

Follow the Procurement Leaders: Seven Ways to Lasting Results

A.T. Kearney's 2011 Assessment of Excellence in Procurement Study



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Value chains are bending so rapidly that procurement professionals are more important to business strategies than ever before. It's not only volatility in commodities but also dramatically new ways of working that are creating challenges. That's what 185 leading companies told us in this year's Assessment of Excellence in Procurement (AEP) study. But if there is one place we all know we can drive real money to the bottom line, and value to the top line, it's through procurement—and the AEP results show seven ways the leaders produce results. It's not just business as usual, it's business as unbelievable. There is another wave of new thinking on the way.

A.T. Kearney's 2011 Assessment of Excellence in Procurement (AEP) study finds corporate procurement functions becoming a more vital, strategic corporate player. In the past three years, 90 percent of study participants—procurement and supply chain executives from more than 185 leading companies across 32 different industries—have increased procurement's role in developing and executing business strategies. At the same time, procurement leaders are extracting more benefits and using better governance to improve performance both internally and externally.

The findings are clear: Procurement has greater stature, more influence and a wider reach than ever before.

Greater Influence, Wider Reach

When the AEP study began back in 1992, procurement was primarily a back-office function—dealing with requisitions, bidding, order placement, receiving and payment. Steadily over the

years, procurement has shifted resources toward activities that add value to the company, with nearly three-quarters of staff members now devoted to strategic activities. Procurement has also moved up the organizational ladder with nearly two-thirds of procurement functions reporting to a C-level executive today. (*The study parameters are discussed in the "About the Study" sidebar on page 2.*)

Let's look at how procurement has changed, reflected in the 2011 AEP findings:

Strategic direction. Procurement has a broader, more strategic mandate. Its influence and reach are at an all-time high and its responsibilities are accepted by the broader organization.¹ Ninety percent of study participants say procurement has a larger role in developing and executing the company's business strategy, and while still being held accountable for bottom-line efficiencies, leading procurement organizations are becoming more strategic, playing an active role in developing and executing top-line strategies for growth.

¹ The word "influence" within the context of procurement means 1) procurement sourced or assisted in the sourcing process, 2) procurement is involved in the contracting process, or 3) purchases go through a full procurement-designed and -supported system.

Value-adding processes. More companies have sourcing methodologies and processes in place, and are generally adept at using competitive supplier selection exercises to take advantage of their power in the supply base. Technology con-

tinues to play a key role in that process, with the top 13 companies in our study (all identified as procurement leaders), and two-thirds of the remaining companies, almost universally using technological solutions.

About the Study

A.T. Kearney's 2011 Assessment of Excellence in Procurement study is the seventh in the series since 1992. The objective of this latest study is threefold:

- Evaluate how procurement has progressed since 2008
- Determine how ready procurement is for the future
- Identify lessons learned from leading procurement organizations

The study includes input from procurement and supply chain executives from more than 185 leading

companies across 32 different industries in the manufacturing, process industries and services sectors, with average annual revenues of approximately \$12 billion. Participants are from all regions of the world: 51 percent from Europe, the Middle East and Africa, 27 percent from the Americas, and 22 percent from Asia-Pacific.

Participants completed a comprehensive online survey with more than 1,000 elements spanning eight dimensions of purchasing and supply management covered by our

House of Purchasing and SupplySM (see figure).

