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AI NAVIGATOR

P R O C U R E M E N T



Executive Summary



AI Navigators are driving transformation in procurement by optimizing workflows and enabling strategic decision-making

Gen AI is revolutionizing procurement by automating supplier management, contract analysis, and spend optimization. It enhances procurement efficiency through intelligent data analysis, which identifies cost-saving opportunities, ensures compliance, and optimizes supplier relationships. These tools reduce human effort and elevate procurement to a more strategic function, enhancing operational continuity and value creation

Strategic planning, data infrastructure, and ethics are crucial for effective Gen AI deployment in procurement

While Gen AI offers transformative potential, its implementation requires robust data infrastructure, strong change management, and ethical governance. Organizations must address challenges like data quality, integration with legacy systems, and AI biases to fully realize its benefits. Adopting best practices such as workforce upskilling and security measures will help companies navigate the complexities of Gen AI integration

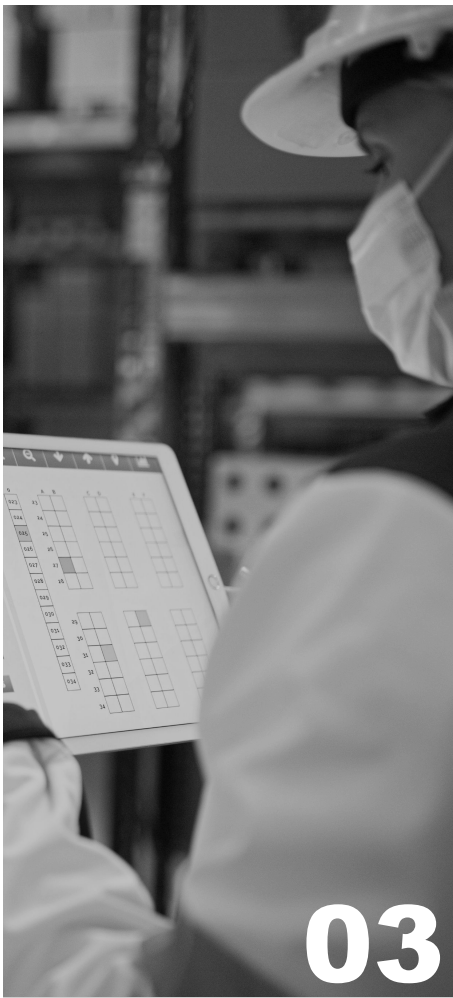
Future outlook: AI-powered procurement ecosystems are set to evolve towards greater autonomy and efficiency

Gen AI is in the early stages of transforming procurement, driving innovation and improving efficiency. Many Chief Procurement Officers (CPOs) are evaluating its potential, with early adopters focusing on areas like data analytics, contracting, and sourcing. From 2023-2025, the adoption of advanced AI/ML tools is expected to significantly impact procurement, though a phased roadmap is needed to ensure ethical AI use, data readiness, and workflow integration.



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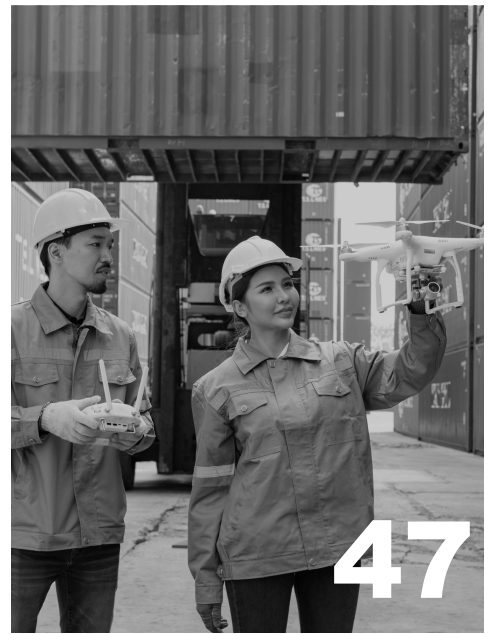
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Understanding the Procurement Landscape

In the rapidly evolving business environment, procurement plays a pivotal role in driving organizational success. As companies face increasing complexities from supply chain disruptions, digital integration, and sustainability demands, understanding the procurement landscape becomes essential.



