

GenAI is Disrupting Procurement in Unexpected Ways

March 2025

McKinsey's experience in Procurement

70

Fortune 100 companies recently served on Procurement

\$75B+

value capture across all industries

3700+

procurement engagements in the last 5 years

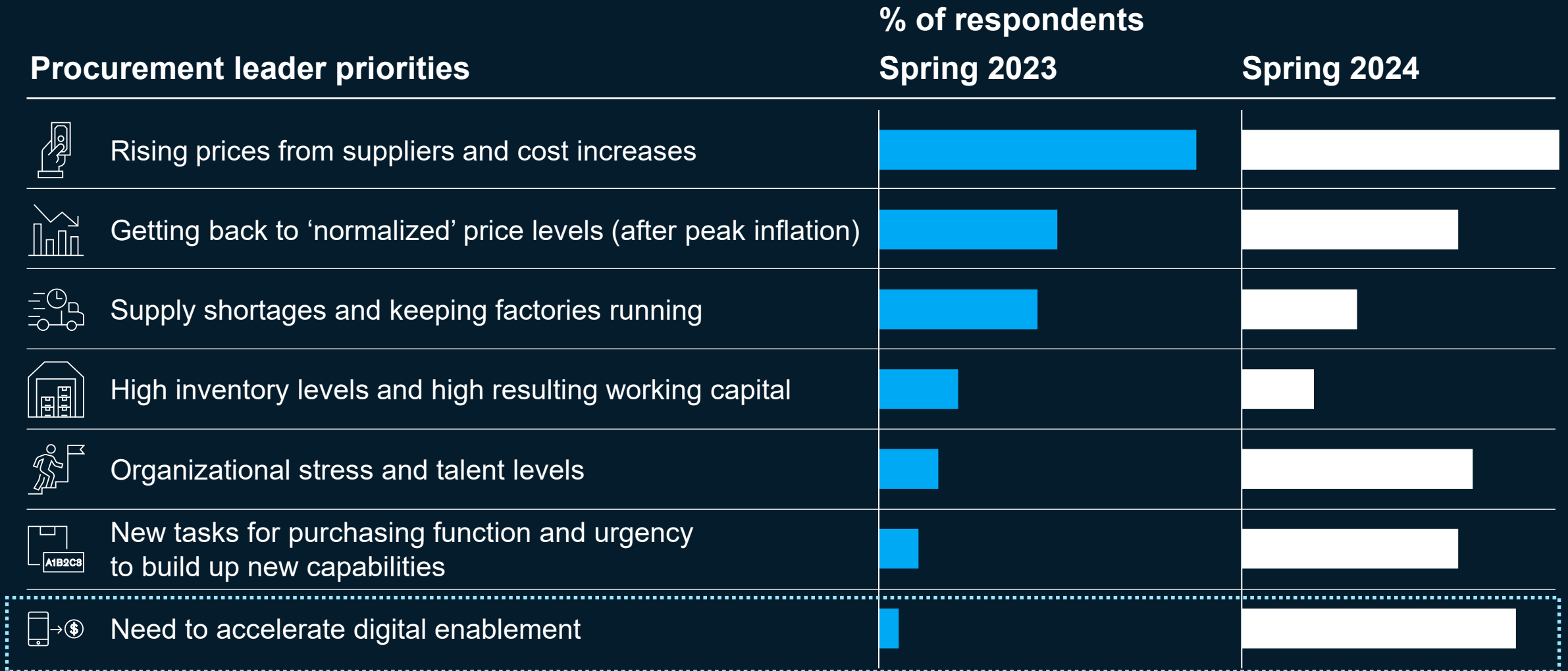
>\$1B+

invested in procurement tools and technology

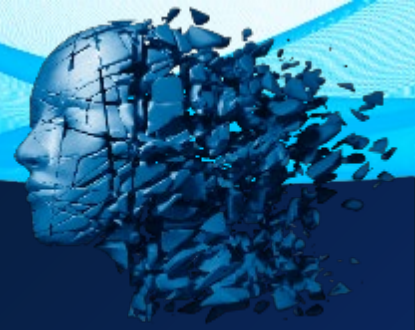
Topics today

- 1** How is AI and GenAI re-shaping Procurement?
- 2** What are examples of successful deployments?
- 3** How can an organization get started with AI and GenAI use cases for Procurement?

Digital enablement—including GenAI—is complicating what procurement leaders have to focus on



GenAI is a substantial disrupter and opportunity



Value can be captured from suppliers realizing breakthroughs in productivity ...

