GEP INTELLIGENCE DRIVES INNOVATION

OUTLOOK REPORT 2025

PROCUREMENT & SUPPLY CHAIN

Introduction

No rest for the weary. After recently adapting to the post-pandemic reality, organizations now face a complex landscape of technological, geopolitical and regulatory changes that are reshaping procurement and supply chains dramatically. The year 2025 looms large as a pivotal moment: Artificial intelligence (AI) is poised to revolutionize operational models, propelling companies toward new efficiencies and restructuring how procurement integrates with broader business strategies. Against this backdrop, trade tensions persist, with localization and sustainability now vying against traditional globalization.

Procurement and supply chain leaders are confronted with profound questions: Will AI transform procurement into a self-directed powerhouse? Can companies balance resilience with cost-effectiveness amid geopolitical uncertainties?

This report unpacks six transformative trends that will shape procurement and supply chains, offering both challenges and boundless potential for companies to reinvent themselves as adaptable, future-ready organizations — in the context of the macroeconomic outlook for the year ahead.

Having recently celebrated our 25th anniversary, GEP is a close partner to many leading procurement and supply chain leadership teams for Fortune 500 and Global 2000 businesses. Our firm of accomplished consultants and technology advisors offers valuable perspectives to help business leaders strategize for 2025.

The GEP Outlook 2025: Procurement & Supply Chain report covers the key topics and priorities that will dominate the corporate agenda in the year ahead.

Executive Summary

As organizations navigate diverse macroeconomic landscapes, rapid advancements in AI, dynamic market conditions, trade wars and geopolitical conflicts, they must adapt their strategies and practices to stay competitive. Understanding these trends and their influence on procurement and supply chains is crucial for leaders to make informed decisions, drive innovation and enhance operational resilience — ultimately positioning their companies for success in the year ahead.

GEP's 2025 outlook report identifies six major trends in procurement and supply chain management, each of which pose profound challenges and opportunities for leadership teams.

AI and the Next Evolution of Procurement: As AI matures, procurement will see seismic shifts, with AI moving from task automation to autonomous decision-making. In its early phase, AI co-pilots will handle repetitive tasks, allowing teams to focus on strategy. As organizations advance along the maturity curve, AI will manage workflows independently, reshaping procurement into a digital-first function that prioritizes agility and strategic foresight.

AI-Powered Procurement Orchestration: Orchestration tools bring self-service procurement to the forefront, enabling non-experts to navigate complex sourcing processes seamlessly. By embedding AI-driven recommendations and predictive analytics, these platforms enhance compliance, efficiency and risk management, positioning procurement as a streamlined, integral function across all business areas.

AI Agents in Procurement: AI agents are no longer an emerging technology — they are becoming an operational necessity. These agents handle complex tasks like demand forecasting and risk monitoring, transforming supply chains into predictive, adaptive networks. Through targeted pilot programs, companies can integrate AI agents to enhance resilience and optimize end-to-end supply flows.

Evolving Value Metrics: The definition of value is expanding beyond cost savings. Procurement leaders are now evaluated on resilience, sustainability and regulatory compliance. These new metrics reflect an environment where long-term adaptability, ethical sourcing and robust risk management outweigh immediate financial gains, realigning the procurement function with the organization's strategic imperatives.

Supply Chain Resilience and Regulatory Demands: With heightened regulatory scrutiny, companies must pivot from a compliance-driven approach to one of proactive risk management and accountability. Transparency and supplier audits have become vital, requiring organizations to implement systems that ensure compliance and foster trust with regulators, consumers and investors.

Globalization vs. Localization: Trade barriers and rising protectionism are challenging the traditional global supply chain. Friendshoring and nearshoring strategies are gaining traction as businesses seek supply chain security over pure cost advantages. A shift to local supply networks promotes flexibility and resilience, paving the way for companies to navigate political and economic uncertainties effectively.

Collectively, these trends illustrate a procurement and supply chain landscape on the brink of digital transformation, where adaptability, sustainability and proactive risk management will set leading organizations apart.

Global Business and Macroeconomic Trends for 2025

Global economic forces are pulling in different directions as we move into 2025, creating a complex landscape that demands reinvigorated strategies and even greater agility from procurement and supply chain teams. Below, the report spotlights six key macroeconomic trends set to shape the coming year, each with significant implications for businesses worldwide.

Inflation

Returning to Recent Historical Norms

Global inflation is projected to fall from 6.7% in 2023 to 5.8% in 2024 and further to 4.3% by 2025 after peaking at 9.4% in the third quarter of 2022, according to the International Monetary Fund (IMF).[1]

In 2024, inflation in the U.S. is expected to reach 3%, down from 8% in 2022 and 4.1% in 2023. Inflation in the U.K. dropped to 1.7% in September 2024, which is lower than the Bank of England's target of 2%.[2] In 2024, inflation in the U.K. is expected to touch 2.6%. The Euro Area has seen a similar downward trend, with inflation at 1.7% in September 2024; for 2024, inflation is estimated at 2.4%.[3]

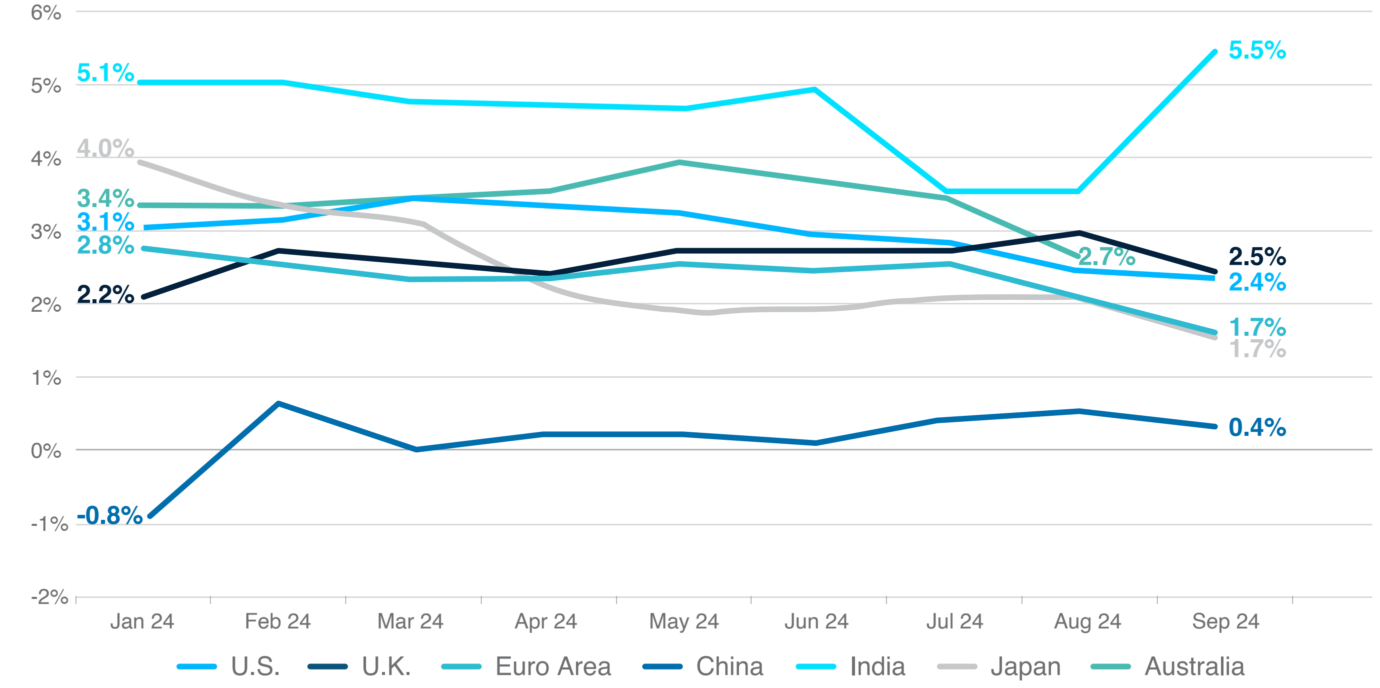
While global inflation is reasonably under control, there are still unmitigated risks due to unresolved geopolitical conflicts, including the Russian invasion of Ukraine and sustained conflict in the Middle East, trade wars brewing among China and G7 economies and rising food prices in emerging economies.