The 13 study leaders all met three criteria:

- Top overall scores
- Strong, world-class performance in at least three dimensions
- Above average overall performance in all dimensions

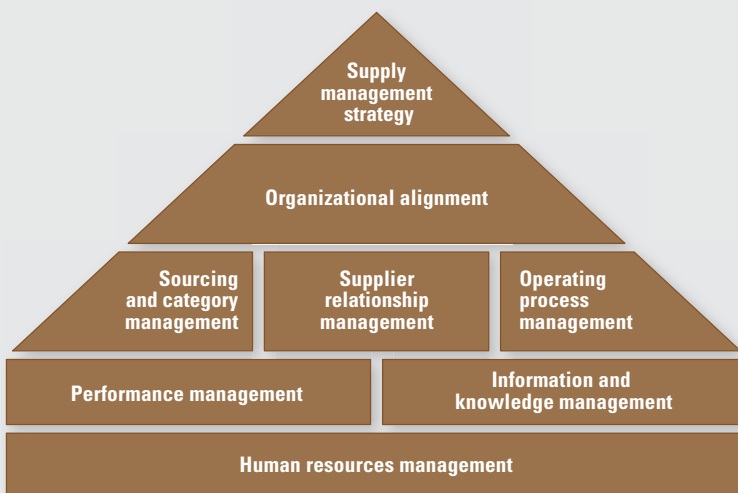
The survey included questions to address our ROSMA[®] framework, discussed in detail on page 6.

Companies that participate in AEP receive a copy of the final paper, a comprehensive individual feedback report comparing their performance to industry, geographic and revenue peers and to the study leaders, and detailed recommendations for improvement.

Participants also receive a separate ROSMA feedback report that compares their performance to others in the study and outlines specific actions to drive higher performance.

As in past AEP studies, the database will remain open and the study findings will be periodically refreshed. If your company has not yet participated, we invite you to do so. Please contact aep2011@atkearney.com for more information.

Figure: A.T. Kearney's House of Purchasing and SupplySM forms the basis for the AEP study



Source: A.T. Kearney analysis

The next frontier is in developing long-term category management strategies—where collaboration with key suppliers is a means to create value. This requires first understanding which suppliers are core to meeting today’s business needs and achieving tomorrow’s business strategies, and then engaging them to help you.

Measurement, information and HR. Three areas—performance management, knowledge and information, and human resources—are key to a successful procurement organization. This is where it pays to invest in new approaches to measure performance, more sophisticated technology to embed best practices and broadened professionals’ skills. We talk later about A.T. Kearney’s ROSMA[®], a new approach that brings much-needed clarity and accountability to the procurement function (*see sidebar: ROSMA[®]: Measuring Procurement’s Impact on page 6*).

Follow the Leaders

As part of our study, we identified 13 companies that demonstrate consistently high levels of procurement performance, and are strategic contributors to their businesses. How do they stand out? What makes a procurement leader? We found seven characteristics that all 13 companies share:

1. Align with the business. All 13 of our leaders understand that the procurement strategy must align with overall business goals. They have 85 percent alignment on average, compared to 37 percent for the rest in our study.² They engage more with other business functions and take advantage of supply market opportunities—going beyond the more traditional areas (transportation, IT, engineering) to also engage with R&D, marketing, finance, customer support and legal, having an impact on more than 94 percent of external spend, compared with 71 percent for

the rest. As a result, the leaders were considerably more agile and better prepared to react to the 2008 financial crisis, which allowed them to save 50 percent more than the rest of our study participants in 2009.

2. Contribute to the top and bottom lines.

The top companies consistently outperform other study participants in contributions to top- and bottom-line strategies. Roughly three-quarters of procurement leaders say they contribute to innovation, integrate suppliers into the new product development process, reduce time-to-market for new products, and create new business opportunities with suppliers. Only one-quarter of followers perform in this way. And the leaders are twice as likely to affect the bottom line—by increasing total value of purchased goods, building synergies across divisions and business units, collaborating with other business units and key suppliers, and improving working capital.

