



WHITE PAPER

Indirect Spend in Retail: Procurement Leader Priorities for 2025

Boston Consulting Group

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Executive Summary

This report offers an informed look at high priority indirect procurement themes for 2025 based upon analysis of a recent BCG-issued survey of procurement leaders, including Chief Procurement Officers (CPO) from a diverse set of 32 retailers.

Our snapshot of the current state of indirect procurement as revealed by the survey results highlights 4 key observations:

1. There are (still) areas of spend where procurement does not have access. Improved active spend management can control costs and lower risk.
2. While commercial lever use is frequent, non-commercial levers offer opportunity.
3. Although strategy and objectives are in place, there are gaps in tracking progress. Only 41% of respondents regularly track execution, and defined, tracked target metrics could boost savings.
4. As teams shifted focus back to fundamentals, ESG saw a drop in priority; moreover, while internal ESG targets are typically tracked, supplier tracking is less common.

Insights from the survey have yielded six themes critical for CPOs in 2025:

1. **Cost management:** Rising costs press teams to adopt long-term contracts, competitive sourcing, and strategic partnerships. Tariff questions and inflation will keep cost management essential.
2. **Supplier risk management:** Sourcing concentrated in low-cost regions poses risks, making diversified sourcing and strengthened supplier relationships crucial.
3. **Technology:** Limited automation and analytics restrict efficiency. Procurement organizations are optimistic about AI but have yet to realize practical applications.
4. **Capability building:** Limited skillsets hinder strategic focus, with over half only moderately satisfied with team expertise, signaling need for upskilling.
5. **Cross-functional collaboration:** Over half report suboptimal collaboration with other departments, highlighting potential for stronger alignment.
6. **Procurement policies:** Most indicate gaps in policy adherence, suggesting updates are needed.

These themes underscore procurement's potential to drive cost control, resilience, and capability building, achieving short-term savings while enhancing long-term value.

Part 1: Context & Introduction

Maximizing savings is high priority for retailers in the current inflationary environment, where they face pressure to reduce spend across categories. Going into 2025, retailers are looking to address indirect spend strategically in order to maintain healthy margins and keep pace with competitors.

Indirect spend, which encompasses all goods and services that do not directly contribute to end products or services, typically equates to 10-20% of revenue for retail organizations. With approximately 80% of indirect spend considered addressable, potential bottom-line impact from indirect procurement efforts can often amount to up to 15% of revenue when utilizing all levers.

About this report: a look at 2024 with a view to 2025

This report will offer a look at priority themes for indirect procurement in retail going into 2025. These themes are supported by a recent BCG-issued survey of 32 procurement leaders in the retail industry. This report begins an annual series that will highlight what is top of mind for procurement leaders going into the upcoming year.

An informed perspective: responses represent diverse retail sectors and company sizes

The survey provides a comprehensive snapshot of the current procurement landscape and serves as the basis for identifying strategic priorities for 2025. Respondents represent a range of retail sectors, including companies in Food / Grocery / Mass, DIY / Home Improvement, Food Distribution / Services, Department Stores, Pharmacy, Restaurants and Specialty sectors, resulting in insights that are applicable across retail industry players.

As for scale, the respondents' companies vary from those with fewer than 500 stores in North America to those with more than 2,500; likewise, their annual revenues range from less than \$500M to over \$10B. The majority of respondents (84%) are VP-level and above and are key decision makers in procurement, ensuring well-informed perspectives on indirect procurement strategies and priorities.

The themes, which we explore in detail in Part 3, were derived from survey questions designed to provide insights into the primary internal and external challenges faced by procurement teams, as well as the key strategic priorities identified by procurement leaders. These themes were further developed by analyzing the opportunities and gaps revealed in the survey responses. It is important to note that this set of themes does not comprise an exhaustive list of priorities; rather, it reflects insights derived from the 32 survey respondents.

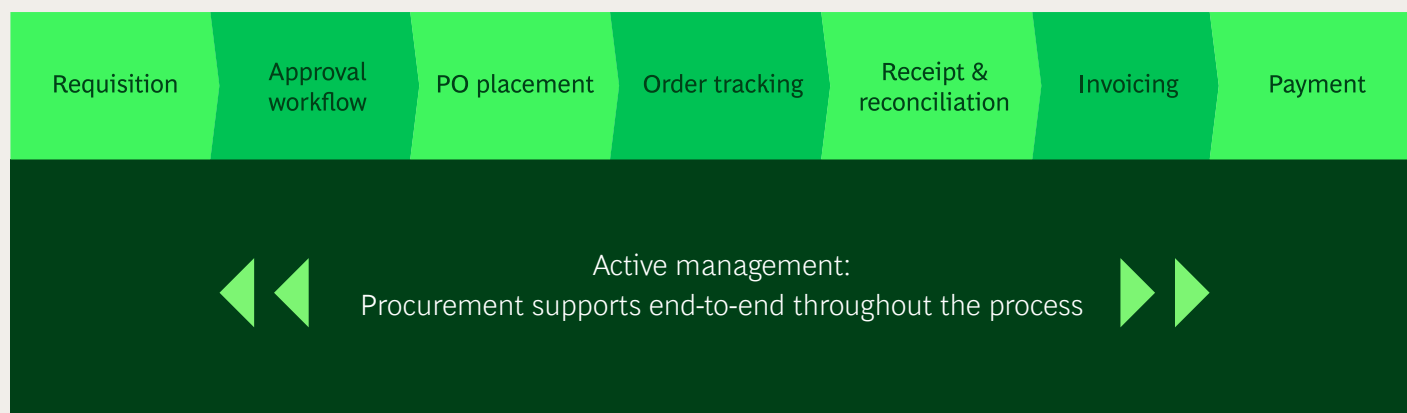
Part 2: Current Snapshot of Indirect Procurement

Before delving into the priority themes outlined in Part 3, this section provides a brief overview of the current state of indirect procurement, as revealed by the survey results. Specifically, it draws on survey questions that highlight recent approaches taken by procurement organizations to manage indirect spend and highlights 4 key observations.