Inflation Trends: Annual Percentage Change (Historic and Projected)

			Projected		
Country/Regional Classification	**2022**	**2023**	**2024**	**2025**	**2026**
Global	8.6	6.7	5.8	4.3	3.6
Advanced Economies	7.3	4.6	2.6	2.0	2.0
U.S.	8.0	4.1	3.0	1.9	2.1
U.K.	9.1	7.3	2.6	2.1	2.0
Euro Area	8.4	5.4	2.4	2.0	2.0
Japan	2.5	3.3	2.2	2.0	2.0
Australia	6.6	5.6	3.3	3.3	3.0
Emerging and Developing Asia	3.9	2.4	2.1	2.7	2.8
ASEAN-5	4.8	3.5	2.3	2.3	2.3
China	2.0	0.2	0.4	1.7	2.0
India	6.7	5.4	4.4	4.1	4.1
Middle East and Central Asia	13.4	15.6	14.6	10.7	8.5
Latin America and the Caribbean	14.2	14.8	16.8	8.5	5.7
Sub-Saharan Africa	15.2	17.6	18.1	12.3	8.4

Source: Trading Economics, World Economic Outlook, Oct 2024, IMF

Inflation Trends 2024: Monthly Percentage Change



Source: Trading Economics, World Economic Outlook, Oct 2024, IMF

Key Lookouts for 2025

1. Conflicts and Trade Wars
Watch for heightened supply and price pressures driven by geopolitical instability, including conflicts in the Middle East, Russia's invasion of Ukraine and ongoing trade tensions

2. Increasing Food Prices
Higher inflation can be triggered by rising food prices, because of increasing agricultural production costs, heightened demand and extreme weather events

3. Shifts in Governments and Policies
Be alert to potential economic shifts and evolving trade dynamics as leadership transitions and policy changes unfold in major economies

4. Interest Rates
Interest rate cuts by central banks of major economies can create cost pressures by stimulating economic activity and demand

5. Oil Price Volatility
Expect cost increases if oil and energy prices rise due to production cuts, conflicts or market shifts

GDP

Stable but Tepid Growth

Global growth is expected to remain at 3.2% in 2024 and 2025, according to the IMF forecast in the October 2024 edition of its World Economic Outlook.[4]

The U.S. economy is expected to slow from 2.9% in 2023 to 2.8% in 2024, then drop further to 2.2% in 2025. The U.K. is expected to perform somewhat better at 1.1% in 2024, up from 0.3% in 2023, and 1.5% in 2025 (higher than the IMF's July forecast of 0.7%) due to falling inflation and a likely easing of monetary policy.[5] The Euro Area is also expected to recover in 2024 with GDP growth projected at 0.8%, up from 0.4% in 2023. In 2025, the region's economic growth is expected to reach 1.2%.

Emerging economies in Asia will grow slower in comparison to 2023, impacted by a slowdown in China, which is expected to grow at 4.8% in 2024. This is down from 5.2% in 2023, mainly due to weaker property prices and low consumer confidence.[6] Growth in the world's second-largest economy is expected to slow to 4.5% in 2025. China has been introducing stimulus measures, including mortgage rate cuts for existing homes and increased bank lending, to stimulate the economy. India is expected to grow at 7% in 2024 and 6.5% in 2025, a drop from 8.3% in 2023.

GDP Growth: Annual Percentage Change (Historic and Projected)

			Projected		
Country/Regional Classification	**2022**	**2023**	**2024**	**2025**	**2026**
Global	3.6	3.3	3.2	3.2	3.3
Advanced Economies	2.9	1.7	1.8	1.8	1.8
U.S.	2.5	2.9	2.8	2.2	2.0
U.K.	4.8	0.3	1.1	1.5	1.5
Euro Area	3.3	0.4	0.8	1.2	1.5
Japan	1.2	1.7	0.3	1.1	0.8
Australia	3.9	2.0	1.2	2.1	2.2
Emerging and Developing Asia	4.4	5.7	5.3	5.0	4.9
ASEAN-5	5.4	4.0	4.5	4.5	4.5
China	3.0	5.2	4.8	4.5	4.1
India	7.0	8.3	7.0	6.5	6.5
Middle East and Central Asia	5.5	2.1	2.4	3.9	4.2
Latin America and the Caribbean	4.2	2.2	2.1	2.5	2.7
Sub-Saharan Africa	4.1	3.6	3.6	4.2	4.4

Source: World Economic Outlook, Oct 2024, IMF

Interest Rates

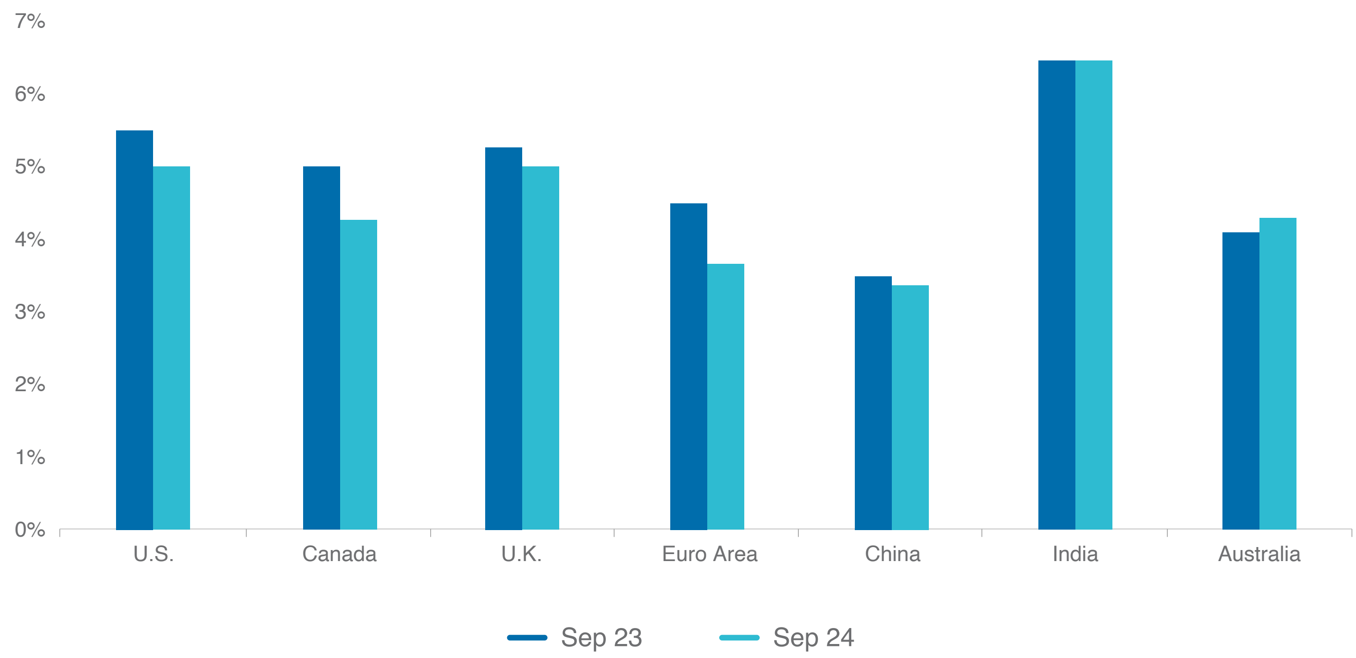
From Inflation Mitigation to Growth

Central banks are shifting their focus to stimulating demand as inflation stabilizes. The central banks of the U.S., U.K., the Euro Area and China started cutting interest rates in 2024 as inflation approached target levels. The U.S. Federal Reserve cut interest rates for the first time in four years in September 2024, a trend likely to continue into 2025 as the government seeks to ease economic pressures and reignite growth.[7]

The U.K. cut its interest rate to 5% in August 2024, its first since the pandemic, and once again in November to 4.75%.[8] The European Central Bank cut its rates to 3.25% in October 2024.[9]