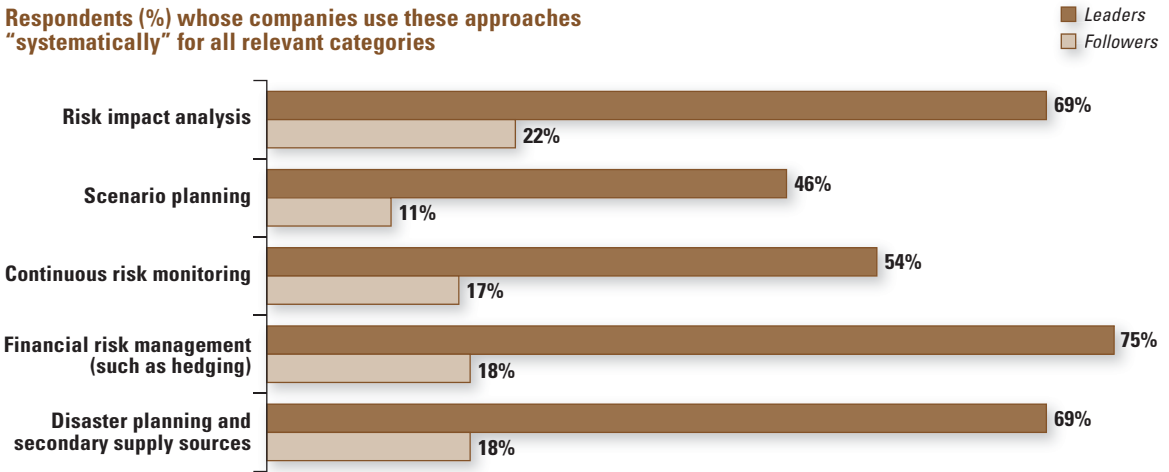
3. Manage risk systematically. The headlines of the past year have highlighted one supply chain disruption after another. Our survey finds that procurement leaders excel at managing risk. The majority use risk-impact analysis, financial risk management (such as hedging) and disaster planning as ways to protect against unforeseen threats. By contrast, just one in five followers use such risk management activities in procurement—which means about 80 percent of companies are a natural disaster away from a major disruption (*see figure 1 on page 4*).

4. Use supplier relationship management, consistently. Leaders use supplier relationship management (SRM) processes more consistently than followers. And they back up their claims—“that a structured process drives strategic value”—by pointing to improvements in innovation and growth, better managed risk and vastly

² In determining alignment we compared 14 business goals with 30 elements of procurement strategy.

Figure 1

More than 80 percent of “followers” are a natural disaster away from a major business disruption



Source: A.T. Kearney's 2011 Assessment of Excellence in Procurement study

improved supply chains. They regularly serve as lead or co-lead in five areas: managing strategic suppliers, expanding the supply base into new markets, monitoring compliance and risk management, performing joint initiatives, and developing suppliers' capabilities (see figure 2). The leaders also tend to be forward-thinking, identifying opportunities with suppliers, detailing implementation plans and creating incentives.

5. Tailor category strategies. Leading procurement organizations use more advanced toolkits—systematically employing more than twice as many methods as the followers—to tailor their approaches to each situation. A.T. Kearney's Purchasing Chessboard® outlines 64 methods procurement organizations can use in dealing with suppliers.³ Still, there are more mountains to climb as more complex categories will require closer collaboration or even the pursuit of joint advantage with suppliers.