1. There are (still) areas of spend where procurement does not have access

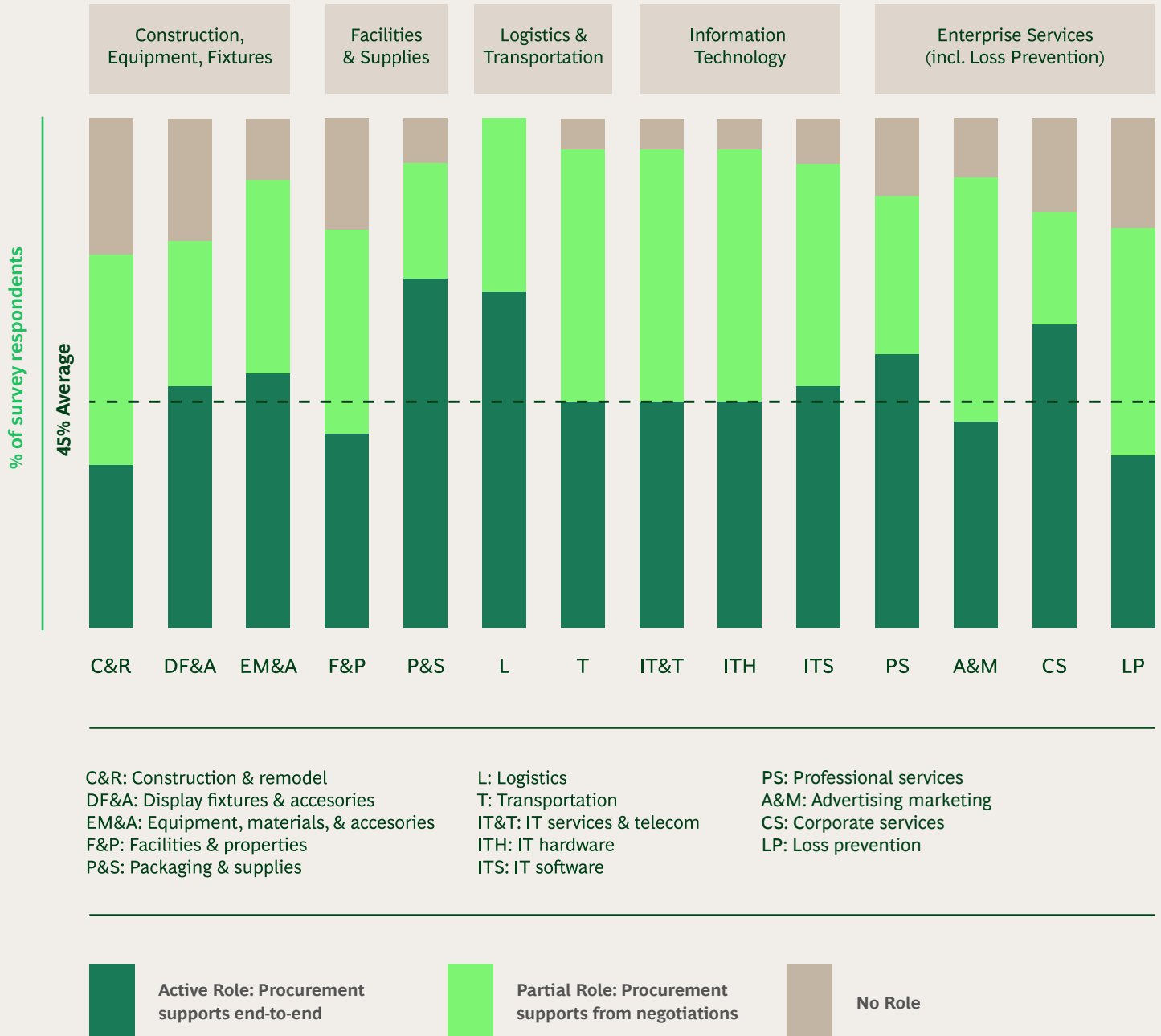
Active spend management across categories means that procurement teams are supporting end-to-end throughout the procure-to-pay process, getting involved from the beginning when initiating a requisition to engage suppliers.

Procure-to-pay



Our analysis suggests that on average, across categories, only 45% of procurement organizations provide active end-to-end support. This means that in 55% of cases, procurement either provides no coverage or limited coverage (i.e., only supporting during negotiations), limiting their influence on indirect spend. Closing this gap in active management allows for a holistic, strategic approach to cost control and supplier risk mitigation.

Procurement organization roles across indirect spend categories



Survey Question: What role does the procurement organization play in each of the following categories?, N=32

Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

2. While commercial lever use is frequent, non-commercial levers offer opportunity

Procurement teams use a combination of levers to optimize indirect spend and capture value. Organizations frequently reported using commercial levers to directly impact rates and financial terms from suppliers. However, fewer use non-commercial levers to reduce costs; implementing these levers may allow organizations to capture additional value by finding and addressing inefficiencies that can lower costs and mitigate supplier risks.

Levers used by procurement teams			
Levers	Description	% of respondents who use lever	
Competitive sourcing & negotiation	Systematic evaluation of supplier base: alternate suppliers / consolidation of suppliers.	100%	Commercial Levers
Bundling	Coordinate and consolidate procurement across departments and geographies.	84%	
Best-source costing	Exploit economic trends to achieve optimal cost, quality and risk mgmt.	84%	
Process optimization	Optimization (internal and external) of operational interfaces, optimized decision making.	84%	Non-Commercial Levers
Demand management	Proactive planning of purchases at adequate volume and quality, reduce excessive buying.	75%	
In-source vs outsource evaluation	Evaluate in-source and outsource possibilities based on costs, productivity, quality and time-to-market/ Identification of the ideal ratio of own production and purchased products.	72%	
Redesign & standardization	(Re)design to minimize costs without compromising key requirements, standarize specifications across products and projects.	59%	