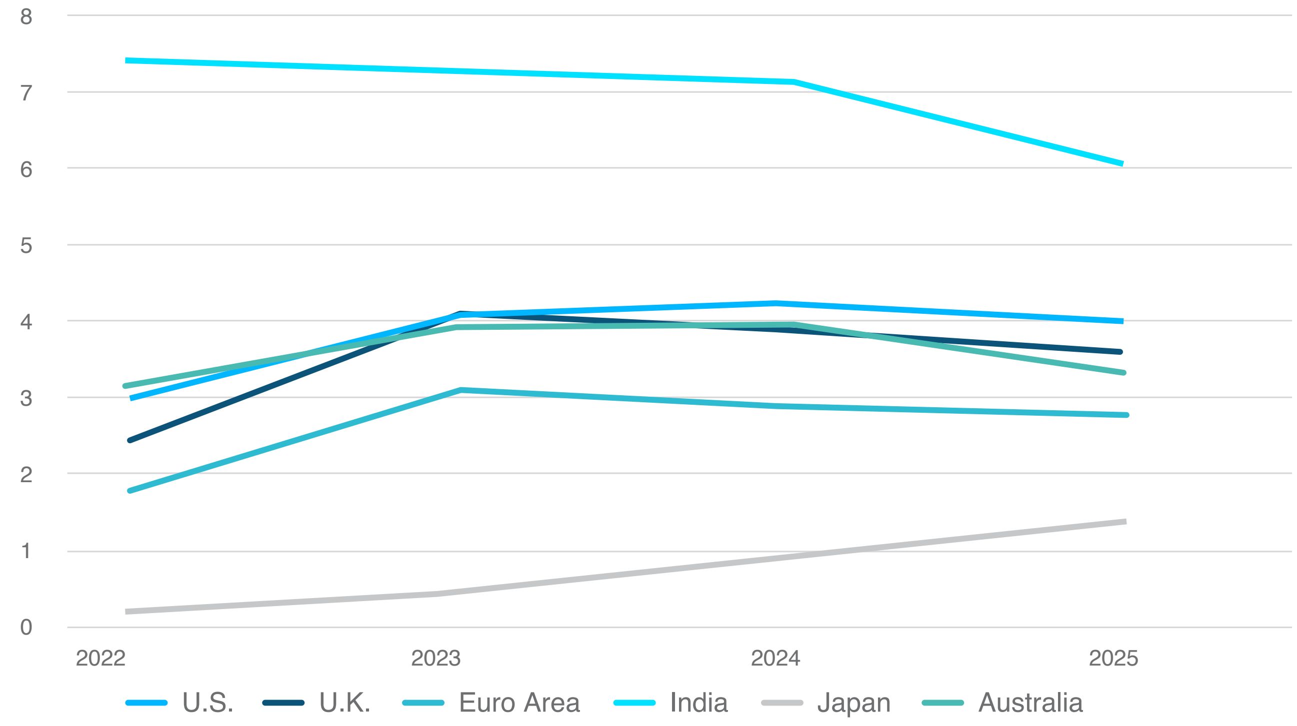
The People's Bank of China lowered its policy interest rate to 3.1% and five-year loan prime rate to 3.6% in October 2024.[10] These reductions aim to catalyze the real estate and credit markets. India, like many emerging economies, has maintained its benchmark interest rate at 6.5% for 2024 and is adopting a cautious approach to prevent a resurgence of inflation.[11]

Interest Rates Comparison



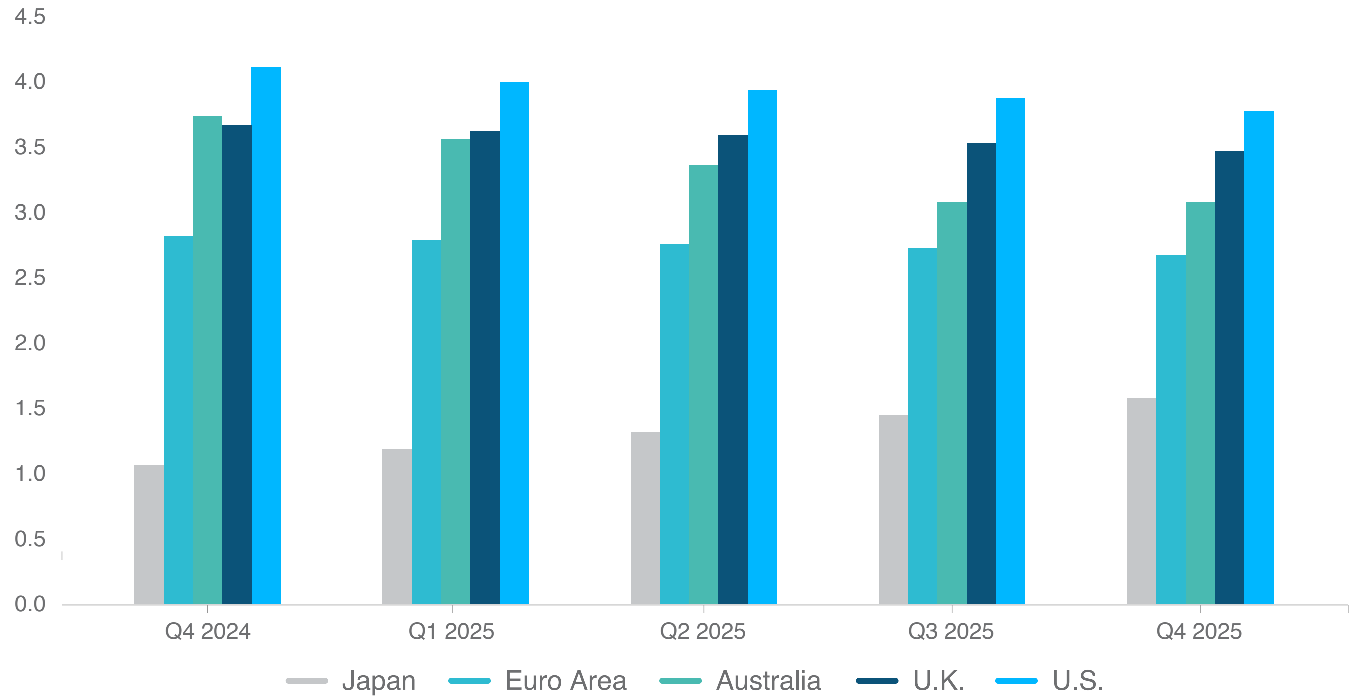
Source: OECD, Trading Economics

Long-Term Interest Annual Rates: Trends and Forecast



Source: OECD, Trading Economics

Long-Term Interest Rates Forecast on Quarterly Basis



Source: OECD, Trading Economics

Employment

Broadly Stable

For many G7 economies, unemployment is near multi-decade lows. While these job markets are stable, there are signs of softening. The global labor market is undergoing significant shifts as automation and AI transform industries. In 2025, as more industries adopt AI technologies, concerns over job losses and the need for new skillsets will emerge.

The U.S. and U.K. observed higher unemployment rates in October 2024 than at the start of the year. Data published by the U.S. Labor Department in October 2024 shows that the total number of Americans collecting jobless benefits rose by 39,000 to 1.89 million for the week of October 26, 2024 — the most since 2021.[12] This rising level of continuing claims suggests that many workers are finding it difficult to re-enter the workforce. The unemployment rate in the U.K. is estimated to be higher in 2024 than previous years (3.9% in 2022 and 4% in 2023) and is expected to settle at 4.3% by end of 2024.[13]

China's job market remained stable in the first three quarters of 2024, supported by government employment efforts. Data from China's National Bureau of Statistics shows that the urban unemployment rate averaged 5.1% in the first three quarters, a 0.2 percentage point decrease from the same period last year.[14] In India, the labor market remained positive with unemployment rates at 7.8% in September 2024, down from 8% in 2023, as per data from the Centre for Monitoring Indian Economy.[15]

Unemployment Rate Trends: Annual Percentage Change (Historic and Projected)

			Projected		
Country/Regional Classification	**2022**	**2023**	**2024**	**2025**	**2026**
Advanced Economies	4.5	4.4	4.6	4.7	4.6
U.S.	3.6	3.6	4.1	4.4	4.3
U.K.	3.9	4.0	4.3	4.1	4.0
Euro Area	6.8	6.6	6.5	6.4	6.3
Australia	3.7	3.7	4.1	4.4	4.5
Other Advanced Economies (Excluding G7 and Euro Area)	3.4	3.3	3.6	3.6	3.6

Source: World Economic Outlook, Oct 2024, IMF

Key Lookouts for 2025

Global Economic Growth
Look out for uneven growth softening the job market, particularly as advanced economies in Europe and China are projected to see only moderate expansion

Geopolitical Conflicts
Continuing conflicts in the Middle East could disrupt the commodity, freight and manufacturing sectors, potentially destabilizing the job market

Trade Tensions and Localization
Growing trade tensions and strategies such as reshoring and nearshoring can impact manufacturing and change labor requirements

AI and Automation
The adoption of AI and automation will increase demand for tech jobs and require skill development, while also raising concerns about potential job losses