Procurement: A Strategic Force Driven by AI and Innovation

Procurement is undergoing a significant transformation, shifting from a traditional focus on cost efficiency to becoming a strategic pillar in building organizational resilience and innovation. The world experienced significant turmoil between 2020 and 2023, faced with supply chain disruptions, geopolitical tensions, technological advances, changing consumer needs, and new sustainability commitments. It reshaped how people live and work at the structural level.

Accounting for **40-80% of a company's costs**, procurement plays a pivotal role in enabling organizations to navigate market complexities, manage risks, and ensure operational continuity. Effective procurement ensures the timely acquisition of materials and services, which is vital for maintaining production schedules and meeting customer demands.

Procurement is evolving in this new economic era characterized by volatility, regionalized supply chains, AI dominance, and talent scarcity. The integration of **big data, advanced analytics, AI, and GenAI** is **reshaping procurement**, turning routine tasks into strategic decisions. This helps in enabling more efficient contract management and risk mitigation; ensuring procurement's vital role in driving both strategic and operational success. These technologies **unlock new opportunities** for efficiency, value creation, and smarter decision-making.

Further advances in Gen AI and machine learning will keep enhancing **accurate spend analysis, optimizing workflow, and data-driven decision-making**.¹

Types of Procurement:

Having established the critical role of procurement in organizational success, it is essential to explore the various types of procurement that organizations can leverage to optimize their operations. There are four main types of procurement:

Direct procurement



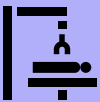
This includes procuring anything that **directly supports the production** of the goods a company sells, including raw materials, components, parts, services, and wholesale items. These all have an impact upon revenue, growth, and reputation, so supplier relationships are crucial in direct procurement.

Indirect procurement



Anything **not directly related to production**, including materials, goods, and services for internal use and daily business operations, falls under indirect procurement. This includes items such as office supplies, utilities, and travel expenses.

Goods procurement



Both direct and indirect procurement can fall under goods procurement, which includes procuring any tangible object, whether finished or unfinished – everything from equipment to raw materials to office chairs.