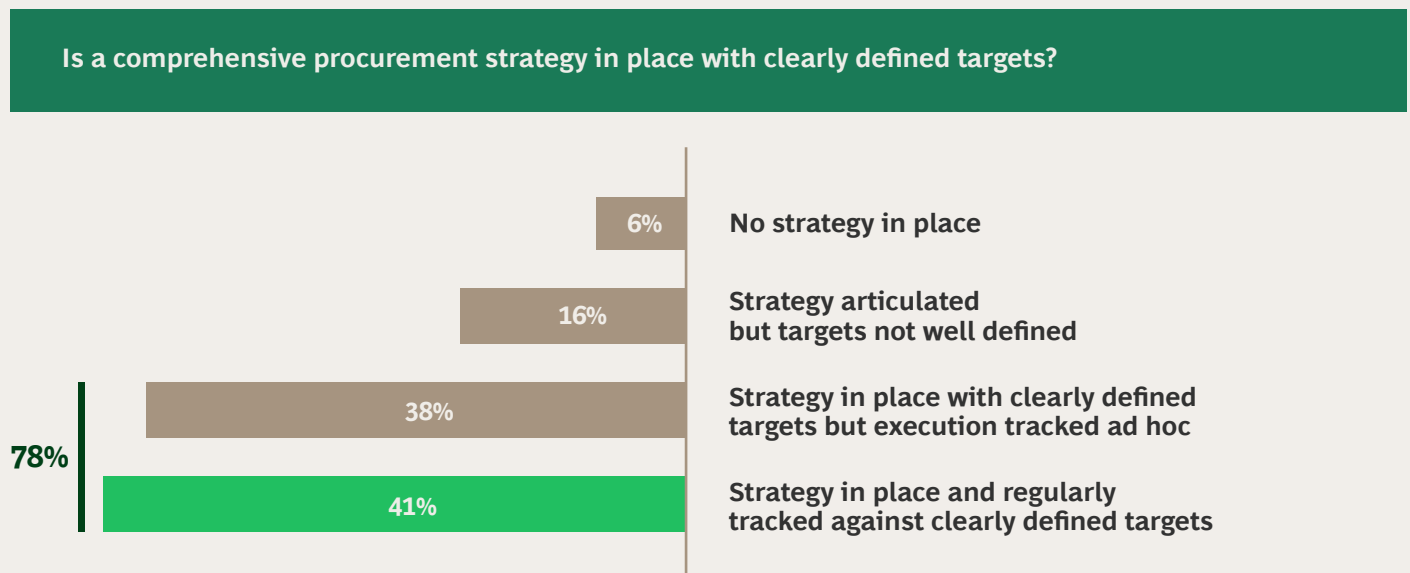
Survey Question: Which of the following levers does your procurement organization regularly utilize? Please select all that apply, N=32

Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

3. Although strategy and objectives are in place, there are gaps in tracking progress

Our survey revealed a compelling gap between strategy and target tracking. While 78% of respondents indicated that they have a comprehensive strategy in place, only 41% track execution on a regular basis. This suggests that clearly defining and consistently tracking target metrics could help procurement teams execute on their strategy and achieve their savings goals.



Survey Question: Is a comprehensive procurement strategy in place with clearly defined targets?, N=32

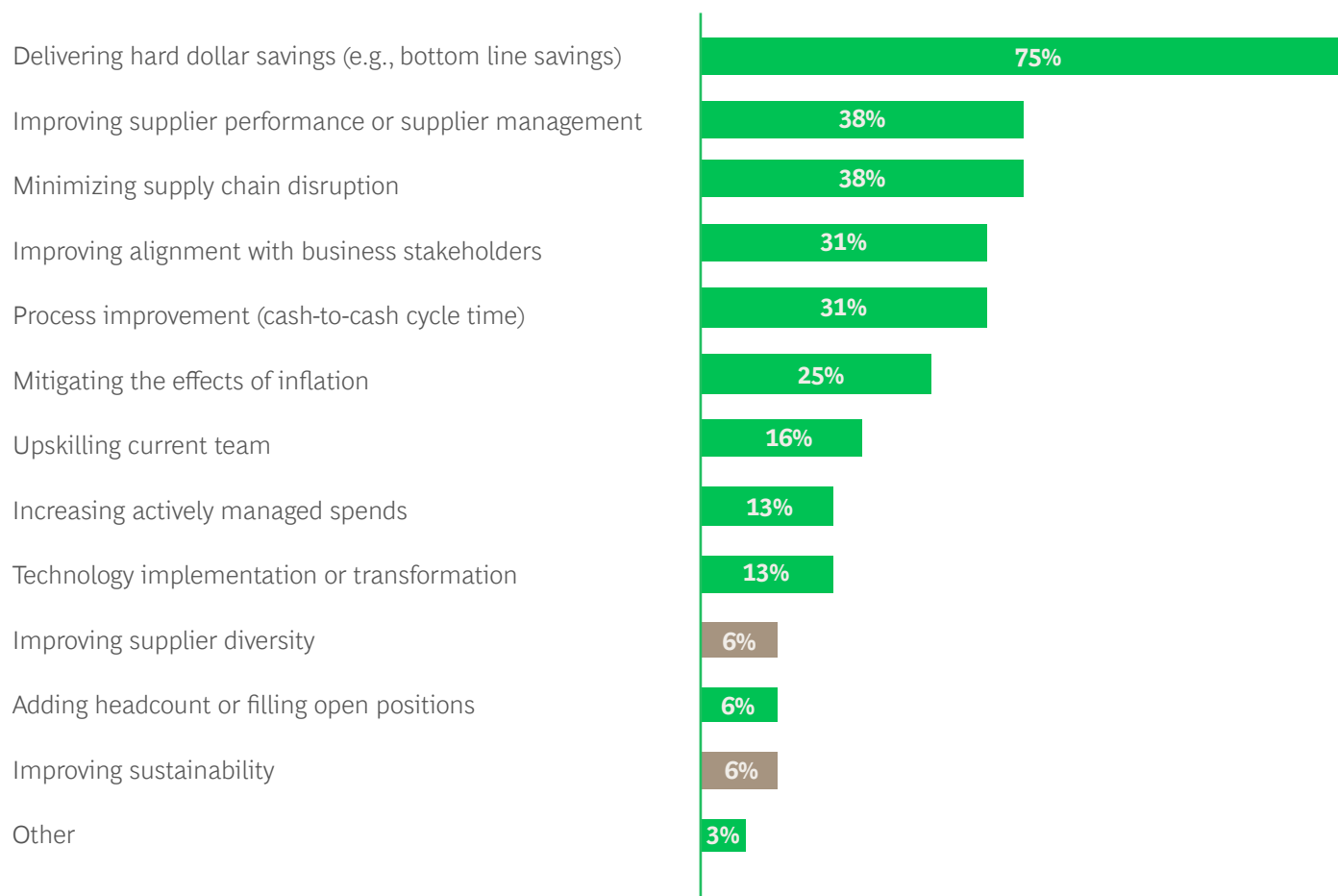
Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

4. As teams shifted focus back to fundamentals, ESG saw a drop in priority

In the past year's inflationary environment, organizations have been focused more on immediate goals of re-setting costs, which has generally lowered the priority of environmental, social, and governance (ESG) goals when thinking about managing indirect spend—in fact, only six percent of respondents ranked them among their top three priorities.

