



EXPLORING
AIs POWER
IN PROCUREMENT

SEPARATING
REALITY
FROM MYTH



INSIGHT
SOURCING GROUP



THE AI BOOM

Due to the swift and viral interest in solutions such as ChatGPT, AI has replaced Robotic Process Automation (RPA) at the forefront of conversations regarding digital procurement. Procurement leaders have now found themselves compelled to evaluate the potential benefits of introducing AI technologies in their organizations.

With the constant pressure to accomplish more with fewer resources, procurement leaders now face the challenge of distinguishing between reality and exaggeration amidst the lofty promises of AI. It now becomes essential to not only evaluate potential opportunities but also to evaluate potential risks and limitations associated with this technology.

But how can leaders in procurement separate fact from fiction, and acknowledge the potential risks and restrictions, in the often-inflated expectations associated with AI?

SUCCESS ON A NEW PLAYING FIELD

While experts are already relegating ChatGPT as “obsolete,” there is no doubt that generative AI technology has significantly impacted the digital procurement landscape and has drawn attention to AI more broadly. Knowing current capabilities and future possibilities of artificial intelligence is key to navigating how AI can provide new ways to manage and analyze data to inform decisions and drive efficiencies.

● UNDERSTANDING USE CASES ●

Today, AI has already proven to be dramatically effective in supporting some key areas within procurement;



Master Data Management

Data Cleansing: Generative AI can parse through substantial amounts of data and produce cleansed, normalized records (e.g., extracting SKU descriptions and Unit of Measure out of messy purchase order data).



Contract Analysis

Term Extraction: A combination of optical character recognition (OCR) and natural language processing (NLP) allows tools to review contracts and output key metadata into a tabular format. This information can be used to drive key insights such as upcoming expiration dates and or outstanding commitments or penalties.

Risk Assessment: NLP also enables tools to identify key contractual risks in your legal documents based on embedded legal expertise. As an example, tools would be able to assess whether evergreen clauses exist in critical supplier contracts.



Category Intelligence

Price Benchmarking: Machine learning can help with predicting pricing competitiveness by analyzing large pricing datasets from various sources, including internal historical data and external market data. Different technologies boast the ability to use predictive analytics to estimate the cost of different goods and services based on key contributing factors or parameters. This functionality should be used with caution, with careful review of results.



Payment Audit

Fraud and Anomaly Detection: Optical Character Recognition (OCR) and machine learning (ML) can help tools detect incorrect or fraudulent invoices in your systems.

Process Mining: Combines human and artificial intelligence to discover, monitor, and continually improve processes by extracting data from the event logs of your information systems.

NAVIGATING WHAT'S NEXT

AI has begun to make substantial progress and gain momentum in various other domains. We believe it is crucial to keep a close eye in the coming months on advancements in the following application areas:



Supplier Discovery

AI can assist in supplier discovery by analyzing vast amounts of data to identify potential suppliers based on specific criteria such as product offerings, location, certifications, sanctions, diversity information, and customer reviews. AI-powered tools claim to automate the process of gathering and analyzing supplier information, making it faster and more efficient.



Contract Management

AI technologies can enhance contract management by automating contract analysis and extraction. Natural Language Processing (NLP) algorithms can parse and extract critical information from contracts, such as terms, conditions, key dates, and obligations. This automation saves time, reduces human errors, and enables better contract visibility and compliance tracking.



Sourcing Automation

AI combined with RPA capability may be able to enable automation in the sourcing process by using machine learning models to evaluate supplier proposals, conduct bid analysis, and recommend best-fit suppliers based on predefined criteria. It can streamline the selection process, reduce manual effort, and improve decision-making by considering factors like pricing, quality, and delivery performance.



Supplier Management

AI can assist in monitoring supplier performance and risk. It can analyze various data sources, such as supplier scorecards, quality metrics, delivery performance, and social media sentiment, to provide insights into supplier performance and identify potential risks. AI-powered tools can also enable proactive supplier relationship management by sending alerts for contract renewals, performance reviews, real-time news events, and supplier development opportunities.