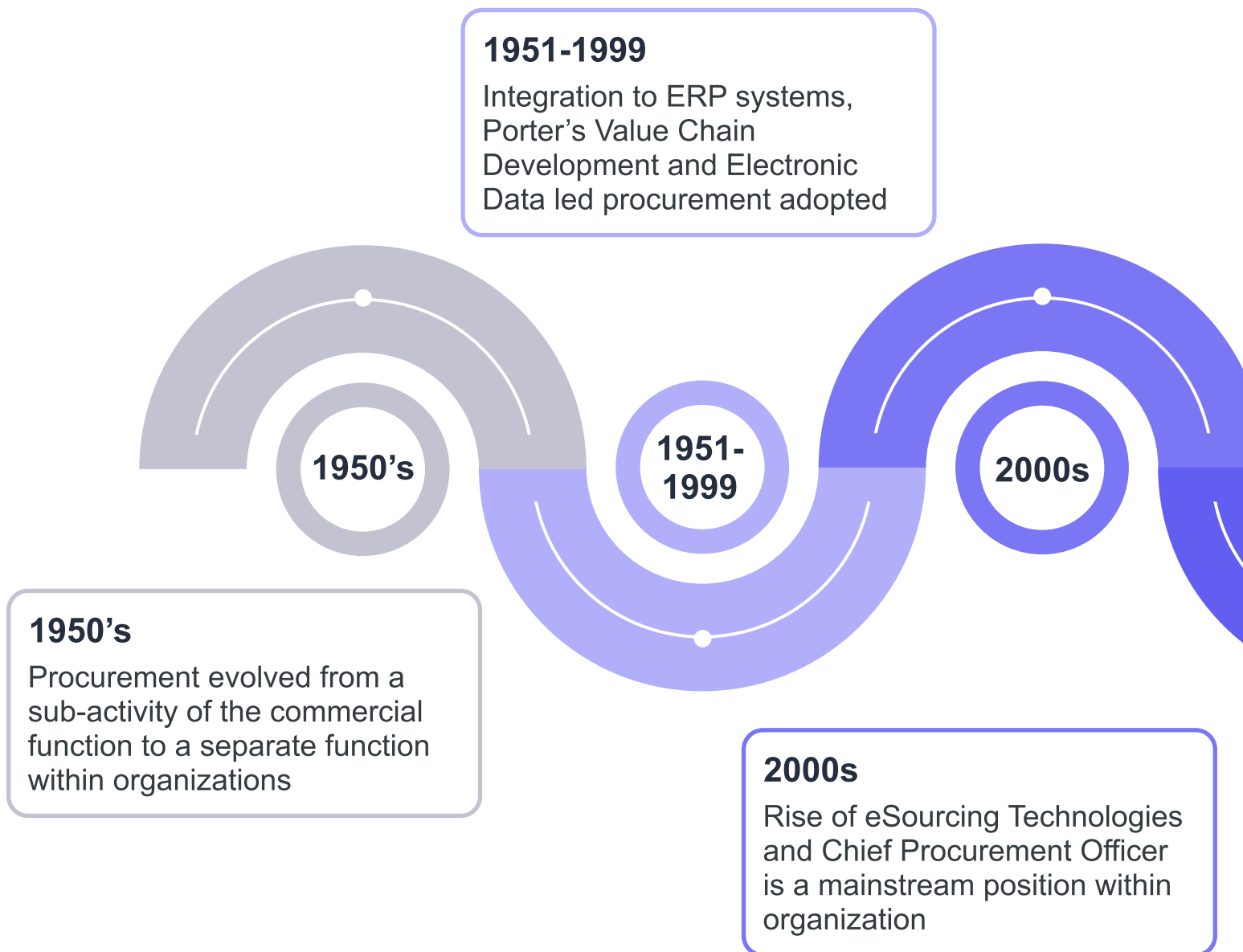
Services procurement



Professional, people-based services such as consultancies, agencies, law firms, outsourced IT, security services, software as a service (SaaS) delivery, and facilities repair all fall under services procurement. These are necessary for efficient workflow and filling in any workforce gaps.

Technological Evolution of Sourcing and Procurement Landscape

As we delve deeper into the procurement landscape, it becomes evident that understanding the technological evolution of sourcing and procurement practices is crucial for adapting to the changing market dynamics.²





2014

Adoption of “cloud computing” to support procurement and advent of procurement 2.0

Future

Gen AI-based systems, Collaboration networks, Cognitive Computing for automated recommendations, Intelligent Content Extraction

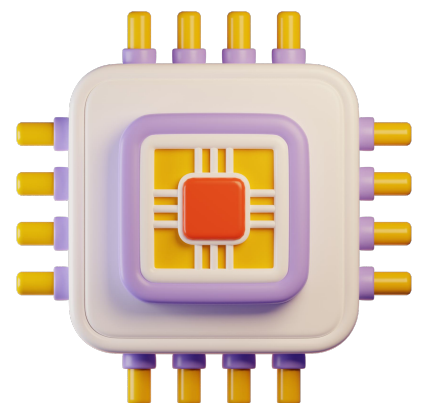
2014

2020s

Future

2020s

Digital Supply Networks, Integrated End-to-End Cloud Solutions, Advanced Analytics and Visualization, Robotic Process Automation, Machine Learning, Artificial Intelligence (Gen AI pilots)





Key Pain Points in Procurement

Despite the advancements in procurement strategies, organizations still face significant challenges.

Identifying these key pain points is vital for developing effective solutions that enhance procurement efficiency.

As per Amazon's 2024 State of Procurement Report, **95% of decision-makers** acknowledge that there's **room for procurement optimization**.³

Here are some **key insights on procurement challenges** from multiple surveys conducted in 2023 and 2024:



89%

of procurement team find **cost/spend risk (inflation)** as a big problem⁴



85%

of companies stated that sourcing from suppliers with **non-sustainable practices** reduce their goal to achieve sustainability in procurement



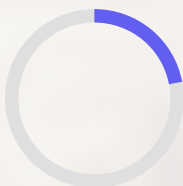
77%

of respondents cited risk of **supply disruption** as a critical external challenge⁵



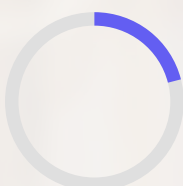
44%

of procurement executives listed **efficiency and complexity** as a challenge facing procurement



22%

procurement decision makers rated **security and technology** as major challenges



21%

decision makers thinks **politics and regulatory compliance** as major challenges



The Evolving Role of Gen AI in Procurement

In light of the above challenges, the integration of Gen AI emerges as a **transformative force**. It is revolutionizing procurement by enhancing efficiency and decision-making across various categories.