Marketing &
Communication
Services

10-20%

Legal Services

15-20%

Software
Development &
Services

15-30%

... and in the function with new capabilities empowering category managers and buyers



4-20% Increase in category savings across the S2P value chain

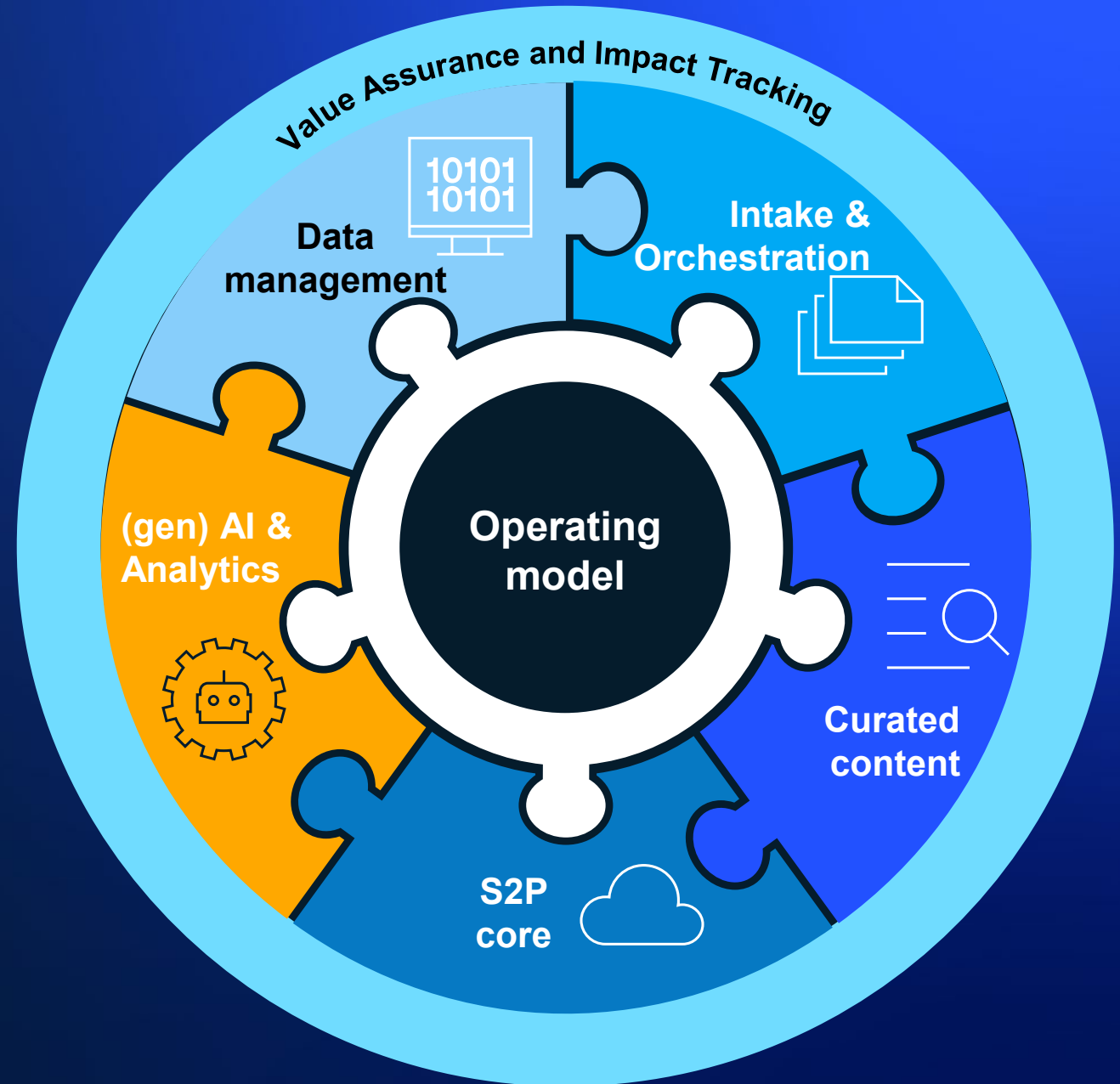


3-12% Impact from value leakage reduction



15-30% Efficiency uplift through automation of analytical procurement tasks


Procurement
leaders invest in
the **Digital
Procurement
Engine** to power
their
performance