Top strategic priorities for indirect procurement



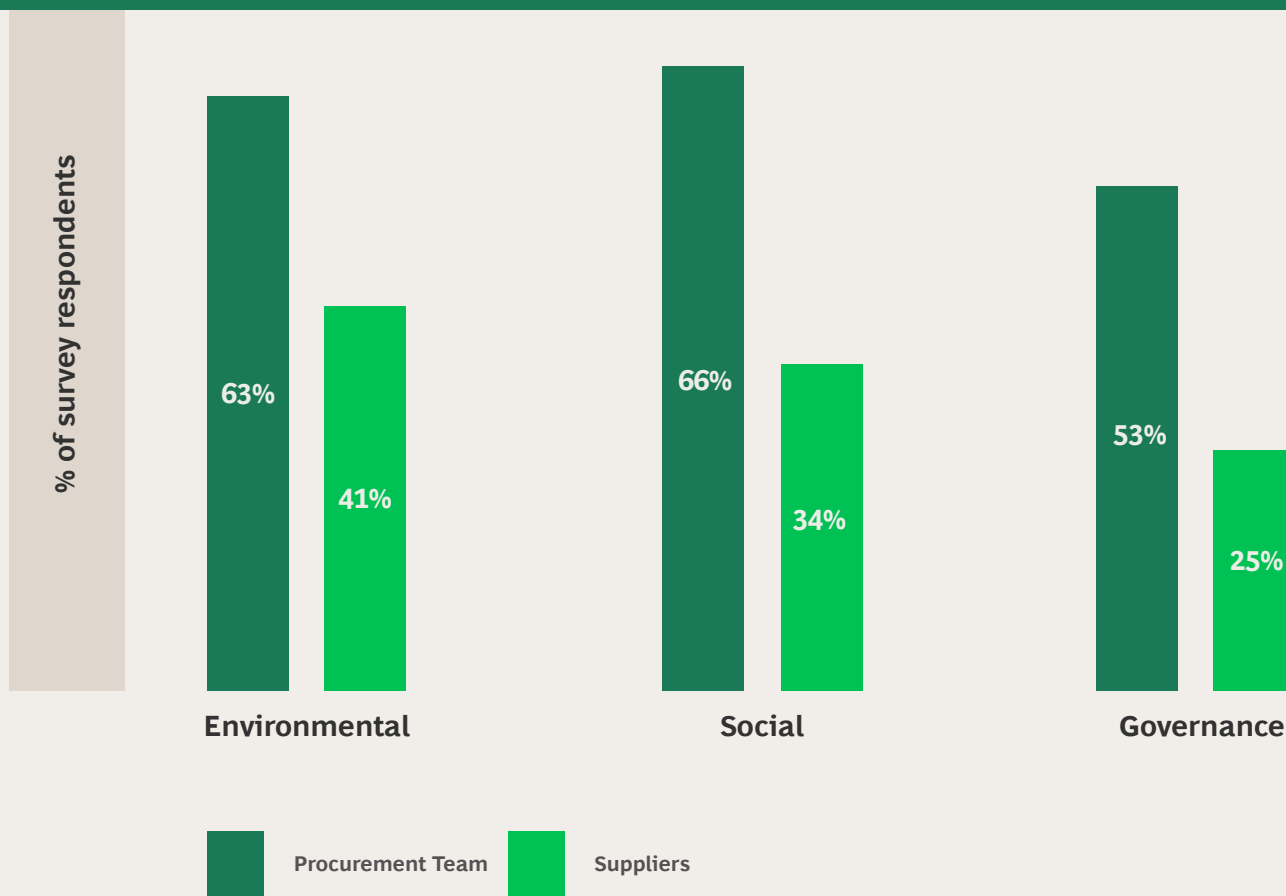
Survey Question: Please rank the top 3 strategic priorities for your procurement organization over the next 12 months, N=32

Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

Nonetheless, broader company goals still include ESG targets; however, there is a gap between internal targets and what suppliers are asked to achieve. Procurement teams may consider where internal ESG targets could be extended to suppliers, in areas such as supplier diversity and emissions tracking.

Existence of procurement team ESG targets compared to ESG targets for suppliers



Survey Question: Does your procurement organization have targets for the following aspects of sustainability? (Environmental, Social, Governance), N=32; Does your procurement organization have targets for the following aspects of sustainability for its suppliers? (Environmental, Social, Governance), N=32
Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding
Source: Indirect Spend Retail CPO Survey 2024

Part 3: Strategic Priorities for CPOs in 2025

Having examined a snapshot of the current procurement landscape, we now focus on six key themes our research identifies as critical priorities for procurement teams heading into 2025: cost management, supplier risk management, technology, capability building, cross-functional collaboration, and procurement policies.

At a glance: Six themes for 2025 strategic priorities



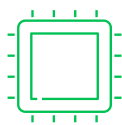
Cost management

Rising costs challenge traditional savings methods, with 53% of respondents identifying inflationary cost increases as a top concern. Fears of new tariffs may further increase costs and disrupt supply chains.



Supplier risk management

Concentrated sourcing poses cost and supply risks, as reliance on low-cost countries can escalate expenses significantly during disruptions.



Technology

Gaps in automation and advanced analytics (incl. AI) hinder efficacy, as technological advancements continue to transform the procurement landscape.



Capability building

Skill gaps limit procurement's shift from transactional to strategic work, with 50%+ of respondents only moderately satisfied with their team's skill levels.



Cross-functional collaboration

Ineffective collaboration with other departments restricts procurement's broader impact, with 50%+ reporting collaboration as only moderately effective or worse.