According to Hackett Group, in the **next five to seven years**, Gen AI is expected to **significantly impact organizational activities**, leading to an estimated **46% reduction in staffing levels**.



The potential that Gen AI brings in procurement includes



Extracting and summarizing insights from vast datasets to identify savings opportunities, enhance strategic decision-making and uncover hidden cost-saving potentials



Accelerating the **generation of documents** such as RFIs, RFPs, and contracts, ensuring accuracy and reducing time spent on manual tasks, allowing procurement teams to focus on strategic initiatives



Assisting in quickly reviewing contracts, identifying potential risks, and ensuring compliance with terms. This speeds up the contract management process and reduces the risk of human error



Streamlining the operational process and sourcing activities through AI-driven recommendations



Automating supplier performance analysis and risk scoring, enabling proactive management of the supply chain. It helps procurement teams anticipate disruptions and optimize supply chain resilience



Improving interaction efficiency between procurement teams, stakeholders, and suppliers. It facilitates natural, human-like conversations, leading to quicker resolutions of inquiries and smoother operations







Applications of Gen AI in Procurement

To **optimize** procurement **decision-making** and **workflows**, businesses should leverage data as a strategic asset and integrate advanced technologies such as Gen AI.

Building a solid data foundation can unlock smarter decisions and greater savings.

With **73% of procurement leaders** planning to **adopt Gen AI** by the **end of 2024**, combining data-driven insights with Gen AI will be crucial for **enhancing various workflows in procurement** and **improving supplier relationships**.⁶



Supplier Management

Gen AI transforms supplier management in procurement by automating supplier discovery, risk monitoring, and contract analysis. It provides real-time insights into supplier performance, enhances risk mitigation, and supports data-driven decision-making, leading to more efficient and strategic supplier relationships.



Supplier Discovery and Evaluation

AI automates, accelerates, and streamlines supplier performance assessment



Challenge

Identifying and evaluating suppliers is a slow process as it involves manual data collection and analysis, making it hard to quickly assess performance and compliance.



Transformation

Gen AI automates data collection and aggregates data from different internal and external sources.



Outcome

- Enabling informed decisions and reliable, fast onboarding of suppliers with a 360 degree view on supplier profiles.
- AI streamlines the process, making it faster and more efficient to assess key performance indicators like delivery timelines, product quality, and compliance with Service Level Agreement (SLAs) and environmental, social, and governance (ESG) standards.⁷



Sourcing

Gen AI automates sourcing, enhancing speed and supply chain efficiency



Challenge

Strategic sourcing, essential for optimizing the supply chain, is often slowed by manual tasks such as creating RFPs/RFQs, managing supplier Q&As, and performing pricing simulations.



Transformation

Gen AI automates RFP/RFQ creation, manages supplier Q&As, generates comparative analyses, and conducts real-time pricing simulations.



Outcome

By automating these sourcing functions, Gen AI streamlines the evaluation process, resulting in faster, more informed sourcing decisions.

“Approximately 50% of participants believe that the use of Generative AI will emerge as a significant factor influencing sourcing strategies over the next 3-5 years.”

~ 2023 KPMG Survey of Procurement Leaders ⁸



Supplier Risk Management

Gen AI automates risk management, enabling proactive supplier risk mitigation



Challenge

Supplier risk management often faces gaps in third-party risk assessment and vendor screening, leading to reactive rather than proactive risk mitigation.



Transformation

Gen AI automates real-time risk monitoring, data gathering, and builds comprehensive supplier risk profiles. Predictive analytics allow organizations to anticipate supply chain disruptions and address risks proactively.⁹



Outcome

Gen AI's ability to continuously monitor and analyze risk data enables organizations to anticipate disruptions and manage risks more effectively, improving confidence in their supplier risk management processes.¹⁰



Contract Management

Traditionally, contract management was a time-consuming process, with legal teams manually drafting, reviewing, and negotiating contracts. Gen AI streamlines contract management by tracking compliance, managing renewals, and providing real-time risk insights. It automates contract drafting, including recommending language adjustments, and aids in contract negotiations by analyzing market trends and suggesting optimal strategies. This improves overall contract management efficiency, reducing manual efforts and increasing precision in decision-making.



Contract Lifecycle Management (CLM)

Gen AI enhances CLM by automating contract analysis and compliance



Challenge

In the past, technology and data limitations hindered organizations' ability to maintain visibility and control over agreements, limiting compliance efforts.