GenAI tools enable productivity and savings across Source-to-Pay

Non-exhaustive

■ Deep dive to follow




Spend analytics and category management



RFP creation, analysis, and aggregation




Deal negotiation




Contract drafting and querying



Supplier intelligence and management

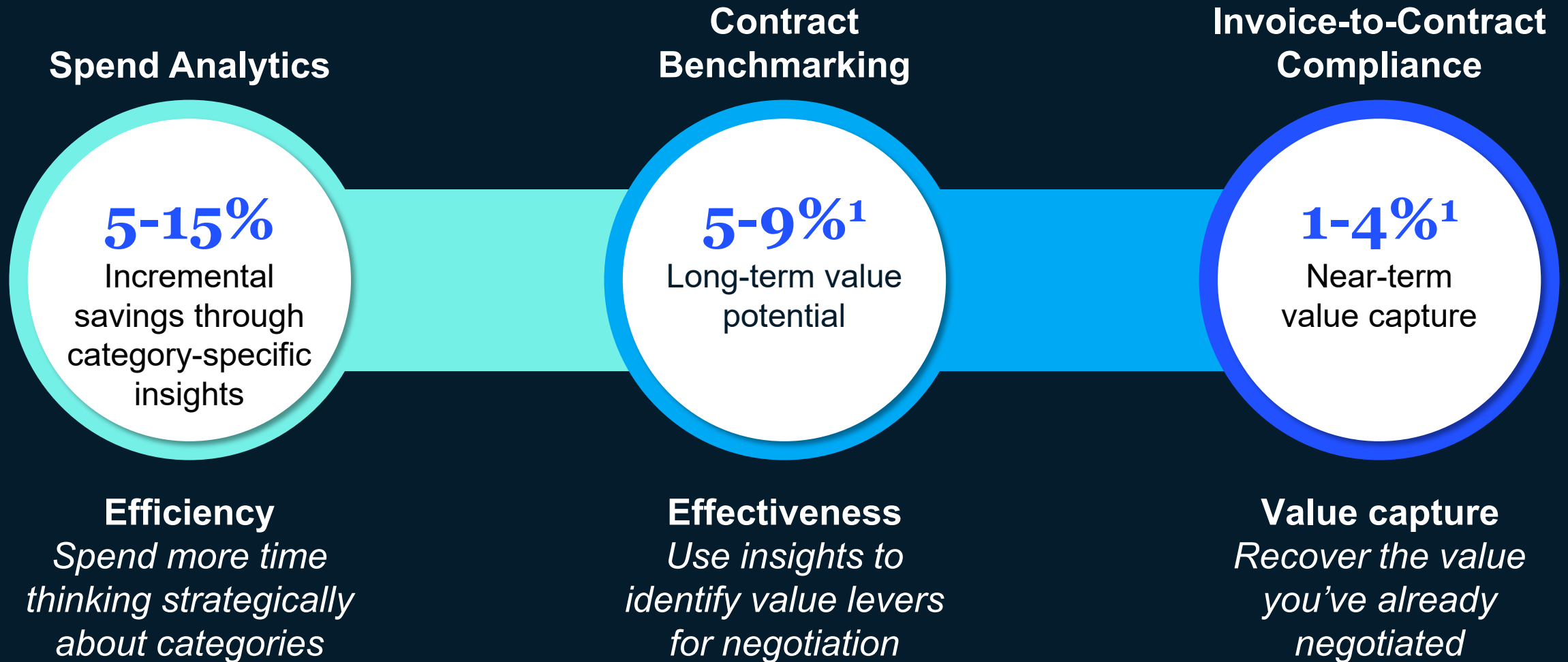


Procure to pay optimization



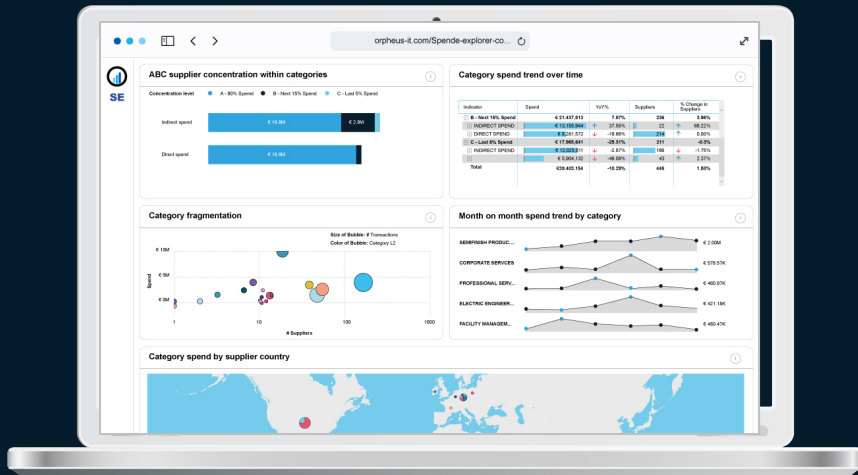
Proactive risk management

Spend analytics, contract benchmarking, and invoice-to-contract compliance can deliver near-term and long-term savings



1. % of indirect categories of procurement spend

Spend Analytics



Problem

Highly fragmented data sources, bad data quality

Inconsistent taxonomy with varying levels of categorization granularity

Capability challenges to identify insights, capture value



Solution

SaaS solution designed to:

1. Automatically categorize spend (incl. tail suppliers)
2. Monitor price and spend increases
3. Monitor input costs (e.g., rising wage or commodity rates)
4. Identify rate variance and consolidation opportunities in spend base
5. Analyze expiring contracts



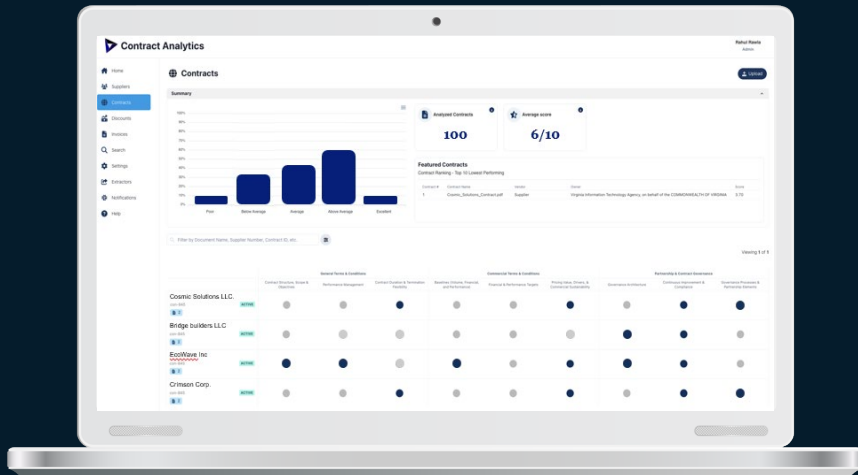
Impact

3-8% Procurement spend savings

5-15% Incremental savings through category insights and levers



Contract Benchmarking



Problem



>80% of companies lack visibility into competitive terms and contract structures

~5% of third-party spend typically leaked through lack of transparency and compliance with best practice contract terms and conditions

Impact

Up to 5-9% of potential opportunity identified across reviewed contracts (impact to be realized as contracts are renegotiated)

Solution

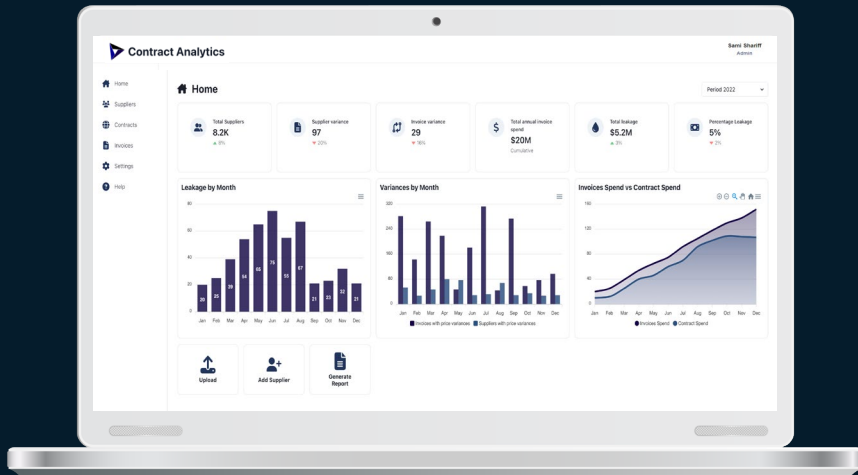


GenAI-powered evaluator designed to:

1. Analyze large volumes of contracts
2. Benchmark clauses using proprietary logic
3. Generate instant insights for opportunity improvement



Invoice-to-Contract Compliance



Problem



Value leakage from **lack of compliance between contracts and invoices** driven by:

- High volume of invoices and contracts
- High resources and costs to reconcile

Impact



~1-4% estimated leakage on spend identified (driven by pricing mismatch, volume discounts, payment terms, and potential rebates)

Solution



Scalable GenAI-enabled capability to **identify value leakage for entire Procurement spend within minutes**

1. Reconcile invoice prices against contracted prices
2. Identify drivers of value leakage; incl. detailed instance report for claw-back
3. Prevent future leakage through real-time reconciliation

There are broadly two ways organizations get started

■ Focus for today's discussion

① Deploying targeted use cases

Identifying a few use cases that solve productivity pain points or target untapped savings levers. Examples:

- Spend analytics
- Contract benchmarking
- Invoice-to-contract matching
- Should cost modeling, Input cost monitoring
- Autonomous negotiations

Results in a targeted proof of concept and business case

② Identifying total procurement opportunity from GenAI

Diagnosing the full potential savings across categories *and* tools needed to capture it

- Benchmarking
- Spend analysis
- Process mapping
- Should costing

Results in an estimate of total opportunity and a prioritized tech roadmap / investment case to get there

**Reach out for
questions**



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