Procurement policies

Many policies remain outdated, with 75% of respondents indicating that policies are either non-existent, poorly documented, or inconsistently followed.

Opportunities

Focus on competitive sourcing, strategic partnerships, and long-term contracts to better stabilize indirect costs.

Diversify sourcing and strengthen supplier relationships to mitigate disruptions and reduce dependency; implement a structured supplier risk management process.

Expand digital adoption to optimize processes and reinforce procurement's role in strategic decision-making.

Invest in targeted upskilling and training programs to elevate procurement's role.

Enhance alignment with key business units to strengthen procurement's influence on broader business outcomes.

Revise policies to align with current priorities and team capacity to boost efficiency, ensure compliance, and streamline procurement processes.

Note: Analysis is based solely on data collected from 32 survey respondents
Source: Indirect Spend Retail CPO Survey 2024

1. Cost management

53% of respondents named rising costs a top concern. Cost pressures are making it challenging for procurement teams to achieve traditional savings goals, with approximately 40% of organizations who set savings goals falling short of their targets. Meanwhile, concerns about potential new tariffs and ongoing inflation compound the importance of cost management.

3 steps organizations are taking for cost management

To address challenges with cost management in the current inflationary environment, procurement teams are rethinking how they manage suppliers to drive results in the following ways:

- **Contract management and negotiation:** Respondents reported using contractual measures, such as inflation caps and predetermined rates, to manage price increases. They are also looking to lock in long-term contracts and renegotiate existing terms to be more favorable.
- **Competitive sourcing and supplier diversification:** Companies are increasing their competitive sourcing efforts, scaling up their Requests for Proposal (RFPs), and splitting orders among vendors to foster a more competitive pricing environment. Many are also introducing new suppliers and alternative sourcing from different countries to combat inflationary pressures.
- **Supplier collaboration and strategic partnerships:** Organizations are building long-term strategic partnerships with key suppliers and collaborating with them on cost-saving initiatives.

The challenge of demonstrating savings against targets in an inflationary environment

Additionally, our analysis revealed that many procurement organizations are facing challenges as they try to calculate savings amidst today's inflationary environment. This is for several reasons:

- Organizations are focusing more on cost avoidance tracking than on traditional year-over-year savings in an effort to maintain budgets despite price increases—and this is difficult to reflect on financial statements.
- Factors associated with the inflationary environment such as price volatility, fuel cost fluctuations, and supply chain disruptions make long-term forecasting more complex.
- Insufficient transparency around pricing in contracts makes savings calculations difficult, especially for new spend categories.

Organizations can deploy a full spectrum of levers across indirect spend categories to 'leave no stone untouched' when it comes to cost management. By incorporating methods such as demand management, spec rationalization, insource vs. outsource, joint improvements, demand and supplier tiering, best cost country sourcing, bundling, and systematic supplier review, procurement teams can strategically manage costs and demonstrate savings against targets.

2. Supplier risk management

Supplier risk is also front of mind for many procurement teams, cited as a top concern for 38% of respondents. As noted in BCG's article *Seven Forces Reshaping Procurement*, there are several current trends creating risks that procurement teams must manage, including geopolitical tensions and conflicts, higher production costs, and natural disasters. Concentrated sourcing (e.g., among low-cost countries) can set organizations up for failure should disruptive events create regional instability. Effective supplier risk management processes are essential to monitoring suppliers and mitigating these types of risks.

Gaps in supplier risk management process

Our analysis revealed that just over one third (34%) of the respondents lack a formal supplier risk management process. Additionally, for 28% of respondents, a team outside of procurement is responsible for supplier risk management. When procurement teams do not own this process, they are limited in their ability to respond to problems—or, better yet, prevent them in the first place the way they could with more active monitoring.

Further, a sizable portion of suppliers are not reviewed on a regular basis. Across survey respondents, almost half of suppliers on average (48%) are either never reviewed or are only reviewed on an ad hoc basis.

Supplier review frequency	
Review frequency	Average % of suppliers (across Respondents)
Reviewed quarterly	13%
Reviewed biannually	11%
Reviewed annually	28%
Reviewed ad hoc	13%
Never reviewed	35%

48%

Survey Question: What is the frequency and coverage of existing supplier performance evaluations (e.g., supplier site audits conducted with a standardized supplier rating tool/scorecard)?, N=32

Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

Amidst concerns regarding supplier risk, a sufficient supplier risk management process is critical to managing indirect spend, insofar as it can help to avoid significant price increases and supply chain disruption. Moreover, companies can reduce risk by diversifying their sourcing schema and making efforts to build collaborative relationships with suppliers. This will help procurement risk management become less reactive and more proactive, further reducing risk exposure.

