

The age of Generative AI: Unveiling the next frontier of digital procurement

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## Digital procurement is steadily evolving and enables organizations to make strategic decisions



#### **Data literate**

Fully automated analytics facilitating first insights by leveraging spend data

#### **Data enabled**

Advanced insights and foresights available by combining spend data with other data sources

#### Al powered

Automated insight generation and recommendation engine available across all categories leveraging traditional and generative Artificial Intelligence

## How Generative AI is fundamentally changing business





## **Rodney Zemmel**

McKinsey Senior Partner Global Leader of McKinsey Digital

# Generative AI represents a natural evolution of Analytical AI, addressing a novel set of challenges

### **Analytical AI**

Analytical AI algorithms are used to solve analytical tasks faster and more efficiently than humans — e.g., being able to classify, predict, cluster or evaluate data



#### **Generative AI**

Generative AI algorithms are used to create new content on par with humans or greatly enhancing humans e.g., generating audio, code, images, text, and videos







Segmenting customers



Sentiment analysis



A superior of the superio

copy



generation

# Generative AI is evolving at lightning speed, and so is the CEO focus

From a few months ago...

What is gen AI? What it is not?

Is it hype or reality?

... to today

Where and how should we start with gen AI?

How do we organize and govern gen AI?

Which player(s) should we partner with?

How do we balance risk and value creation?

What are the talent and tech stack implications?

How do we get going and learn fast?

#### Exam results (ordered by GPT-3.5 performance)

Estimate percentile lower bound (Among test takers)

Gen AI is at once both smarter and dumber than any person you've ever met



#### Exam

GPT performance on academic and professional exams. In each case, we simulate the conditions and scoring of the real exam. Exams are ordered from low to high based on GPT-3.5 performance. GPT-4 outperforms GPT-3.5 on most exams tested. To be conservative we report the lower end of the range of percentiles, but this creates some artifacts on the AP exams which have very wide scoring bins. For example, although GPT-4 attains the highest possible score on AP Biology (5/5), this is only shown in the plot as 85th percentile because 15 percent of test-takers achieve that score.

Source: OpenAI - https://cdn.openai.com/papers/gpt-4.pdf

🗖 gpt-4 📃 gpt-4 (No vision) 🔳 gpt 3.5

# Generative AI will have a significant impact across all industry sectors



#### Generative Al productivity impact by sector (Total, \$ billion)

# Gen AI would typically enable value capture via the Four "Cs" of productivity use cases



Organizations can take a two-speed approach to "learn into" gen AI while ensuring impact doesn't get stuck in "pilot purgatory"



## What would be the biggest challenge for your organization to scale generative AI?



The art of the possible: Examples of Generative AI use-cases

## We have identified 8 highimpact domains for Generative AI use cases in procurement



Content generation Insight generation

Interactive engagement

Spend analytics and category management	Sourcing and negotiations	Supplier contracting and management	Procure to Pay
1. Category management and spend intelligence	2. Negotiation coach and trainer	4. Contract drafting & querying	6. P2P optimization
Generation of prescriptive insights, recommendations & overall strategy	Co-pilot for insight generation, scenario building, script preparation,	Automated contract drafting with recommended T&Cs	Creation of Scope of Work (SoW) for complex services (e.g., demand or specification definition) Invoice and expense audit and autonomous dunning
(e.g., levers) using multiple data sources	and roleplays	Identification of crucial clause and benchmarking of contracts and risks	
Early warning prediction and rebalancing mitigation recommendation	3. RFP creation, analysis, and aggregation	5. Supplier intelligence and performance	
Automated clean-sheet models to identify and monitor cost drivers	RFx drafting based on category data and stakeholder inputs	Discovery of new supplier profiles from multiple sources	
	Auto-generated initial supplier evaluation based on set criteria	Continuous supplier performance and risk assessment based on KPIs and criteria	

#### Procurement interface to stakeholders

7. Internal cross-functional (e.g., finance or engineering)

Chatbot to support other functions navigate through procurement organization and required data

#### 8. Suppliers and 3<sup>rd</sup> parties

Supplier service line for Q&A regarding RFPs, PO status, concerns, training materials and other topics

Making it a reality: From vision to impact at scale

## What are the success factors for gen AI at scale?





## Procurement organizations can employ three different ways to build and deploy generative AI solutions



# The gen AI solution architecture extends beyond the foundation models



Models are required but not sufficient



**Data architecture** will be a must, including access to large bodies of unstructured data



**Cloud infrastructure** will be in more demand than ever before



**UI/UX and applications** to get GenAI into production at scale with the right UI/UX interface is critical



**Processes and people** implications will be critical to address in order for GenAI unlock its full potential ("human in the loop")



# Several controls should be implemented to mitigate risks while enabling innovation



# Closing note

Generative AI has already started proving value in procurement – get started now!

Not only about models anymore – **data is your asset** 

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Easy to pilot, hard to scale

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