Transformation

Gen AI addresses these challenges by enhancing CLM by automatically extracting and analyzing key contract information. AI can track compliance, flag risks, manage renewals, and provide real-time insights into commercial risks.



Outcome

This automation enables efficient contract oversight, reducing missed deadlines and compliance issues. AI can even draft language and recommend contract adjustments, addressing the satisfaction gap in current CLM capabilities.



Contract Analysis

Gen AI uses NLP to automate contract review, improving accuracy and compliance



Challenge

Contract analysis often involves manual review of terms and risks, leading to potential errors and missed obligations.



Transformation

Natural Language Processing (NLP) powered Gen AI automates the extraction of essential contract terms, identifies risks and ensures accurate, comprehensive reviews of contracts.



Outcome

This improves contract management process by enabling organizations to track contract obligations and deadlines more effectively, aiding compliance and decision-making.¹¹



Contract Negotiations

Gen AI streamlines contract negotiations by analyzing data and strategies



Challenge

Contract negotiations are often complex and time-consuming, requiring careful analysis of market trends, pricing, and supplier stability.



Transformation

Gen AI makes it easier by analysing market trends, historical outcomes, pricing and supplier stability to suggest strategies, flag objections, and simulate negotiation scenarios.



Outcome

This accelerates and refines the negotiation process, improving strategy effectiveness and overall efficiency in reaching favorable contract terms.

“By 2027, 50% of organizations will support supplier contract negotiations through the use of Artificial Intelligence (AI)-enabled contract risk analysis and editing tools.” ¹²
~ **Gartner Inc.**



Spend Analysis

Many procurement functions struggle with the challenge of having a team of category leaders to develop and update strategies, support stakeholders, and apply best practices across all spend categories. Nevertheless, Gen AI can address this by automating tasks such as invoice validation and pricing forecasts, category spend planning and stakeholder requirements gathering, since AI agents can write entire category strategies.



Data-Driven Insights

Gen AI provides real-time insights and cost-saving recommendations for spend management



Challenge

Spend management often lacks real-time insights, making it difficult to identify cost-saving opportunities and trends.



Transformation

- Gen AI analyzes procurement data to surface on-demand spend and cost-saving opportunities and provides real-time insights into spending patterns
- By automating invoice validation and analyzing historical data, AI identifies trends, forecasts demand, and recommends pricing strategies, enhancing procurement efficiency



Outcome

This enhances procurement efficiency by enabling data-driven decisions, identifying savings opportunities, and recommending effective pricing strategies.



Category Management

Gen AI enhances category management by optimizing expense classification



Challenge

Category management often struggles with inefficient expense categorization, hindering strategic sourcing and cost optimization.




Transformation

Gen AI efficiently categorizes expenses and classifies spending data into relevant procurement categories, identifying opportunities for cost optimization.



Outcome

Gen AI highlights areas for cost optimization and strategic investment, supporting effective category management across industries.



“AI and machine learning are already doing great things for procurement, helping save costs and manage risks. From pricing intelligence to automating accounts payable processes to identifying fraud, procurement teams already have immense opportunities to drive value. But what’s especially exciting is where the technology is headed.” ¹³

~ Chief Product Officer at Coupa



Market Analysis and Trends



Market Size and Growth

The commercial market for AI Navigators in procurement is at a very **nascent stage**. This is mostly because most of the companies are in the exploratory stage trying to figure out how to integrate and leverage the power of Gen AI in day-today procurement operations.

There is not a lot of coherence in terms of what is seen as market figures. The potential market ranges from **USD 120 Million** to **~USD 400 Million as of early 2024** as per Business Research Company¹⁴ and Alvarez & Marsal.¹⁵

However, due to the absence of granular data regarding the revenue share attributable to Gen AI in procurement services, the expert interviews are essential to bridge this data gap.