3. Technology

Organizations use a range of tools across functions

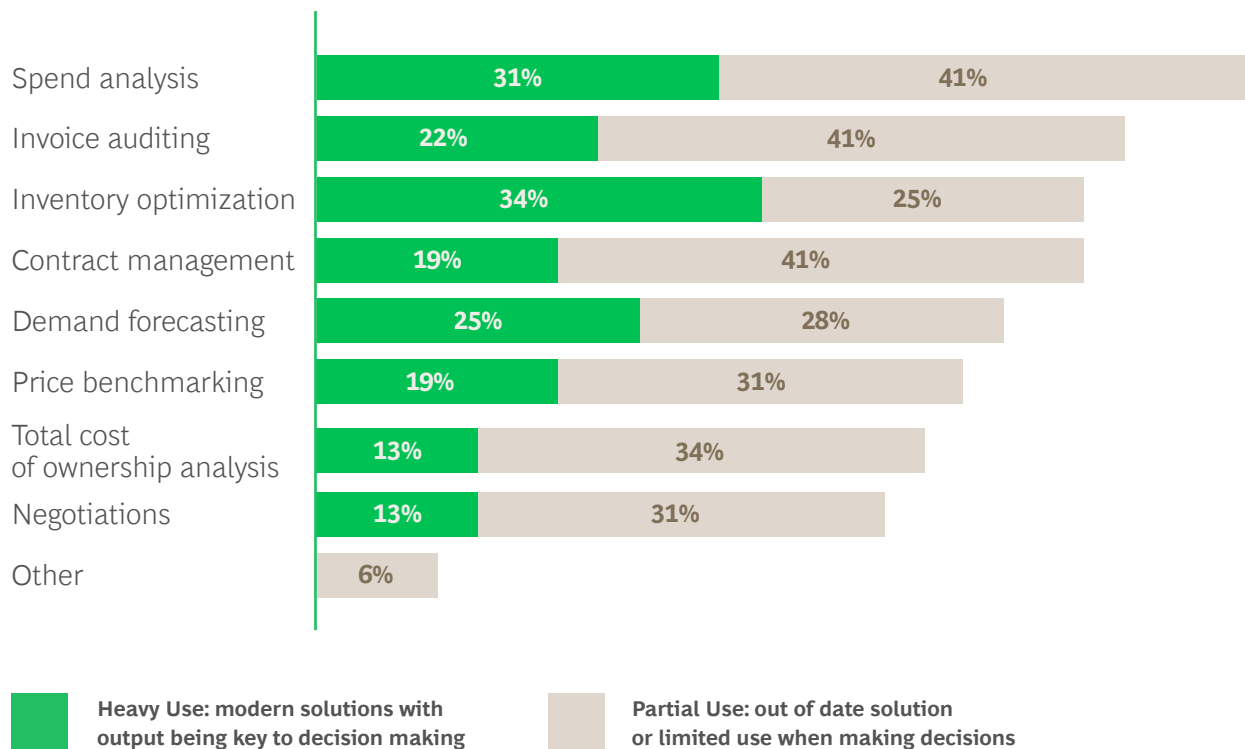
Technology advances have transformed procurement in recent years, and artificial intelligence promises incremental changes to come. Across functions, procurement teams reported making use of a wide range of third-party digital tools, the most common being SAP (including Ariba), Oracle, and Coupa.

Automation, advanced analytics, & AI offer greater potential across processes

The extent of automation varies across procurement tasks. While application is substantial for some areas, such as purchase order (PO) creation, PO/invoice prioritization, and vendor payments, there is considerable room for growth in automating process-related tasks such as RFPs, compliance checks, and claims management. Increased automation would improve process efficiency within procurement, helping to address a challenge noted by 22% of organizations.

Advanced analytics also offer a high potential for value unlock across processes. While utilized frequently for spend analysis, their application is more limited across others. Fewer than half use these methods for total cost of ownership (TCO) analysis or negotiations. Organizations can use advanced analytics to unlock value across functions, such as building models to improve the effectiveness of vendor negotiations.

Degree to which advanced analytics is used in procurement



Survey Question: Please select the degree to which advanced analytics (e.g., predictive analytics, machine learning) are used to inform decision making for the following areas, N=32

Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

Generative AI offers a new frontier in procurement. It can help companies streamline workflows, improve decision making, and cut down on error. It can also help generate value across various elements that connect to procurement, including R&D, planning, production, sales, risk management, and sustainability.

The majority of procurement organizations (72%) are in the preliminary stages of engaging AI. Most are excited about the prospects of AI, with only 16% of respondents reporting that they are not considering the use of AI in procurement processes. However, when asked to elaborate on use cases, no respondents could articulate areas where they are using AI yet. This moment presents an opportunity to expand digital adoption, thus optimizing processes and bolstering the role of the procurement function in strategic decision making.

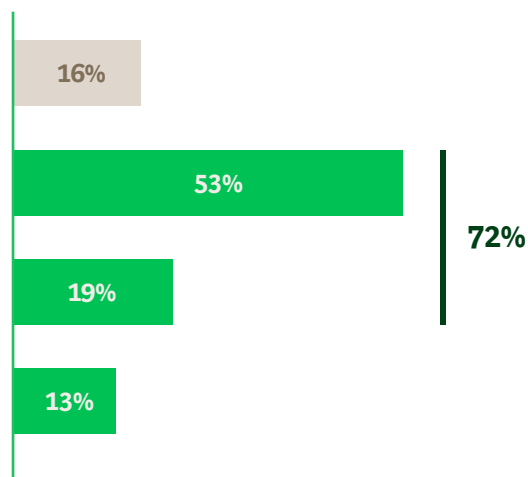
Are you leveraging AI to boost procurement efficacy?

Not considering the use of AI in procurement processes currently; does not align with firm's operational strategies or capabilities.

Beginning to explore the potential of AI in procurement processes, but have not yet taken any concrete steps towards implementation.

In the early stages of implementing AI in procurement processes, piloting basic applications to improve efficiency.

Actively integrating AI technologies into procurement processes, and already seeing improvements in process efficiency and decision-making.



Survey Question: Are you leveraging AI to boost procurement efficacy?

Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

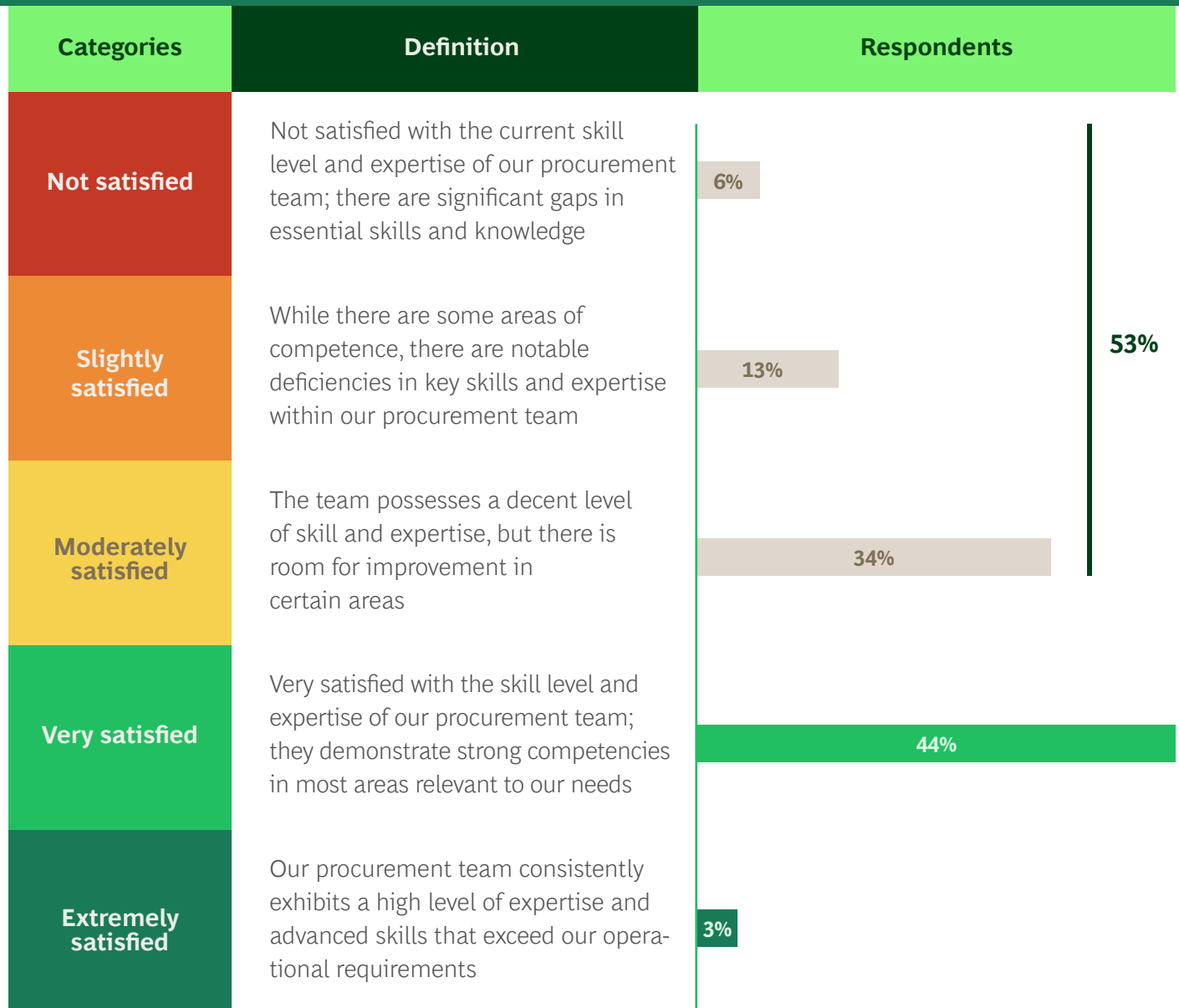
4. Capability building

Nearly half of respondents (47%) named team capabilities as a top internal challenge, denoting the tendency to over-index resources on transactional activities rather than strategic ones. Capability outranked other top-rated challenges, including resourcing, cross-functional collaboration, alignment, internal processes, technology, and security.

Procurement team skill levels have room for improvement

More than half of organizations (53%) in our analysis report being moderately satisfied at best with their procurement teams' skill level, noting significant skill gaps, expertise deficiencies, and room for improvement across competencies.

Assessment of procurement team skill level



Survey Question: On a scale of 1-5, how satisfied are you with the current skill level and expertise of your procurement team?, N=32

Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding

Source: Indirect Spend Retail CPO Survey 2024

Ensuring that teams possess the right skills is crucial, especially in the age of rapid technology development. It is important for organizations to address their capability limitations, as these may be the very factors that are hindering their progress from focusing on transactional tasks to developing a more strategic focus. By investing in targeted upskilling and training programs, they can elevate the role of their procurement teams.