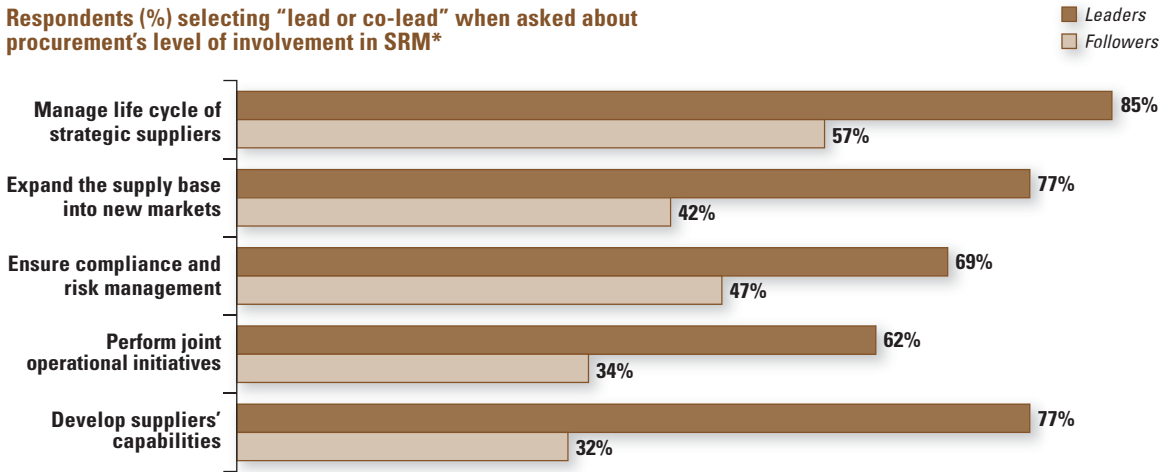
³ For more information, please visit www.purchasingchessboard.com.

6. Adopt technology. The leaders have more control over what they spend because they have technology that allows for more visibility into spending. They also have standardized data, with 75 percent of leaders having standardized item codes for direct products and services, compared with 45 percent of followers. And 85 percent of leaders are able to track and report spending by supplier and category for virtually all areas, compared with just one-third of followers. In addition, most leaders are fully automated—with real-time access to data—and are miles ahead in adopting the kinds of technology needed to support contract management and compliance.

7. Win the “war for talent.” All 13 firms are three to four times more forward-looking and bold in their approaches to recruiting and retaining top talent (see figure 3). Most have sophisticated recruiting strategies, including establishing

