure on procurement executives as they try to elevate the function's role as a strategic business advisor and deliver on other top priorities. It is impossible to know how persistent these trends will be and how profoundly they will impact business. But in 2022, there is no escaping them, and procurement organizations must develop specific talent retention strategies to mitigate the impact. Indeed, the Key Issues Study found dramatically increased concern about the risks associated to access critical skills and labor capacity relative to 2021. As shown in **Fig. 1** on page 6, 72% of procurement organizations are already developing plans around addressing persistent structural skill gaps that prevent them from executing on a digital transformation program.

While remote work is disrupting the procurement operating model, it is proving to be viable for procurement staff in most industries. This trend supports cost reduction and environmental objectives, making it a win-win for procurement and the enterprise. The Key Issues Study examined the current location of work and where executives see it heading. Remote working appears to be stabilizing and was expected to be at about 89% of the procurement workforce at the start of 2022 (**Fig. 7** on page 16). However, the balance of work is shifting away from predominantly work-at-home arrangements to a hybrid model.

**FIG. 7 Procurement embraces a hybrid work model**



As this model becomes the norm, it is important to consider the impact of remote work on other human capital considerations such as employee experience, collaborative productivity, and diversity and inclusion – the latter of which rates particularly high on the overall enterprise agenda (see sidebar, “Procurement alignment with enterprise priorities,” on the following page). Procurement leaders need to make sure they are involved and aligned with these efforts.

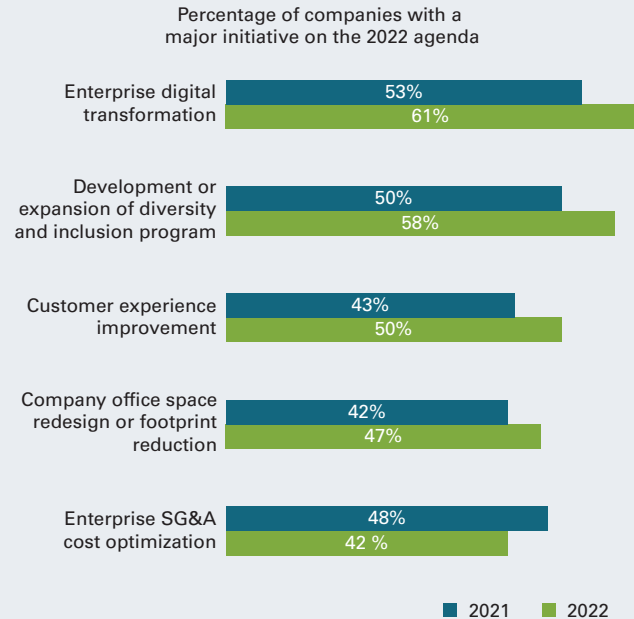


## Procurement alignment with enterprise priorities

A shift in enterprise priorities that began in 2021 will continue into 2022. Enterprise digital transformation retains the No. 1 spot, with 61% of companies – up from 53% – having a major initiative on the 2022 agenda (Fig. 8). In the face of talent challenges, companies have also stepped up their focus on diversity and inclusion initiatives – 58% now have such initiatives, compared to just 35% two years ago. On the other hand, sales, general and administrative (SG&A) cost optimization dropped further down the ranking — from third place in 2021 to fifth place for 2022. This is consistent with an observed shift in focus from margin preservation to growth.

Procurement’s priorities are generally well-aligned with those of the enterprise. But procurement has a unique opportunity to create value not only by addressing its own operations but also by taking on a leadership role to drive overall enterprise priorities around addressing supply chain challenges and opportunities, integrated business planning and cost optimization, office redesign/footprint reduction, and diversity and inclusion – for example, through supplier diversity initiatives.

**FIG. 8 Top five major initiatives on the enterprise calendar**



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

# Where to focus in 2022

Looking beyond the unprecedented instability of 2020 and 2021, procurement organizations will need a transformation agenda for 2022 that reflects the lessons learned and strategic reorientation following the crisis, as well as emerging new disruptors and opportunities. Through all the turmoil, procurement leaders must remain laser-focused on developing resilience within the supply base, adding value to the enterprise – for example, through sustainability – and delivering real performance improvements. Based on the latest research, we believe these should be among the most critical areas of focus in 2022.

**Double down on digital transformation.** The crisis kicked procurement digital transformation into a higher gear. Now, with return to growth mode and more funding available, organizations must sustain the momentum and invest wisely based on rigorous analysis of value, considering the potential opportunities, as well as limitations of technologies at different stages of maturity. It will be important to work with technology function business partners and design intentional information architecture, as well as to carefully manage expectations around tool implementation timelines, speed to value, and return on investment. Above all, do not neglect the need to manage change.

**Produce better insight.** Insight is a key to driving many of the top 10 procurement priorities – from reducing supply risk and spend cost, to acting as a strategic business advisor, to increasing agility. Procurement executives signaled their commitment to invest in the technologies necessary to improve analytical, modeling and reporting capabilities, but they need to focus on moving beyond the multitude of pilot and small-scale applications of data and analytic technologies to more mainstream applications. Of course, better insight doesn't happen through technology alone. It will also require effort to increase data and analytics acumen among procurement staff.

**Improve supply chain visibility.** Mapping or obtaining up-to-date insight into the development of the supply chain is a critical activity to address many of the key issues faced by procurement and deliver long-term value. This is a fundamental step to progress in third-party risk management, supplier diversity and carbon emissions reduction initiatives.

# Where to focus in 2022 (continued)

**Modernize and virtualize the procurement operating model.** The shift to hybrid work practices has repercussions beyond enabling remote working. It offers the opportunity to redesign work and completely decouple execution from the physical location. Accomplishing this involves digitization of processes and assets, cloud migration, seamless remote provisioning of systems and data access, and digital collaboration. Quick fixes have dealt with the unforeseen short-term disruptions, but procurement should take this opportunity to optimize use of centers of excellence and virtual global business services organizations.

**Mitigate the impact of structural talent shortages.** Reflecting a developing role and shifting priorities, procurement teams continue to expand the need for new roles and scarce skills. Additionally, the evolving global phenomenon of higher turnover, upward pressure on wages, and an intensifying war for talent will only exacerbate current talent constraints. Procurement organizations will need both offensive (acquisition) and defensive (talent retention and development) strategies that are thoughtfully conceived and effective. Procurement should make sure diversity and inclusion are built into team processes and that flexibility is accessible to those who request it.

**Provide leadership for the enterprise sustainability agenda.** Corporate social responsibility continues to climb the ranks of priorities at many companies. This is one of the areas where procurement can make the biggest impact. Procurement must prepare for the longer-term business impacts resulting from climate change and diversity commitments. Those new to the journey should first understand their baseline and clarify objectives. Then, build those objectives into the measurement of the procurement function, team members and supplier performance, and look for ways to take stakeholders along on the journey.

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- Talent management, skills and competencies, role definition, and career pathing
- E-procurement solutions strategy, blueprint, tool selection and road map
- Implementation and ongoing hypercare support
- Digital transformation strategy, tool selection and support
- Technology road map, cloud migration and modern architecture
- Master data management and architecture
- Spend management analytics
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