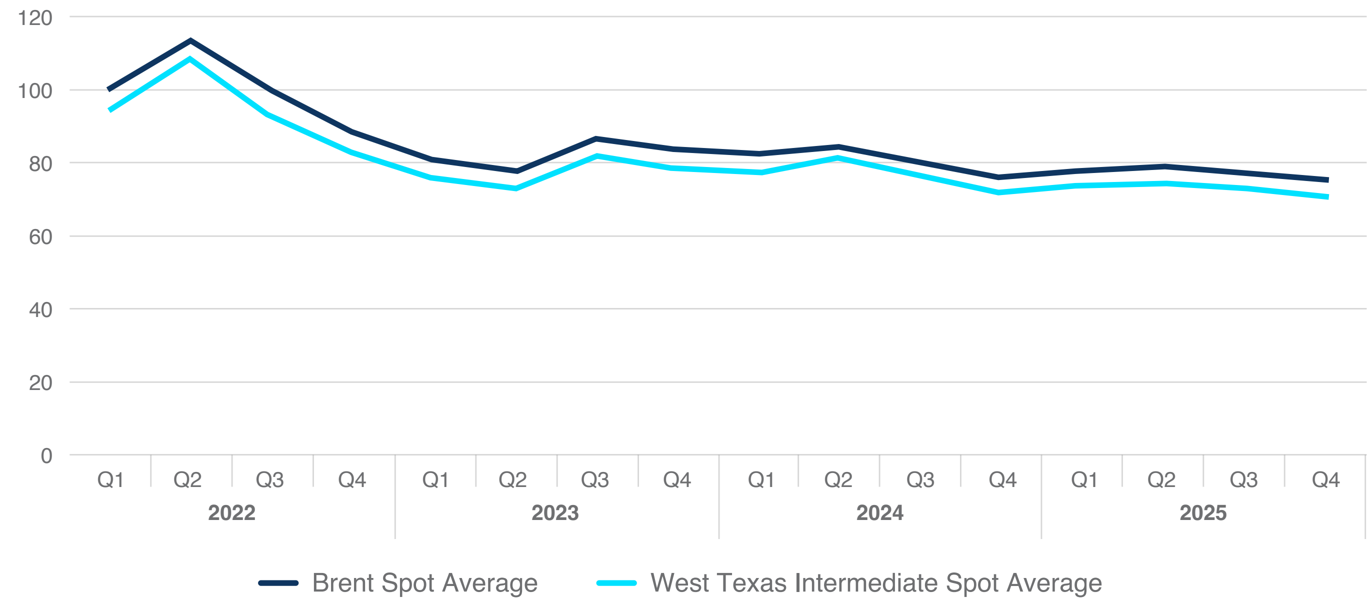
Energy

Rising Tensions, Elevated Oil Prices

Oil prices had decreased slightly from $85 per barrel (bbl) at the start of 2024 to an average of $75/bbl in September. The oil market has not maintained prices based on demand alone, as global economic growth has been sluggish. Conflicts in the Middle East, the Russian invasion of Ukraine and voluntary oil production cuts have contributed to keeping prices elevated.

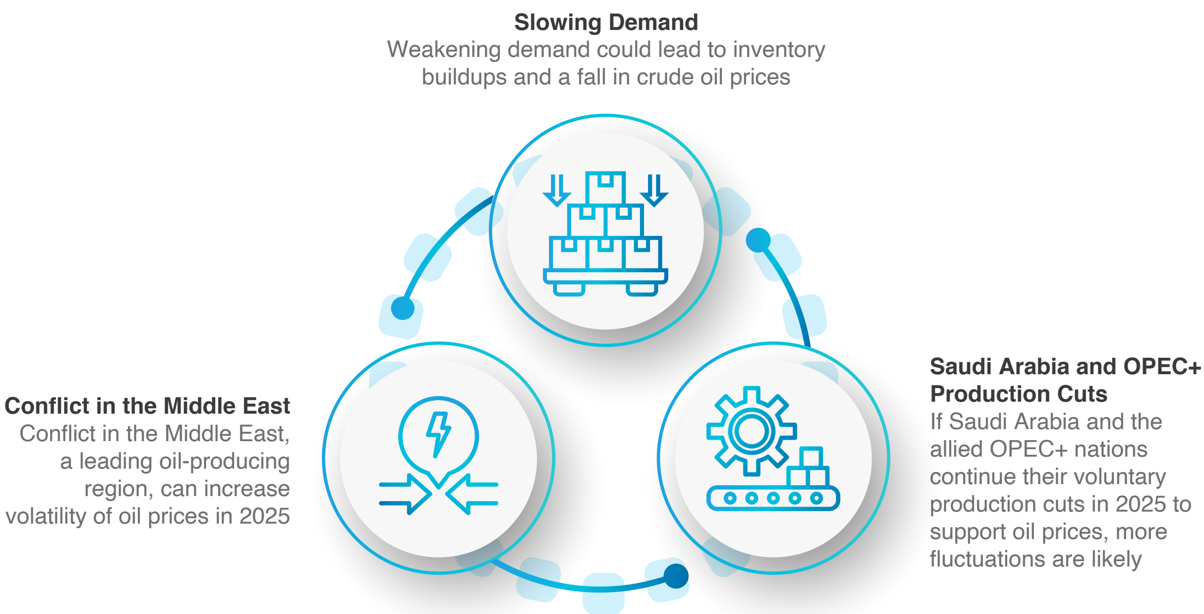
In 2025, oil prices are expected to remain steady in the $75-$80/bbl range. However, oil prices can surpass $80/bbl if there’s additional escalation in the Middle East. On the other hand, de-escalation could drive prices below $70/bbl.

Crude Oil Prices (USD Per Barrel)



Source: EIA

Key Lookouts for 2025



China's Uncertain Economic Landscape

Which Chinese Growth Model Will Emerge?

China has been a phenomenal driver of growth since joining the World Trade Organization. The country now navigates slowing growth, a real estate crisis and shifting government policies — and the world is watching. Will China return to its high-growth model, or will it begin to plateau?

Budding trade wars and the increased interest in nearshoring add to these challenges. These pressures threaten to limit the growth potential of the world's second largest economy.

A deeper and longer slowdown will have global repercussions: China is not just the largest supplier of steel, construction material, pharmaceutical raw materials, footwear and electronics, it is also among the biggest importer of fuels, machinery and equipment, and precious metals. A slowdown will impact other economies based on their trade and investment ties with China. GEP anticipates that China's leaders will ramp up economic stimulus actions if growth continues to slow.

Six Leadership Themes for 2025

1. AI and the Evolution of the Procurement Operating Model

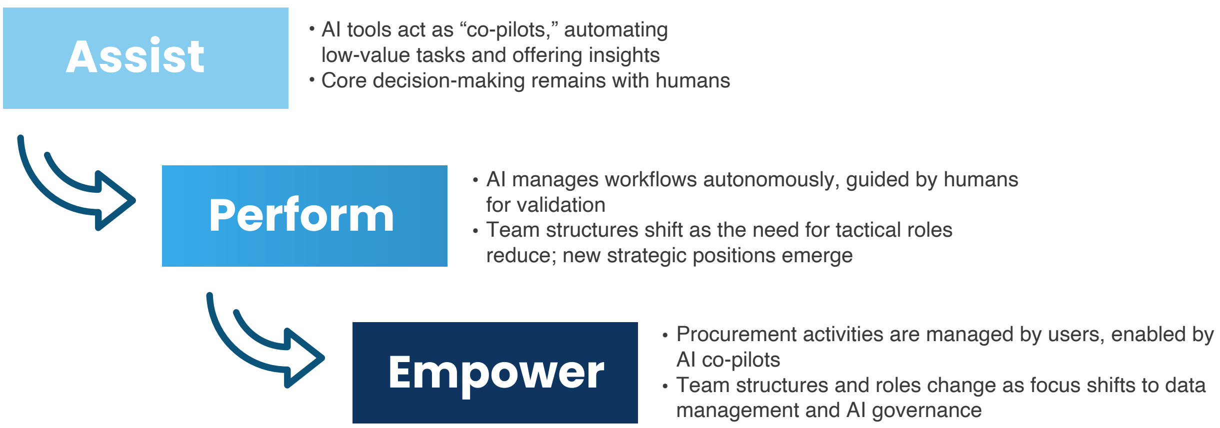
Procurement is on the cusp of a profound transformation. While all functions are poised to benefit from innovations in AI, few are positioned for such a seismic shift as procurement. As AI tools mature and take on more sophisticated roles, the traditional procurement operating model will become obsolete. The question is not *if* procurement will change, but *how* to embrace this transformation and unlock value.

The Beginning of the End: Procurement As We Know It

Today's procurement function has historically achieved operational success by mastering supplier management, cost optimization and risk mitigation, among other areas. The procurement operating model is reliant on human expertise and often struggles with inefficiency, fragmented data, and labor-intensive processes. AI offers a compelling solution, creating more opportunities to focus on strategic, high-value activities.

