The ROI of a Best-in-Class Procurement Department

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The ROI of a Best-in-Class Procurement Department

Leading executives today understand that a top-performing procurement operation can deliver a competitive advantage. But the simple truth is that a majority of business leaders have never been exposed to a Best-in-Class procurement team and simply lack the belief that one can exist within their enterprise. Over the past decade, Ardent Partners has benchmarked the performance of thousands of distinct procurement organizations and examined and quantified the impact that these teams can have on the business results and operations. This report presents the key findings of this ongoing research and, for the first-time in this industry, delivers the ROI of Best-in-Class procurement department.

Many of today's leading business executives understand that there is a demonstrable return on investment ("ROI") from enhancements made to key organizational units, from procurement and finance to human resources and IT. Whether these improvements come in the form of automation of key processes or the introduction of new strategies and approaches that improved capabilities and competencies, an increase in performance that carries through to the bottom line can be game-changing.

However, when it comes to overhauling a department, such as procurement, into a true ***Best-in-Class*** unit, the ROI of any such effort crosses into territory beyond simple cost efficiencies and delivers both financial value (i.e. cost savings achieved via improved methods to drive more spend under management) and strategic value (improved spend visibility, enhanced relationships with key suppliers, etc.). Over the last decade, Ardent Partners research has consistently shown that Best-in-Class procurement departments deliver a compelling and competitive advantage when compared to other procurement organizations.

The Characteristics of a Best-in-Class Procurement Department

Best-in-Class procurement functions are known for their success across a multitude of supply management criteria driven by the tight execution of their procurement programs across the management of their people, systems, and operations. These leaders have been able to build and develop procurement programs that succeed based on a number of factors, described below.

The Best-in-Class Procurement Operation

> ***"Best-in-Class procurement departments deliver a compelling and competitive advantage when compared to other procurement organizations."***

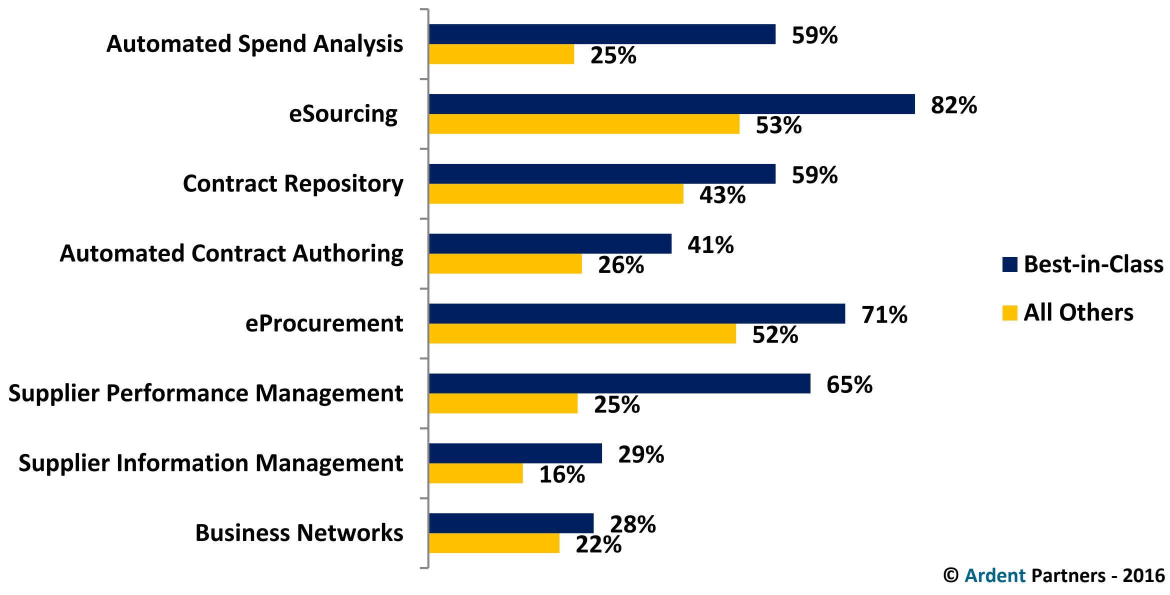
At the core, a Best-in-Class procurement function generally relies on two key attributes: a foundation of capabilities that are linked via holistic and streamlined supply management processes and expertise and a collection of procurement technology solutions that can codify and scale key competencies across the enterprise. From a programmatic perspective, these organizations rely on myriad capabilities to drive procurement performance including many highlighted on the list below:

- Clear visibility into spend, processes, and suppliers
- Robust sourcing and category management processes and expertise
- Transactional procurement prowess (including financial transaction management)
- Strong and proactive supplier management capabilities (supplier performance, relationship, risk, and information management)
- Holistic management of the source-to-settle process
- Tight alignment with executives and overall enterprise objectives
- Strong project management skills
- Ability to manage all levels of procurement talent that is aligned with ongoing projects and initiatives
- Good collaboration with business stakeholders

- Tight collaboration with functional partners, particularly finance, treasury, accounts payable, and human resources

The other side of the Best-in-Class procurement advantage is driven by the strong adoption and active usage of the supply management technologies outlined in a survey of more than 330 procurement executives (*see Figure 1*).

