

Innovation management in procurement: systematically using suppliers as a source of innovation

Innovation management in procurement refers to the systematic identification, evaluation and use of innovations from the supply base, as well as developing the procurement organisation itself into an active shaper of technological progress. Procurement has a unique market overview and therefore early access to new materials, processes and technologies. Those who tap this source in a structured way shorten development times, reduce costs and sustainably strengthen their company's competitiveness.

Key facts

- Innovation management in procurement transforms procurement from a cost cutter into an active co-shaper of product and process innovation.
- Early supplier involvement in development projects (Early Supplier Involvement) frequently shortens development times in practice and reduces material costs.
- Typical levers are supplier idea competitions, innovation workshops, technology roadmaps and joint Joint Business Plans.
- Success can be measured, for example via the number of implemented supplier ideas, the share of innovative suppliers or savings from innovations.
- Legal frameworks such as Intellectual Property Rights (IPR) and confidentiality must be regulated in a binding manner before confidential information is shared.

Definition: innovation management in procurement

Innovation management in procurement encompasses all the processes, methods and structures with which a procurement organisation identifies, evaluates and introduces innovations into the company – whether from the supply base, the market or its own organisation. It therefore goes well beyond classic procurement tasks and combines strategy, technology and supplier development.

Distinction from traditional procurement

Traditional procurement focuses on availability, price and contract compliance. Innovation management extends this role: procurement becomes an early warning system for technology trends and an intermediary between supplier expertise and in-house development. This requires new thinking, because evaluation criteria shift from pure unit costs to total cost of ownership across the life cycle and to the innovation value of a collaboration.

Types of innovation in the procurement context

Several types of innovation can be distinguished in procurement: product innovations (new materials or components), process innovations (more efficient manufacturing or logistics concepts at suppliers),

business model innovations (such as buy-on-behalf models or data services) and organisational innovations within the procurement function itself. Each type requires its own evaluation logic and integration points in procurement planning.

Methods and approach in procurement innovation management

In practice, innovation management in procurement follows a multi-stage approach: monitoring trends and technologies, engaging in targeted dialogue with suppliers, evaluating ideas and implementing them successfully in projects. The methods range from structured supplier dialogues to contractual innovation clauses.

Supplier involvement and collaborative formats

Early Supplier Involvement (ESI) involves capable suppliers early in product development, often still in the concept phase. Complementary formats include supplier days, innovation workshops and joint technology roadmaps. A Joint Business Plan (JBP) with strategic key suppliers anchors joint innovation targets, resources and milestones contractually and creates binding commitments at management level on both sides.

Structured idea evaluation

For proposals to become projects, a transparent evaluation and prioritisation process is required. Proven criteria are technical benefit, cost effect via total cost of ownership, feasibility, market maturity and strategic fit. Methods such as FMEA help to assess the technical risks of new solutions at an early stage. A clear process with defined decision-making levels prevents ideas from languishing in the organisation.

Contractual and organisational anchoring

Innovation clauses in framework agreements govern that suppliers first offer new solutions to the buyer, the handling of intellectual property and Intellectual Property Rights (IPR), as well as confidentiality and remuneration models for pre-development. On the buyer side, a Category Charter is recommended, which defines innovation targets per commodity group and assigns clear responsibility to category management.

Key KPIs for steering procurement innovation management

Innovation can be measured – however, a mix of efficiency, output and impact metrics is needed. Pure cost saving ratios fall short, as innovation benefits often only take effect over several periods.

Process and activity metrics

Typical early indicators are the number of innovation workshops conducted per year, the share of strategic suppliers with an agreed Joint Business Plan and the number of supplier ideas submitted and evaluated. In practice, such metrics show whether the system is genuinely alive or exists only on paper.

Result and impact metrics

On the output side, what counts is the implementation rate of supplier ideas, the share of revenue from products developed jointly with suppliers, and documented cost advantages from innovations, recorded via total cost of ownership. Qualitative indicators such as the innovation maturity level of the supply base or the reduction in time-to-market in pilot projects also provide valuable steering information.

Risks and controls in procurement-driven innovation management

Innovation collaborations carry economic and legal risks: dependence on individual suppliers, loss of know-how or development projects going awry. Controls and clear rules of the game minimise these dangers.

Dependency and risk management

Anyone working closely with a few innovation partners should pursue targeted risk diversification and avoid one-sided dependencies. Supplier financial risk is particularly relevant in development projects where suppliers provide advance financing. Regular supplier evaluations including delivery quality and on-time delivery show whether the partner can permanently meet the innovation requirements.

Intellectual property and compliance

Before any confidential exchange, non-disclosure agreements and clear provisions on Intellectual Property Rights (IPR) are mandatory – in particular, who receives usage rights to jointly developed results. Regulatory obligations such as the German Supply Chain Due Diligence Act should also be examined early when dealing with new suppliers and sourcing markets. The legal assessment should be carried out in individual cases by specialist departments or external advisers.