Procurement leaders are already asking: Will technology redefine the human role? Will the procurement function exist in the future? GEP expects the answer to be a resounding yes, but not in the form procurement leaders understand today. AI will affect the operating model in three distinct phases, each more transformative than the last, as organizations embark on their AI evolution.

Three Phases of Procurement's Evolution



Phase 1: Assist

The year 2025 will mark the *Assist* phase for most companies. In this phase, AI tools act as “co-pilots,” automating low-value tasks and providing insights that allow procurement teams to make more informed decisions. Today, AI is embedded in source-to-pay (S2P) platforms, offering spend forecasting, supplier discounting, fraud detection, and contract drafting tools. However, the core decision-making still lies with humans.

At this stage, procurement teams are not significantly impacted in size or structure. AI is limited to augmenting human capability, improving productivity, and enabling teams to deliver incremental cost savings and efficiencies. But as AI tools become more advanced, the role of procurement professionals will evolve.

Phase 2: Perform

The *Perform* phase will see AI taking on a more prominent role. More advanced AI solutions will begin managing end-to-end procurement workflows, performing tasks like category strategy development, contract renewals, and demand forecasting autonomously, while still guided by a “human-in-the-loop” to validate and control outputs.

In this phase, procurement team structures will begin to shift. The need for tactical roles will diminish as automation takes over. Instead, new strategic roles will emerge, focused on interpreting AI-driven insights, managing more complex categories, and ensuring continuous improvement in AI outputs.

Teams will require new competencies, with emphasis on data analytics, AI fluency, and business insights, as procurement evolves to a more strategic driver of business value.

Phase 3: Empower

The final envisaged evolution is the *Empower* phase. In this stage, procurement becomes a highly digitalized function in which business users, enabled by AI co-pilots, will manage procurement activities independently. Routine, low-complexity purchases, supplier evaluations, and even contract negotiations will be handled by intuitive AI-driven platforms, freeing procurement professionals to focus on strategic projects, complex categories, and supplier relationships.

In this phase, the operating model will see a massive shift. Category teams will evolve into value-chain optimization teams, while business partner teams become deeply embedded within business units to deliver insights and strategies aligned with operational goals. The rise of self-service procurement will reduce the need for traditional roles, but in its place, highly specialized data management and AI governance teams will take center stage.

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Achieving New Value Through AI

AI's potential in procurement extends far beyond automation and efficiency. As AI tools evolve, they will unlock deeper insights into supplier performance, cost optimization, risk management, and sustainability. Procurement will no longer be measured solely on cost savings. New metrics, such as agility in responding to supply disruptions, greenhouse gas reductions, and the proportion of touchless transactions, will become key indicators of success.

To fully realize these benefits, organizations must invest in the right infrastructure, including master data readiness, a seamless digital ecosystem, and upskilling procurement teams in AI fluency and advanced business analytics.

Key Considerations and Enablers

As chief procurement officers (CPOs) and supply chain leaders navigate this transformation, there are three key considerations to keep in mind:

1. **Adopt a Clear AI Vision and Strategy:** AI transformation must begin with a clear vision. Securing executive alignment and cross-functional support is critical for gaining traction in the early stages of transformation.

2. **Invest in Data Management:** Data is the backbone of AI. CPOs must ensure their organizations have clean, accessible, and governed data to feed into AI tools. Investing in master data management and robust governance structures is essential for accuracy and effectiveness.

3. **Build New Capabilities:** The shift to AI-driven procurement requires new skillsets. CPOs should prioritize the upskilling of their teams, focusing on digital literacy, AI fluency, and business analytics. Talent strategies should evolve to attract individuals with these skills.

Key Takeaway

AI is transforming the future of procurement operating models. The changes that come will not only reshape how procurement teams operate but also how they deliver value. Organizations that embrace this shift, investing in the right tools, data infrastructure and talent, will be positioned to unlock value and outpace their competitors. Procurement as we know it may be dead, but in its place, a more powerful, agile and data-driven function will emerge.

2. AI-Powered Procurement Orchestration: What You Have Been Waiting For

Long has procurement been looking for a way to make things *much simpler* for the business. While many employees believe themselves to be shrewd buyers or skilled negotiators, the procurement function has consistently outperformed them. If only there were a way to get employees to follow the process, help them navigate buying channels and reduce the time spent on buying. Enter AI-driven procurement orchestration.

A procurement orchestration platform enables end-to-end AI-driven self-service across the S2P process throughout the organization. AI, specifically generative AI, guides employees, regardless of their expertise, through the intake process to make optimal purchasing decisions by recommending the best suppliers, negotiating favorable prices and automating compliance with procurement policies. This ensures that people within the company buy the right products or services in a simple, structured and cost-effective manner.

AI-powered procurement orchestration tools leverage real-time data and predictive analytics, allowing companies to not only streamline and automate the purchasing process but also forecast needs, manage supplier performance and proactively address risks with greater speed and effectiveness.

Highlights of AI-Powered Procurement Orchestration Tools

1. Orchestration tools integrate purchasing processes across different systems and functions, providing a single platform where employees can easily and efficiently source goods and services
2. They automate workflows such as supplier selection, contract management, and order processing, ensuring compliance with corporate procurement policies
3. AI-powered orchestration tools enhance these capabilities through data analytics and machine learning, optimizing sourcing decisions, forecasting demand, and mitigating supply chain risks

What Makes This So Exciting

Automation of routine procurement tasks, such as order processing, invoice matching and contract management, is a compelling benefit of orchestration platforms. These AI-powered tools can handle these procurement processes end to end, lowering the level of manual effort. This increased efficiency frees up procurement teams to focus on strategic activities such as supplier innovation and risk mitigation.

Agility has become more crucial than ever as supply chain disruptions have become increasingly common. Orchestration tools enable companies to dynamically adjust sourcing strategies in response to real-time data. These platforms can analyze inputs from multiple sources, highlight potential risks and recommend alternative suppliers or rerouting logistics to ensure minimal disruption. This level of responsiveness will be a competitive advantage in 2025 and beyond.

Risks across the supply chain have grown in recent years as supply networks have become more interconnected. AI-enabled procurement orchestration platforms allow businesses to manage these risks proactively by monitoring supplier performance, geopolitical factors and market conditions. AI detects patterns and trends that signal potential issues, flagging them for action. This predictive capability enables procurement teams to mitigate risks before they escalate.

Deploying AI-Powered Procurement Orchestration Tools Effectively

As with any new tool deployment, it is important to align the capability of these tools with business realities. Here are some priorities to keep in mind:

Connection to Broader Goals

Procurement orchestration tools should not be deployed in isolation but be aligned with broader corporate goals — it must be clear which corporate goals are being addressed (compliance, cost reduction, efficiency, etc.) Leaders who try to solve everything on day 1 are more likely to fail.

Data Quality and Integration

As exciting as these tools are, the Achilles heel is data. These platforms rely on real-time, accurate data to deliver meaningful, actionable insights. Executives need to prioritize the integration of data from multiple systems — such as ERP, finance and supplier portals — and ensure that the data is clean and up to date. Investing in data management early in the process will maximize the return on investment from orchestration tools.

Change Management

Deploying orchestration tools represents a significant shift in how procurement teams operate. The need for an effective, robust change management plan is vital and should not be an afterthought. Leaders should deploy full-fledged change enablement programs, including communication strategies, training, workshops and more. A culture shift to embrace working with data and the power of automation is essential.

Key Takeaway

The ability to organize procurement activities more effectively without major upgrades to ERP systems is a game-changer for many companies. Enterprises that adopt an AI-driven procurement orchestration tool can take advantage of substantial efficiencies and empower their teams to lower costs, manage risk and manage complexity in a more impactful way.

3. AI Agents Join the Ranks of Procurement and Supply Chain Teams

AI agents in procurement and supply chain management are no longer theoretical. They have evolved from concept to capability — powerful, practical tools that companies can implement right away. The technology behind these digital agents has advanced to a point where they can streamline operations, enhance decision-making and drive resilience across complex global supply chains.

But what exactly are they? Simply put, AI agents, sometimes called digital or autonomous agents, are intelligent, interactive software tools powered by AI. They operate autonomously or semi-autonomously to manage tasks, analyze data and make decisions based on preset parameters, real-time information and machine learning capabilities. AI agents can perform a wide range of procurement and supply chain functions, from automating purchase orders and tracking shipments to conducting risk assessments and making sourcing recommendations.

For most, the real question is no longer whether AI agents can make an impact, but how best to integrate them.