Figure 2

Procurement leaders play a more active role in managing supplier relationships

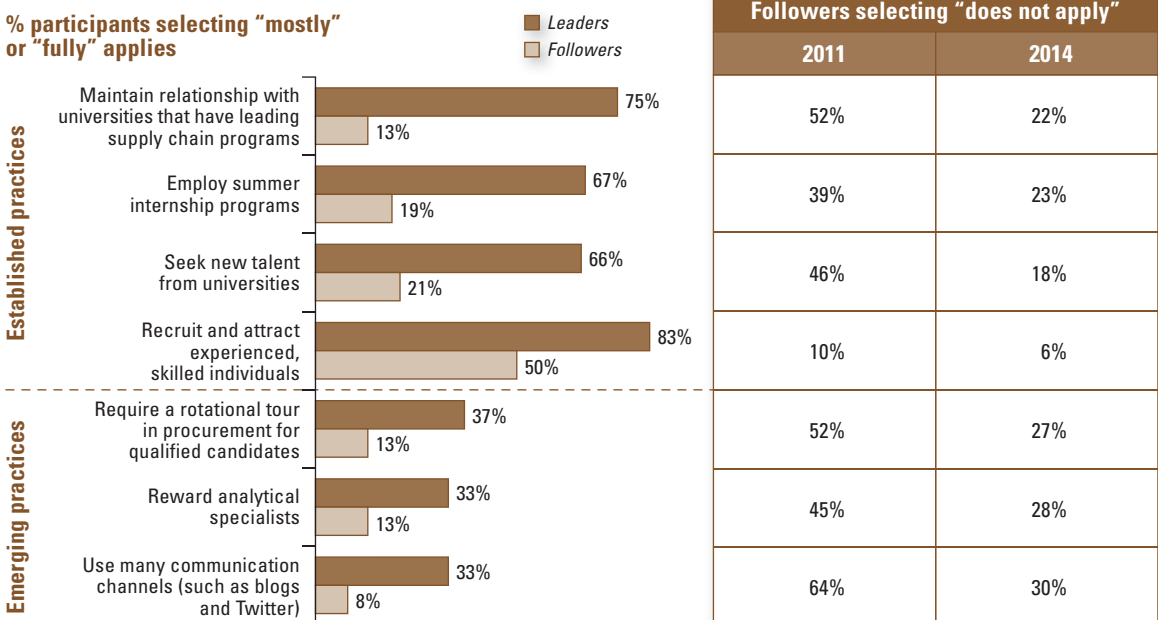


*SRM is supplier relationship management

Source: A.T. Kearney's 2011 Assessment of Excellence in Procurement study

Figure 3

Leaders are taking more aggressive steps to recruit and retain top talent



Source: A.T. Kearney's 2011 Assessment of Excellence in Procurement study

relationships with universities that offer leading supply chain programs and using summer internship programs. And they are more systematic in managing a more diverse and dispersed workforce—using online collaboration technologies and offering part-time work and flexible hours.

What Will Procurement Look Like in 2015?

We've seen monumental change in the procurement function over the past two decades, and we expect that to continue. What can we anticipate in the next five years?

Emerging markets will reign. Sourcing has skyrocketed in emerging countries in the past three years. The BRIC nations—Brazil, Russia, India and China—have experienced the most growth, with far more companies sourcing 10 percent or more of their spend from these locations. Among our study participants, more than half say they expect to increase their spend in China, India and other Asian countries.

SRM will be mandatory. No successful company will be without an SRM strategy. Over the next three years, SRM is expected to drive 40 per-

ROSMA[®]: Measuring Procurement's Impact

The question for procurement professionals is how to improve performance. That's where A.T. Kearney's Return on Supply Management Assets (ROSMA[®]) framework comes in. As business leaders need more visibility, better governance and key performance indicators (KPIs) from their supply management organizations, we built a framework that brings new clarity, rigor and convention to the procurement function.

ROSMA is a new financial tool that translates the value created by procurement and the related investments into a metric that captures the CFO's attention and allows supply managers to compare and improve their performance.

ROSMA's main attributes:

- Provides a sustainable framework to manage performance
- Offers insight into supply management value drivers, enabling

CPOs to set their agendas and optimize performance

- Affords a platform for discussions with stakeholders
- Uses language that resonates with CFOs, including metrics accepted by the financial community
- Benchmarks performance on a peer-to-peer basis or among industries

We measure return on supply management assets by dividing financial results delivered by the required investments in supply management assets. Financial results are calculated by combining spend coverage, spend velocity, category yields, compliance and additional benefits. Invested supply management assets combine period costs with structural investments (*see figure*).

When applied to the AEP 2011 participants' data, our ROSMA analysis reveals significant differences between leaders and followers

in financial performance, and demonstrates that pursuing excellence in procurement pays big dividends. For example, the leaders' average economic performance of procurement (EPP) score is 7.3 compared to 4.6 for followers. This means that for each dollar invested in procurement assets, leading companies deliver nearly 60 percent more financial benefits.

ROSMA lets one delve into the details. We used it to find out exactly why AEP leaders do so much better than followers, and discovered that the leaders do the following:

Influence more spending.

Procurement influences about 94 percent of leaders' spend compared to 71 percent for followers, meaning much more is professionally managed. Leaders are also more aggressive in pursuing market opportunities and conduct about 2.5 times more sourcing events.

cent of procurement’s value-add. We are not talking only about today’s SRM activities—those focused on reducing total cost of ownership—we also mean the bigger and broader activities such as increasing resource utilization and maintaining flexibility in the supply base. Supply management organizations and their strategic suppliers will have to be at the forefront of innovation.

People will have to be razor sharp. As procurement becomes more cross-functional, procurement professionals will have to have “business smarts.” Technical skills in specific disciplines will

be the price of admission, so success will depend on expertise in change management, project management and stakeholder engagement.

Procurement will look for “Black Belts.” Procurement will take a page from manufacturers’ play books to gain visibility into spending and processes. Why not use the principles of Six Sigma to actively manage the sourcing pipeline, validate sourcing results and define accountability? Why not RASIC?⁴ Individual key performance indicators? Transparent reporting on planning and performance? All will be in play in 2015.