THE AI EVOLUTION

It is important to remember the current AI race is not just the culmination of years of research and development – it is in constant evolution with new companies and solutions emerging at a rapid pace. To truly unlock the value of AI in each of these emerging areas of procurement, organizations will need to keep several key challenges in mind:

● Fragmented, unstructured, and decentralized procurement data can limit the ability for AI to draw meaningful and actionable insights

● The inability of AI to apply common sense reasoning to unlearned situations can foster a relative distrust and sense of unreliability in derivative tools

● Surging hype around AI has resurfaced concerns with data privacy and confidentiality, requiring caution when feeding data into AI models to avoid unintended outcomes like discriminatory bias, contract conflicts, and de facto collection of personal information

● Adoption of AI requires a robust focus on change management

HOW WE LEVERAGE AI RESPONSIBLY

At Insight Sourcing Group, we understand the importance of evaluating new tools as they emerge. Our team excels at evaluating digital tools and AI within the procurement domain while remaining vigilant about potential challenges. Our goal is to bolster our capabilities to drive better, faster, and more sustainable results for our clients. Here are a few areas where we are actively investing in AI for our clients:

- **Spend Analytics**
To cleanse, categorize, and classify data more efficiently
- **Supplier Discovery**
To more effectively shortlist suppliers based on critical criteria
- **Price Benchmarking**
To better assess perceived price competitiveness in key categories
- **Drafting Communications**
To craft supplier communications and RFx language more easily
- **Contract Review**
To better conduct initial review of terms and opportunities in contract

LESSONS LEARNED

We are constantly evaluating the potential impact of AI and its application(s) in procurement operations. Assessing the proliferation of tools and technology in the wake of the AI revolution has resulted in both an irresistible sense of excitement and an overwhelming consternation about the risk of overpromises. While we are also in the trenches navigating the maze of digital proliferation with you, we have curated a set of key lessons in the adoption and implementation of AI solutions that we believe all procurement leaders should carefully consider:

- 1 Start with Process**

Many leaders are mistakenly relying on technology to be the answer to all their broken processes. While strides in AI can be used to help resolve parts of a broken process, it can often be less expensive to find ways to fix the process first. Focus on process, then AI product enablement.
- 2 Focus on the Data**

Any AI solution is limited by available data and quality of data. Many organizations are implementing AI applications with lofty expectations without considering what data is required to inform the intelligence. Most (if not all) AI solutions will be limited by the data available. Companies should focus on their data strategy as a stepping stone to achieving excellence in a digital future.
- 3 Prioritize Opportunities**

Identify the specific areas within your procurement organization that can derive the greatest advantages from AI-enabled digital tools and prioritize them meticulously. Although tempting, we recommend practicing appropriate caution when considering the “big bang” approach, as implementing full suite tools often consumes substantial time and fails to deliver satisfactory results. Prioritization is ultimately the intersection of where AI solutions are the most mature and where your procurement processes have the most opportunity for improvement.
- 4 Think Agile**

It may be tempting to apply AI-enabled technology across entire areas of your procurement processes or within multiple categories to maximize the value as fast as possible. However, we have found that starting with small proofs of concept (POCs) or experiments across a subset of the full addressable opportunity allows for feedback, iterative releases, and rapid improvement.
- 5 Anticipate the Change**

It is vital not to underestimate the amount of change management involved in integrating AI tools into the procurement organization. Procurement leaders must recognize that introducing AI technologies will inevitably impact workflows, roles, skills, and responsibilities within the organization. By allocating sufficient time to plan and execute change management strategies, the procurement organization can navigate the transition effectively and ensure the smooth integration of AI tools while maximizing user adoption.



**PROCUREMENT LEADERS HAVE BEEN
ASKED TO TAKE ON AN ENTIRELY NEW
ROLE IN THE MIDST OF OUR CURRENT
DIGITAL EVOLUTION.**

**BALANCING INNOVATION
WITH PRAGMATISM AND INVESTMENT
WITH STEWARDSHIP ARE CONSIDERATIONS
THAT WE AT **INSIGHT SOURCING GROUP**
CONTEMPLATE REGULARLY ON BEHALF OF
OUR CLIENTS. PLEASE KNOW THAT IN THE
EVOLUTION OF DIGITAL PROCUREMENT
AND ADVENT OF AI, WE ARE
STRATEGICALLY EXPANDING
OUR CAPABILITIES TO
GIVE OUR CLIENTS THE RESULTS AND
ASSURANCE THEY DESERVE.**

ABOUT INSIGHT SOURCING GROUP

Insight Sourcing Group is the premier firm in North America exclusively focused on procurement optimization and Procurement Value Creation™.

Founded in 2002, Insight's capabilities are designed to accelerate impact through the expertise of its 250+ procurement experts, its market-leading Category Center-of-Excellence model, and practices specializing in Private Equity, Supplier Diversity, Energy Management, and Sustainability.

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