AI Agent Functionalities: Applications To Try Out

Short-Term Applications

Routine Task Automation: AI agents automate time-consuming tasks like purchase order creation and invoice matching, freeing teams to focus on high-impact strategic work.

Risk Monitoring: Equipped with predictive analytics, AI agents monitor disruptions — such as weather events and geopolitical risks — enabling teams to respond proactively.

Demand Forecasting: AI agents provide more accurate demand forecasts by analyzing historical data and market signals, helping companies improve production and sourcing plans.

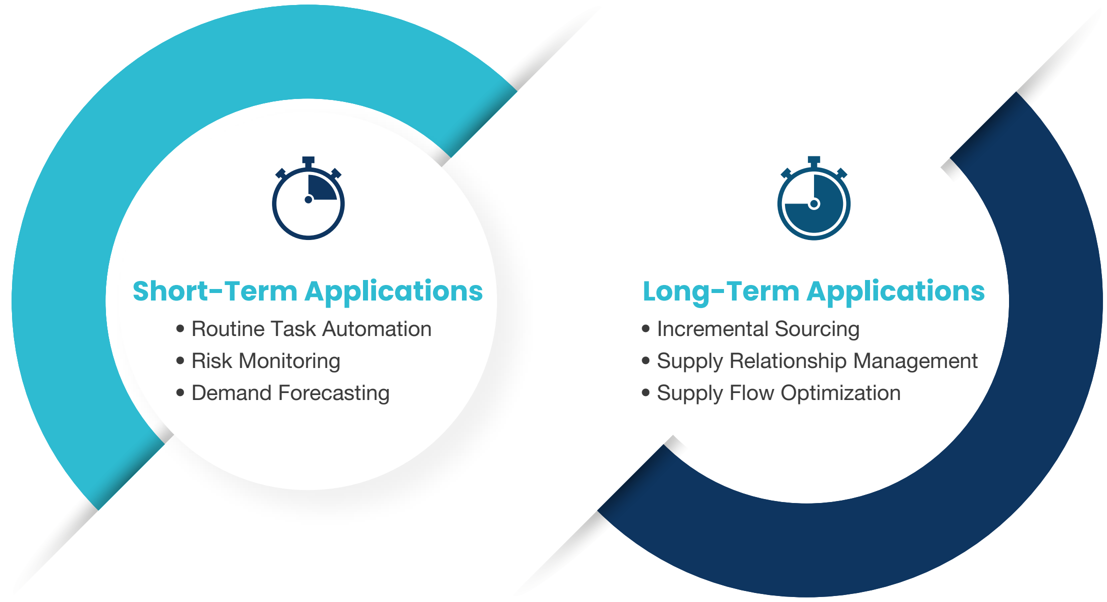
Longer-Term Applications

Incremental Sourcing: AI agents will autonomously negotiate prices, select suppliers and adjust sourcing strategies in real time to balance costs and risks.

Supplier Relationship Management: AI agents will suggest performance improvements or governance steps. They will track progress and monitor compliance.

Supply Flow Optimization: AI agents will eventually watch all supply chain movements, recommending or intervening to optimize steps, from raw materials to final delivery.

AI Agents To Consider in 2025



Acquiring AI Agents: Building the Right Tech Partnerships

Acquiring AI agents starts with selecting the right technology providers. Leading vendors in AI and automation offer modular solutions, enabling companies to implement targeted capabilities and scale up as confidence in the technology grows.

GEP expects an avalanche of new providers to emerge. Many will offer a flashy or compelling use case and a path for rapid implementation. However, traditional providers of procurement and supply chain expertise are best positioned to offer a sustainable solution over time.

Overcoming the “Too Good to Be True” Factor

Skepticism around AI agents is understandable. This won’t be the first time technology companies have been accused of selling magic beans. Concerns around reliability, control and implementation complexity are valid and require resolution. GEP anticipates that leaders will base how they move forward on these guidelines:

- **Reliability:** AI agents should demonstrate transparency by offering clear, data-backed reasoning for their recommendations and decisions.
- **Human-in-the-loop Oversight:** These agents are designed to support human expertise, not replace it. They act as collaborators, allowing teams to focus on strategic tasks.
- **Limit Complexity and Build Gradually:** Starting small with a pilot approach allows teams to experience incremental benefits before making a larger-scale commitment.

Getting Started Is Paramount

Embracing AI agents may not come organically to most leadership teams. Leaders will likely prioritize the following:

Choose High-Profile Pilots

Pilot AI agents in specific, high-impact areas to assess the technology's effectiveness and risk in a controlled setting, allowing the organization to learn gradually. Success in a pilot project will build momentum and validate the value of AI agents within the broader organization.

Ensure High Data Quality Sources

AI agents rely on accurate, high-quality data to make the correct decisions. Without this, digital agents can miss objectives or provide incorrect results. A poor data foundation is a barrier to scaling this technology.

Ensure that data is standardized, integrated across systems and readily accessible for use by digital agents. If necessary, invest in data management and governance technologies before deploying AI agents.

Establish a Cross-Functional Operational and Governance Team

Perhaps even more important than the technical results is the potential for momentum. As AI agents impact various areas of the business, stakeholders from across the organization should get a first-hand look at AI agents so that they can evangelize the technology's utility in the future. Involving cross-functional teams early on ensures that the right stakeholders are on board, systems are properly integrated, and potential issues are identified and resolved.

A cross-functional team can also ensure that goal posts are set and not moved. The outcomes from these projects might be somewhat subjective, so it is important that a balanced group of leaders help separate fact from fiction.

Key Takeaway

AI agents are no longer a futuristic concept; they are a tangible tool for procurement and supply chain leaders to create more resilient, efficient and adaptable operations. By focusing on pilot programs, business areas with high-quality data and cross-functional collaboration, executives can unlock the strategic advantages AI agents offer in the year ahead. For those ready to take the first step, AI agents represent a significant advancement — and an invaluable partner — in the future of procurement and supply chain management.

4. The Changing Conversation Around Value

Procurement could perhaps be forgiven for not being too confident about what to focus on in the past five years. Priorities have rapidly shifted from cost reduction to pandemic safety to ESG enablement to securing supply chains to mitigating inflation and more. It has been overwhelming at times.

In 2025, business value in procurement and supply chain management is no longer defined solely by cost. The rise of new pressures — resilience, sustainability, risk management and compliance — means the value proposition has shifted. The question is not *whether* to adapt, but *how* to integrate these dimensions into operations and strategy. Cost pressures are not going away, but can procurement master all?

New Values Require New Metrics and KPIs

Many organizations have not broadened their performance metrics to reflect the new value equation. Historically, the focus was on total cost of ownership (TCO) or procurement savings. In 2025, success must be measured across multiple dimensions such as resilience, sustainability and supplier performance.

Traditional procurement KPIs need to evolve. Resilience, for example, must be measured by supply chain flexibility or time to recovery from a disruption. Sustainability KPIs could track carbon emissions, while supplier diversity and ethical compliance should become central to supplier scorecards. Cost savings have usually been more straightforward to measure, but many of these new metrics are subjective and open to interpretation.

A shift in how procurement teams report success to the board and management is a key aspect of this KPI evolution. And it is just as important to align on how these metrics will be measured. Communicating the total value impact now extends beyond cost savings. It requires procurement to demonstrate how its decisions contribute to business resilience, regulatory compliance and long-term sustainability.

New Metrics for Procurement

Resilience Comes at a Cost — And That's Acceptable

The subjective value measures also include resilience, which is a key priority but isn't consistently defined across businesses and industries. Building resilience often involves higher short-term costs from tactics such as investing in dual sourcing, creating nearshoring supply chains or increasing safety stock. This creates tension for procurement leaders, who have traditionally been rewarded for cost-cutting.

Resilience comes at a cost and executives need to be prepared to accept that tradeoff. Cost increases associated with resilience-building measures should be positioned as long-term investments rather than short-term financial burdens.

The true value of resilience is in ensuring business continuity during disruptions, preventing revenue loss and maintaining customer trust. For procurement and supply chain leaders, this means advocating for resilience initiatives at the executive level and communicating its long-term financial benefits rather than focusing solely on immediate cost savings.

Sustainability and Compliance Are Non-Negotiable

In 2025, regulatory demands and stakeholder expectations around sustainability and compliance are substantially more stringent. Leaders must acknowledge that sustainability is more than a corporate social responsibility — it is a compliance requirement and a key source of business value.