AI Navigator's Market in Procurement

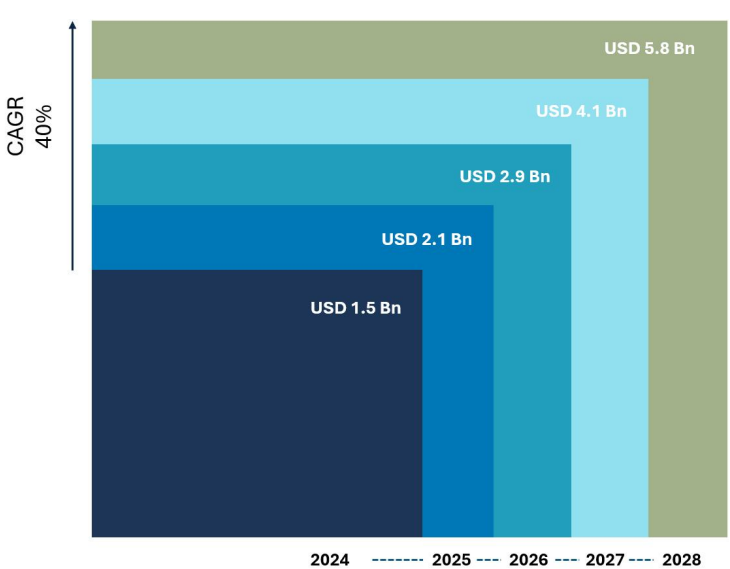
To overcome the aforementioned challenge, we turned to a get-estimate considering the spending on Gen AI for sourcing and procurement as the primary parameter.

As per Deloitte's 2024 survey with 100 CPOs globally, ~11% of the organizations are spending more than USD 1 Million of their annual budgets on Gen AI capabilities for sourcing and procurement in the year 2024. While by 2025 22% of companies will be spending USD 1 Million a year on the same.¹⁶

We estimate that the Gen AI Procurement market will reach ~USD 6 Billion by 2028 from USD 1.5 Billion in 2024, showing a remarkable growth at 40% CAGR.

Major assumptions include

- Since >90% companies are planning and assessing Gen AI capabilities, we assume little commercial penetration currently
- Taking conservative approach, we assume ~500 large enterprises are spending USD 1 Million, 3000 mid-level companies spending ~USD 250,000 and 5000 SMEs spending USD 50,000 annually, based on the use cases and ability to spend at respective levels
- Given the potential and increasing interest in adoption, the CAGR can reach ~40%





Major Trends



Data Driven Insight

Gen AI's ability to provide data-driven insights offers purchasing teams with a comprehensive view of spending as well as areas they might cut costs: AI and analytics tools are providing greater transparency into overall procurement spending by automatically analyzing data and unlocking timely analysis.



Interactive Engagement

Gen AI is enhancing procurement by improving interactive engagement. Chatbots guide category managers and business partners, streamlining communication. While relationships are crucial, AI aids by eliminating friction and providing tailored talking points.



Rising Investment

Procurement leaders say they'll invest more in the coming years. This expected increase highlights the need to improve the prioritization of use cases in procurement to ensure that money is invested where it will have the best impact.





Future Outlook and Implications of Gen AI in Procurement

This section outlines the future outlook of Gen AI in procurement, highlighting its early adoption and transformative potential.



Early Adoption and Impact of Gen AI in Procurement

While still in its early stages, Gen AI in procurement is beginning to generate measurable results, driving innovation and transforming key processes. Many CPOs are evaluating Gen AI's potential and planning investments, recognizing its ability to drive efficiency and innovation in procurement.

Early adopters are focusing on areas such as **data analytics, contracting, and sourcing**, with numerous organizations piloting Gen AI in **spend dashboards**. A significant number are also automating tasks such as RFI, RFP, and RFQ generation. It is also expected that early adopters will **excel in supplier negotiations** and **market positioning** through improved decision-making.

Organizations **currently use predictive AI tools** to anticipate **disruptions** through data such as weather forecasts. By **integrating Gen AI**, companies can enhance their **supply chain rapid response capabilities**, effectively analyzing qualitative data such as news and social media to foresee sudden supply or demand shifts, leading to more precise and timely responses.¹⁷

From 2021 to 2023, **traditional procurement technologies**, such as basic analytics, RPA, and chatbots, **saw widespread adoption**, while **AI/ML-based tools lagged behind**. However, by 2023-25, **advanced AI/ML technologies**—such as advanced analytics, intelligent automation, IVA and intelligent document processing—are projected to make a **substantial impact on procurement processes, with the adoption of Gen AI**.

Procurement teams, however, require a **phased roadmap** that **focuses on high-impact use cases, ethical AI use, data structure readiness, user adoption, and integration with key workflows** to fully realize AI's potential.



Check out

Inception's Procurement Navigator

to become an Early Adopter!

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