Internal acceptance and process discipline

Innovation management often fails not because of suppliers but because of internal silos. It should therefore be checked whether defined interfaces between procurement, development and quality function, whether material approvals for new components are processed promptly and whether decisions in the evaluation process are documented and traceable.

Current developments and digitalisation in procurement innovation management

Digitalisation is changing the way procurement organisations scout and evaluate innovations. Artificial intelligence, data platforms and connected supplier portals significantly accelerate the process.

AI-supported technology and supplier scouting

Modern systems automatically scan patent databases, start-up directories and supplier information, making technology shifts visible at an early stage. AI applications support the pre-selection of relevant suppliers for innovation projects. However, the final technical assessment remains the task of experienced buyers and technology experts.

Sustainability as an innovation engine

Sustainability is becoming the most important driver of procurement innovation: recycled materials, energy-efficient processes, circular products. Suppliers who are early movers here offer a competitive edge. Buyers should systematically integrate sustainability criteria into innovation evaluations and Category Charters.

Connected supplier portals and data integration

Digital supplier portals enable structured innovation calls for proposals to the company's own network. Integrated data from supplier evaluations, risk diversification and category management creates a sound basis for decision-making. What remains important is maintaining up-to-date parameters (MRP),

so that innovations – such as new materials with changed planning data – can be correctly mapped in planning systems.

Typical metrics

Supplier idea implementation rate: typically 20–40 %

Proportion of evaluated ideas that are converted into projects

Strategic suppliers with a JBP: > 80 %

Proportion of A-suppliers with an agreed Joint Business Plan

Documented innovation savings: 1–3 % of procurement volume p. a.

Cost advantages from implemented innovations recorded via total cost of ownership

Innovation workshops per year: 2–4

One to two formats per strategic commodity group as an activity indicator

Practical example

A medium-sized mechanical engineering company with around 800 employees was struggling with rising material costs and long development times for special-purpose machinery. The procurement department set up structured innovation management and noticeably changed its role within the company.

- Annual innovation workshop with the ten most strategically important suppliers, jointly moderated by procurement and development
- Joint Business Plans with three core suppliers, including contractually fixed IPR provisions and a joint technology roadmap
- Standardised idea evaluation procedure with FMEA elements and criteria such as life cycle costs, feasibility and strategic fit
- Implementation controlling via a KPI perspective: implementation rate, material cost savings and share of jointly developed components

Conclusion

Innovation management in procurement is not a side project but a strategic lever that makes supplier knowledge systematically usable. It requires clear idea evaluation processes, reliable collaboration formats such as Early Supplier Involvement and Joint Business Plans, and properly regulated Intellectual Property Rights. Those who make success measurable and actively manage dependencies transform procurement into a genuine innovation driver. Companies that neglect this lose valuable market insight and leave innovation potential untapped. The starting point can be taken step by step – for example with a pilot workshop and a first Category Charter – and grows with experience and network.

Frequently asked questions

What is innovation management in procurement?

Innovation management in procurement refers to the systematic identification, evaluation and implementation of innovations from the supply base and from the market. Procurement uses its market overview to bring new materials, processes and technologies into its own company at an early stage.

This includes formats such as Early Supplier Involvement, innovation workshops and Joint Business Plans.

How do you involve suppliers in innovation processes?

Proven formats include Early Supplier Involvement during the concept phase, supplier days, joint technology roadmaps and structured idea competitions. Clear rules of the game are important: non-disclosure agreements, provisions on Intellectual Property Rights and a transparent evaluation process. A Joint Business Plan anchors joint innovation targets in a binding manner at management level.

Which KPIs are suitable for innovation management in procurement?

Typical KPIs are the number of supplier ideas submitted and implemented, the share of strategic suppliers with a Joint Business Plan and documented cost advantages based on total cost of ownership. In addition, activity metrics such as workshops per year provide early indicators. In practice, a combination of process, output and impact KPIs has proven effective.

What risks does procurement-driven innovation management involve?

Key risks include dependence on individual suppliers, loss of know-how and financial strain on partners through pre-development work (supplier financial risk). Countermeasures include risk diversification, clear IPR and confidentiality provisions and regular supplier evaluations. Regulatory requirements such as the German Supply Chain Due Diligence Act should also be examined at an early stage.

How does innovation management in procurement differ from classic cost reduction management?

Cost reduction focuses on price, commercial terms and volume effects for existing products. Innovation management, by contrast, addresses new solutions, materials and processes and evaluates benefits across the entire life cycle using total cost of ownership. The two approaches complement each other: innovations often generate the most sustainable cost advantages, but over longer periods.

From what point does innovation management in procurement pay off for SMEs?

Smaller procurement organisations also benefit – the pragmatic starting point involves a few strategic suppliers, an annual innovation workshop and a simple idea evaluation process. What matters is less the tool landscape than the binding nature of the collaboration and internal acceptance. Often two or three closely cooperating suppliers are enough to achieve first measurable successes.