Compliance with environmental, social and governance (ESG) standards is increasingly scrutinized by investors, regulators and consumers, making it a non-negotiable part of doing business. Leaders need to take on an active role in ensuring that ESG goals are embedded into supply chain strategies. For example, supply chain managers must track and reduce Scope 3 emissions, and ensure that suppliers adhere to ethical labor practices.

Procurement must work with suppliers to ensure they meet these standards. This could mean renegotiating contracts to include sustainability clauses or investing in technology to monitor supplier compliance in real time. Leaders should also ensure they quickly adapt to emerging regulations by building flexible procurement systems that integrate compliance tracking and reporting tools.

This is a significant value addition by procurement, not a byproduct of cost-reduction efforts.

Risk Management Is Not Simply Reactive

Supply chain disruptions — caused by geopolitical instability, climate events, or pandemics — are no longer anomalies. The ability to anticipate and mitigate risks will be a critical component of modern procurement organizations, though historically it was viewed as the responsibility of the operations team.

Procurement and supply chain leaders must invest in predictive analytics and AI-enabled risk management tools for insights into potential disruptions. This includes monitoring supplier risk indicators, geopolitical developments and market volatility. Such tools will help procurement teams make smarter sourcing decisions, pivot supply chains and ensure that the organization is prepared to respond quickly to crises.

Supplier Relationships Will Be Redefined

Traditionally, suppliers were viewed as merely transactional partners. But there has long been a movement to redefine a select group of suppliers as strategic partners and to meaningfully differentiate them from regular suppliers. In 2025, this subset of suppliers will be key partners in driving innovation, sustainability and resilience. Collaborating with them could involve co-innovation initiatives, sustainability partnerships or shared investments in technology. Building strong, long-term relationships with key suppliers is crucial for meeting the broader value expectations from procurement.

For many, a change in how they approach supplier management is necessary. The focus must be less on squeezing margins and more on co-creating value that benefits both parties. Supplier collaboration will be critical in achieving long-term success in this new era of value creation, but procurement must set terms. For some, this is an evolution of a long-maturing idea. For others, it is time to catch up.

Key Takeaway

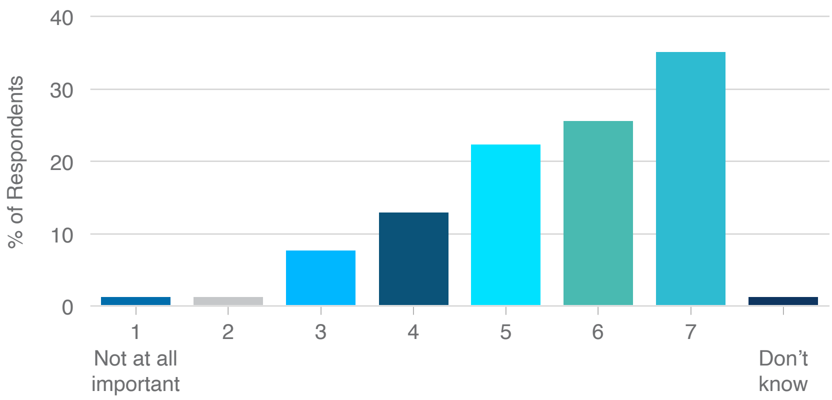
The evolution of business value beyond cost presents both a challenge and an opportunity. By embracing resilience, sustainability and proactive risk management, executives can create supply chains that are robust, adaptable and future-proof. Leaders who succeed in 2025 will be those who recognize that value is no longer measured by price alone — it is defined by the ability to adapt, sustain and thrive in a complex and rapidly changing world.

5. Supply Chain Resilience in a Shifting Regulatory Landscape

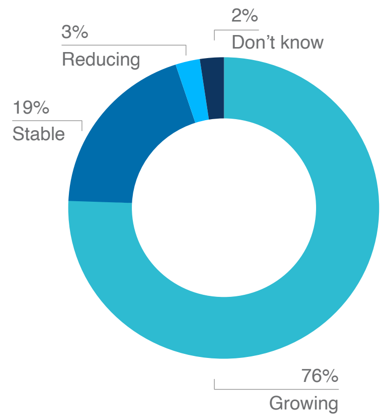
An intensifying regulatory environment clouds the outlook for 2025. As governments and regulatory bodies around the world prioritize sustainability, ethical sourcing and transparency, procurement and supply chain leaders find themselves navigating a maze of evolving standards, restrictions and compliance requirements. The result is a new era of regulatory scrutiny — one that is forcing organizations to rethink their supply chains from the ground up.

This development is both a disruption and a challenge. For decades, globalization enabled companies to optimize costs and efficiency. There wasn't always a compelling need to have much supply chain visibility beyond the immediate suppliers. Today, that same global footprint is under scrutiny, with regulators expecting transparency and holding companies accountable for practices within their upstream supply chains. Regulations such as the European Union's Corporate Sustainability Reporting Directive (CSRD) and the U.S. Uyghur Forced Labor Prevention Act (UFLPA) represent a new reality: Companies must meet strict environmental, social and ethical standards across their own operations as well as ensure that their suppliers do the same.

4 in 5 Procurement Leaders Say ESG Issues Are Important



95% Believe ESG Is a Stable and Growing Priority



Source: A GEP-sponsored CIPS Global State of Procurement & Supply Survey 2024.
109 respondents were asked: "On a scale of 1 to 7 where 1 is not at all important and 7 is very important, how important are ESG issues within your organization?" and "Is the importance of ESG issues within your organization growing…?"

Essential Strategies for Regulatory Readiness

Global companies are now tasked with navigating compliance requirements that vary widely between regions and countries, overcoming a landscape of shifting rules that may disrupt established operations, increase costs and introduce risks of reputational damage. There are five strategic priorities for executives navigating this new regulatory landscape.

Embrace Transparency as a Strategic Differentiator

Transparency is a foundational requirement for companies operating in today's regulated environment. Companies that can demonstrate ethical practices, supply chain transparency and a commitment to ESG principles are better positioned to build trust with regulators, investors and customers. Transparency initiatives also improve a company's brand strength and reputation.

Leaders should develop clear reporting frameworks for supply chain practices, aligning with the transparency standards set by regulations such as the CSRD. Adopting technology solutions that track and verify supplier data may ensure the organizations can confidently disclose material origins, environmental impact and labor practices across their supply chains.

Redefine Compliance as Ongoing Process, Not Periodic Check

Compliance has often played a secondary role during audits and regulatory filings. With current scrutiny, this approach may not suffice. Modern regulations demand responsive visibility and proactive oversight throughout supply chains.

Compliance task forces are pragmatic enhancements to procurement and supply chain teams. These groups can monitor regulatory developments, track changes in supplier practices and provide regular updates to senior leadership. They help ensure that compliance remains a priority across all levels of the supply chain.

Upgrade Supplier Contracts and Reporting Accountability

Many companies may not have the contractual framework to address today's regulatory needs with their suppliers. In the effort to have standard terms and conditions, a high number of agreements overlook some of these elements. Also, as many firms have thousands of suppliers to manage, standard reports have historically won out over custom compliance analysis. Companies should upgrade on all accounts.

Sharing accountability is essential. Firms should revise supplier agreements to include specific clauses addressing compliance with relevant regulations, such as sustainability targets, labor practices and environmental impact. Additionally, they should implement regular audits and performance reviews to ensure compliance standards are met consistently.

Enhance Supplier Audits and Scorecards

Most firms have supplier audits and scorecards in some form, but few are well-organized enough to effectively manage compliance across complex, multi-tiered supply chains. Businesses must go beyond periodic audits and establish structured systems for continuous evaluation.

This could require companies to create the budget and organizational support to increase the frequency and depth of supplier audits, especially for high-risk suppliers. They should also revise their scorecard system to evaluate compliance in areas like sustainability, labor practices and ethical sourcing. Regularly sharing scorecard results with suppliers may encourage improvement and accountability.

Build Resilience Through Diverse, Localized Supply Chains

Geopolitical tensions and regulatory pressure in certain regions — particularly those with potential labor or environmental compliance issues — are prompting companies to rethink their sourcing strategies. For procurement and supply chain leaders, this is an opportunity to diversify and localize supply chains to mitigate risk. Building resilience through a mix of regional suppliers and nearshoring options can reduce dependence on high-risk areas and improve the organization's ability to adapt to regulatory changes.

The first step would be to create an internal business case to evaluate resilience over cost efficiencies gained from a diversified supplier network. Regardless of the priority, by strengthening contingency plans for high-risk suppliers, organizations can ensure business continuity.