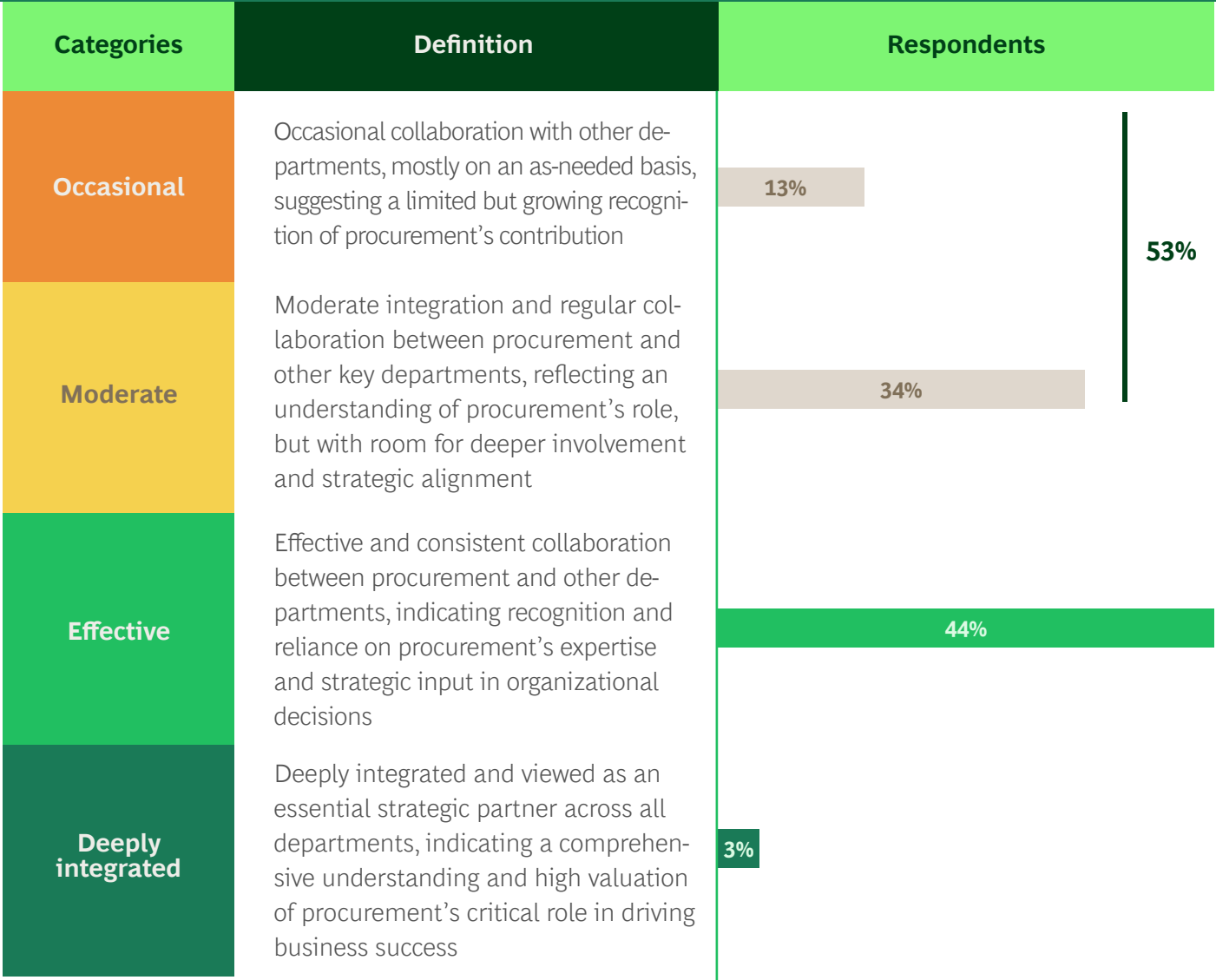
5. Cross-functional collaboration

Procurement does not exist in a vacuum, and one of the markers of an effective procurement function is strong collaboration with other departments in the organization.

More than half cite limited collaboration

Just 3% of respondents consider their cross-functional collaboration deeply integrated. By contrast, 53% of companies reported that collaboration with other departments was only moderately effective at best.

Assessment of cross-functional collaboration effectiveness



Survey Question: On a scale of 1-5, how do you perceive the level of engagement and collaboration between the procurement function and other key departments in your organization?, N=32
Note: Analysis is based solely on data collected from 32 survey respondents; Totals may not add up due to rounding
Source: Indirect Spend Retail CPO Survey 2024

This suggests that for a considerable number of companies, there is substantial room for deeper involvement and strategic alignment between the procurement function and other aspects of the organization to enhance procurement’s impact. Further, 63% of organizations reported that they enable other departments to add new suppliers to their supplier list without involving the procurement team. This can lead to siloed decisions; moreover, it can deny the procurement team the holistic view needed to manage indirect spend strategically.

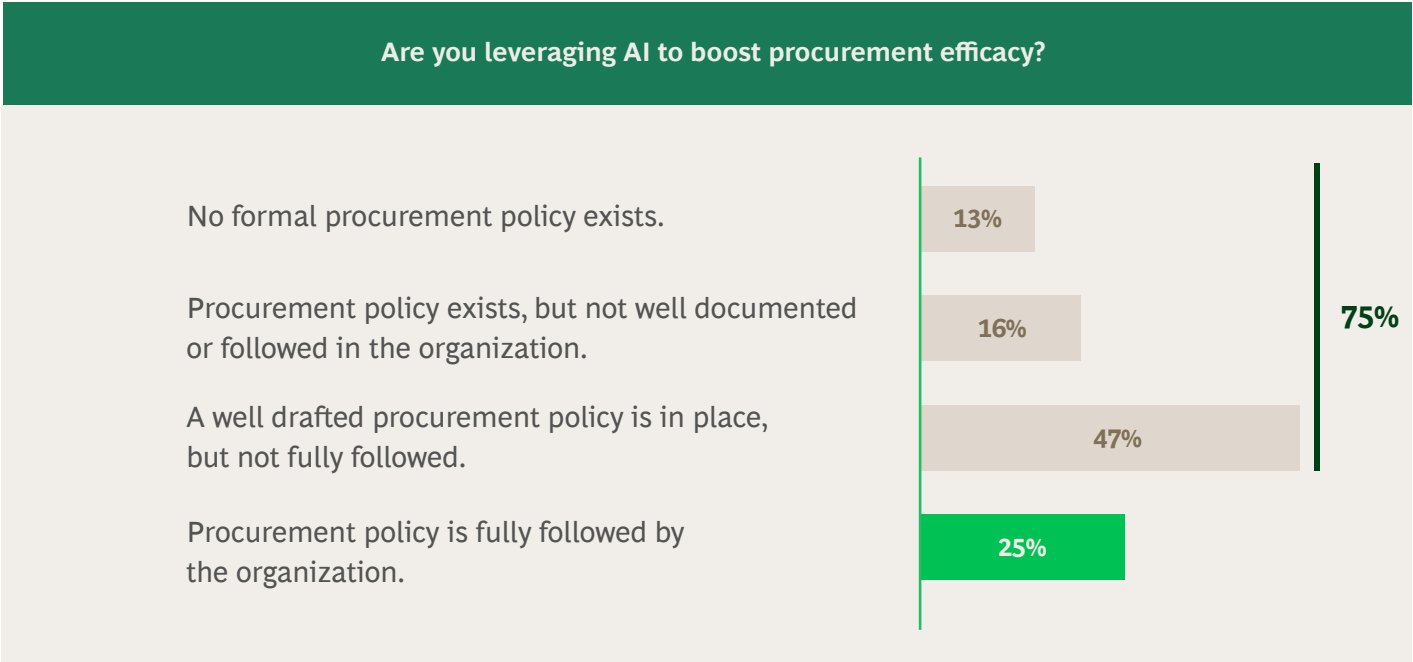
Because procurement serves as a touchpoint between internal functions and outside suppliers, it is in a unique position to generate maximal value from collaboration. Thus, this presents companies with an opportunity to enhance alignment between the procurement team and other key business units to strengthen its influence on broader business outcomes.

6. Procurement policies

22% of organizations describe internal processes as a key pain point. Our analysis suggests that a lack of effective policy could be an important driver of internal process challenges.

Most organizations struggle with procurement policy

Given the constant pace of change in the procurement landscape, outdated policies are a source of inefficiencies for many organizations. Only a quarter of respondents reported that procurement policy is fully followed within the organization, with the remaining 75% reporting challenges with procurement policy implementation.



Survey Question: How would you describe the existence of, and adherence to, your procurement function’s formal written policy?, N=32
Note: Analysis is based on solely on data collected from 32 survey respondents; Totals may not add up due to rounding
Source: Indirect Spend Retail CPO Survey 2024

Takeaways & Next Steps

While the snapshot of the procurement landscape reveals opportunities that procurement teams may wish to examine, the six priority themes explored in this report shed light on what CPOs have top of mind heading into 2025. Attention to these themes has the potential to drive cost control, resilience, and capability building, addressing short-term savings goals while enhancing long-term value. For additional information on the indirect procurement landscape or BCG's offerings, reach out to the author team.

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