Get more from sourcing. The leaders generate higher yields from sourcing efforts: 8.2 percent versus 6.4 percent, due in part to the array of methods used. Once contracts are in place, leaders achieve a 90 percent compliance rate compared to followers’ 79 percent, and generate

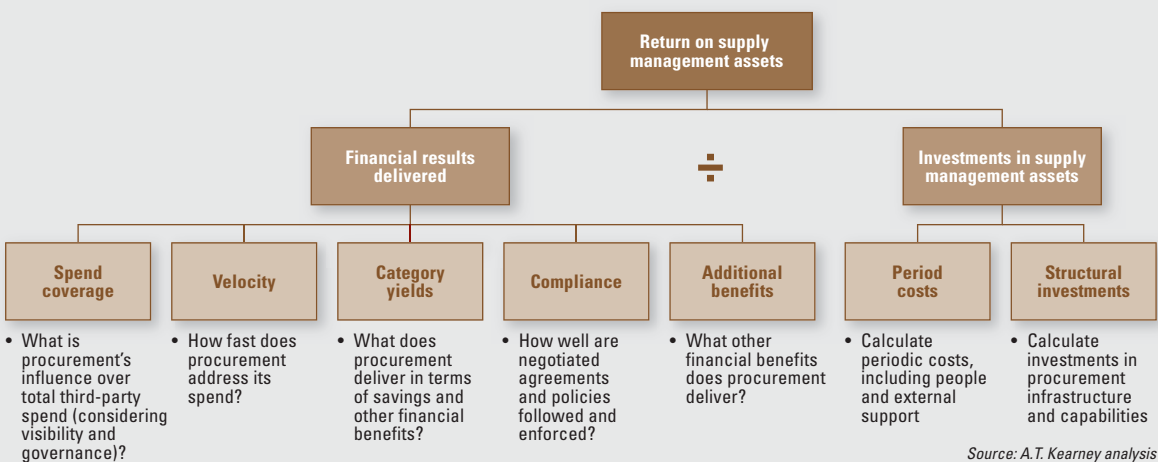
twice the additional benefits from areas such as working capital, supplier innovation, and joint process improvement.

Are more productive. The cost of procurement as a percent of the spend it influences is 0.8 percent for leaders, versus 1.1 percent for follow-

ers. Spend influenced per procurement employee is nearly 20 percent higher for leaders.

An upcoming white paper will provide additional details on ROSMA.

Figure: ROSMA® establishes a link between procurement performance and financial impact



Source: A.T. Kearney analysis

⁴ RASIC is a management tool for defining roles and responsibilities on a project or for a business activity. The initials define whether a person is responsible, approving, supporting, informed or consulted.

Performance, Performance, Performance

The years ahead will be challenging. There will be more pressure from near-term economic uncertainty, long-term macroeconomic trends and more “wild card” events to cause major disruptions. Managing supply and suppliers will be crucial.

What can we learn from the leaders? Align procurement strategy with business needs. Make sure suppliers are aboard and ready to support your strategic direction and help eliminate unnecessary costs. Speed innovation by finding external sources of ideas and capabilities. Understand and manage the full range of supply risks before they

happen. Justify investments, focus resources, and push for sky-high results. And three more:

- Get collaborative: Break down internal silos and bring suppliers into the company’s processes
- Get creative: Attract, motivate, retain and capitalize fully on the skills of the changing workforce
- Get connected: Focus on technology, the kind that will fundamentally change processes, not just automate them.

The mantra now is performance, performance, performance. Those that put these three words at the forefront of their supply management vocabularies can sit back and watch the results roll in.

A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO-agenda issues to the world's leading corporations across all major industries. A.T. Kearney's offices are located in major business centers in 38 countries.

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