Key Takeaway

As regulatory scrutiny intensifies, procurement and supply chain leaders must pivot from reactive compliance to proactive, strategic management. By embracing transparency, redefining compliance as a continuous process, strengthening supplier accountability, enhancing audits and building resilient supply networks, companies can navigate the challenges posed by regulatory demands while gaining a strategic edge.

6. Localization vs. Globalization — The Fight Continues

The global trade landscape is shifting and supply chains will need to be recalibrated in 2025. The G7 nations have signaled renewed focus on bolstering domestic industries, potentially reversing decades of free trade policies. For years, globalization and free trade dominated strategic thinking, allowing companies to maximize efficiency by leveraging low-cost production hubs around the world. However, emerging trade barriers threaten to disrupt this established approach.

For supply chain and procurement leaders, this changing environment means they must rethink traditional models. A future shaped by protectionist trade policies, tariffs and increased regulatory scrutiny will demand a more agile, resilient and forward-thinking approach to supply chain management. Several key trends are accelerating in 2025, requiring strategic recalibrating in response to an evolving trade landscape.

Are Friendshoring and Nearshoring the New Globalization?

Geopolitical tensions — particularly between the United States and China — are forcing companies to reconsider their reliance on globalized supply chains. Firms are increasingly interested in friendshoring, where businesses favor suppliers in politically aligned nations, and nearshoring, which brings production closer to home markets. Both of these strategies typically increase costs but enhance supply security and speed.

This strategic shift is driven by the need for greater control and reduced risk. As businesses reconsider their exposure to geopolitical volatility, leaders must balance cost and security concerns. The savings traditionally gained through offshoring may no longer justify the risks posed by unstable trade relations and potential disruptions. Consequently, supply chains must be designed to prioritize agility, even at the expense of short-term cost advantages.

Sustainability Remains a Prominent Focus

The focus on environmental sustainability, long considered a corporate responsibility initiative, is now a regulatory and market-driven mandate for many G7 economies. The European Union's Carbon Border Adjustment Mechanism (CBAM) and global efforts to reduce carbon emissions have made it clear: Companies can no longer afford to view sustainability as a secondary concern. The need to track and report emissions, particularly Scope 3 emissions across supply chains, has prompted a major shift. Companies with transparent, environmentally conscious supply chains will not only avoid penalties but also attract investment and consumer loyalty. For supply chain leaders, this means embedding sustainability into the core of strategic planning, from sourcing decisions to supplier relationships.

Building Resilience With Just-in-Case Strategies

Many firms still have operational scars from the disruption of the past few years. Trade barriers are yet another concern that can break a thoughtful supply chain strategy. It is time to embrace just-in-case approaches that build redundancy, diversify suppliers and increase transparency across supply networks. Firms have been reluctant to do this due to cost pressures, but given the shifting landscape, it is becoming a strategic imperative.

What To Get Right

To thrive in an increasingly uncertain and volatile landscape, organizations should transform their procurement and supply chain approach, embracing these three critical shifts:

Redefining Total Cost of Ownership (TCO)

In the past, TCO calculations were largely driven by direct costs: unit prices, transportation and labor. In 2025, this narrow view will no longer suffice. The new reality demands a more comprehensive approach that factors in the costs of resilience, risk management, sustainability and regulatory compliance.

Executives must move beyond traditional cost metrics and adopt a more holistic view of TCO that integrates geopolitical risk, environmental regulations and supply chain flexibility. This shift will require new tools and methodologies to ensure that decisions are made with a long-term strategic perspective, rather than a short-term focus on cost savings.

Building Collaborative Ecosystems

Supply chains are no longer a series of isolated transactions — they are evolving into complex ecosystems. In 2025, the most successful organizations will be those that treat their suppliers as connected partners, collaborating on cost, innovation, risk management and more. Leaders should invest in building trust with suppliers, logistics providers and even competitors.

A functioning ecosystem offers many benefits. It makes it easier to mitigate challenges and spur innovation. It can help companies become more customer-centric. It also enables firms to increase agility and rapidly realize business changes.

2025 Supply Chain Strategy

Accelerating to a New Supply Chain Strategy

The most urgent priority for 2025 will be preparing for a world where trade barriers are more common than trade agreements. As protectionism, tariffs and political intervention in global trade seem unlikely to subside in the near term, executives should accelerate their long-term strategic shifts, focusing on diversification, nearshoring and friendshoring, and regionalization to ensure their supply chains are resilient.

This is not a series of incremental changes. Leaders are charting a new supply chain strategy and model. The proverbial compass needs to be repositioned and ready to show the way in a world where geopolitical risks and trade barriers affect the rules of the game.

Key Takeaway

Procurement and supply chain leaders face a complex, evolving landscape where the forces of globalization are giving way to protectionism and new regulatory demands. Success in 2025 will require a bolder shift in strategy: recalculating TCO to account for long-term risks, building collaborative ecosystems that foster resilience and accelerating the strategic shifts needed to thrive in a world marked by increasing trade barriers.

Conclusion

In 2025, procurement and supply chain leaders will have unprecedented opportunities to transform their operations into agile, resilient ecosystems. By embracing AI and orchestration tools, companies can achieve new levels of efficiency and empower teams to focus on strategic goals instead of routine tasks and tactical challenges.

Amid shifts in trade policy, increased urgency on sustainability, a dynamic regulatory environment and more, procurement and supply chain will play a central role in meeting these new demands and achieving resilience without compromising on ethical standards.

Leaders who invest in transformative tools and foster a culture of adaptability will be best positioned to thrive in this new landscape. Embracing change will not only ensure survival but also secure a competitive edge, heralding a future where procurement is as strategic as it is essential.

2025 will be the breakout year for the right cohort of procurement and supply chain leaders.

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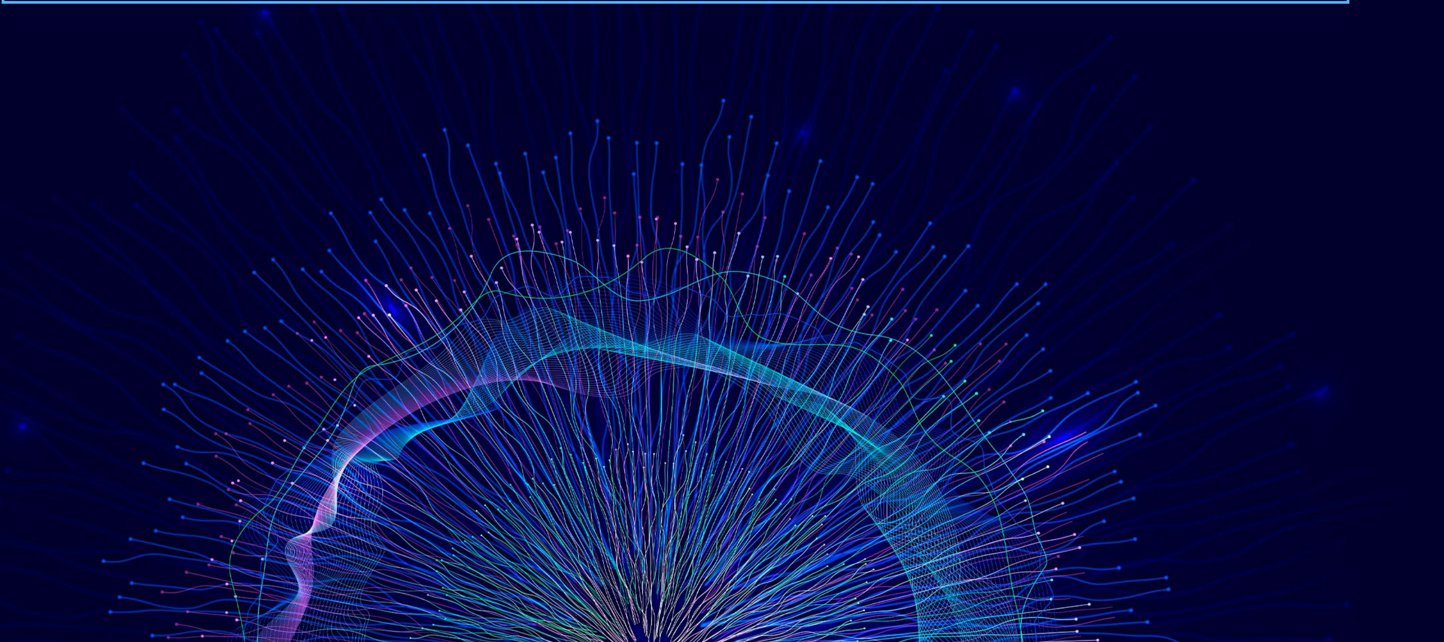

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