Figure 1: Procurement Technology Adoption, Best-in-Class vs. All Others



As seen in the figure above, Best-in-Class procurement teams leverage a wide swath of supply management solutions to a greater degree, choosing to utilize these platforms to automate and support key activities of their functions such as:

- **Automated spend analysis**, which fuels the collection, extraction, and ultimate transformation of key procurement data into real intelligence (which can be utilized for a variety of items, including sourcing and supplier negotiations).
- **eSourcing**, which automates many of the manual-intensive processes inherent in an offline sourcing project and scales knowledge and best practices across the organization.
- **Contract management automation**, which provides contract authoring, templates, and a centralized repository to improve compliance and efficiencies.

- **eProcurement** solutions which automate the requisition-to-order process and enable end-users to order the products and services that support the business and enable the procurement team to better control and manage spend.

Best-in-Class Procurement Performance

Much of the previous section detailed the operational side of a Best-in-Class procurement organization, detailing these top-performing enterprises' utilization of not only core program capabilities (from supplier management to collaboration), but also their reliance on procurement automation. It is no wonder, then, that the Best-in-Class procurement function holds a distinct advantage when it comes to the performance metrics as well (*see Table 1*).

Table 1: Key Procurement Performance Metrics, Best-in-Class vs. All Others

Metrics	Best-in-Class	All Others
Spend under management	91%	57%
Savings actual (last year)	7.74%	6.87%
Savings planned (this year)	8.39%	7.16%
Addressable spend that is sourced competitively	67%	47%
Spend that is contract compliant	69%	54%

One of the hallmarks of the Best-in-Class procurement performance gamut is their ability to influence a huge spend portfolio while consistently delivering high savings. Part of this larger savings production is driven by the high competitive sourcing volumes that the leading procurement teams report – 67% of addressable spend. Another contributing factor to that savings advantage is captured via the higher compliance rates of the Best-in-Class, which are markedly higher.

The Real ROI of Best-in-Class Procurement Departments

Much like the Best-in-Class procurement department relies on two "sides" of the house to drive its superior, desirable performance (1. program capabilities and 2. Advantages gained from technology), the real ROI of these units also follows two arguments in regards to benefits.

The "Soft" ROI of Best-in-Class Procurement Functions

Seasoned Chief Procurement Officers understand very well that many of the benefits driven by a top performing procurement organization are hard to quantify – lowering supply risk, increasing quality and productivity, enabling better, crisper decisions, and decreasing demand to name but a few. The transformation of an average procurement function into a Best-in-Class program brings about a series of "soft" benefits that drive real value to other stakeholders and the enterprise as a whole. For example, attributes such as superior visibility into all facets of procurement, such as spend, suppliers, invoices, finances, impact, etc. is often seen as the biggest factor when discussing the Best-in-Class procurement function. Visibility is paramount in today's data-driven world, where deep insights and procurement intelligence can support better, faster decision-making and outcomes.

The "Hard" ROI of Best-in-Class Procurement Functions

Best-in-Class organizations, on average, have placed 91% of total spend under their management. As a group, these organizations have placed, on average, 91% of spend under the management of the procurement organization, an amount that is almost 60% more than their peers. Ardent uses spend under management as a starting point in the definition of its Maturity Class Framework and to drive additional discussion and deeper analysis of strategies, capabilities, and results. This figure is also critical in calculating the ROI of a Best-in-Class procurement department.

Figure 2: Spend Under Management, Best-in-Class vs. All Others

From Ardent's perspective, spend under management metric is the lynchpin to understanding a procurement team's performance and ultimate impact on the business. And, it remains the key to unlocking the real ROI of the Best-in-Class procurement department. As shown in below (*see Figure 3, next page*), applying the Best-in-Class and All Other Metrics to $100 million in total spend yields a significant savings gap and proves that the hard ROI of a Best-in-Class procurement department is compelling.

The Figure above compares the impact of a Best-in-Class procurement organization with their competitive peers ("All Others") on $100 million in enterprise spend. A Best-in-Class procurement team will gain a larger spend portfolio ($91 million vs. $57 million) and with better savings rates achieve higher annual savings amounts ($7,043,400 vs. $3,915,900). The net savings advantage achieved by the Best-in-Class in this example is millions of dollars ($3,127,500) which also translates into an incremental 3.128% savings gain on every dollar of enterprise spend. Whether an enterprise is managing $5 million or $5 billion, an incremental gain of more than 3% on the total spend is huge. It is also a clear justification for the investment in the tools and capabilities that drive Best-in-Class procurement performance.

Figure 3: The ROI of a Best-in-Class Procurement Function

	Best-in-Class	All Others
Total Enterprise Spend	$100,000,000	$100,000,000
Spend under Management %	91%	57%
Spend under Management ($)	$91,000,000	$57,000,000
Actual Savings Percentage	7.7%	6.9%
Actual Savings Amount	$7,043,400	$3,915,900
BEST-IN-CLASS SAVINGS ADVANTAGE on $100MM	**$3,127,500**	

Conclusion

A well-run procurement department can deliver real value to the enterprise. For those organizations that desire to achieve Best-in-Class status, the transformation from low or average performer to star function is well worth the investment and journey. Ardent Partners research shows that Best-in-Class procurement departments drive a clear and compelling competitive advantage. Those enterprises that can achieve Best-in-Class procurement success have been rewarded with not only greater annual savings from their efforts, but also sizable enhancements in regards to spend and process visibility, organizational agility, and the collaborative ability to engage and drive continued innovation.

Appendix

About The Author

Andrew Bartolini, Chief Research Officer, Ardent Partners

Andrew Bartolini is a globally-recognized expert in sourcing, procurement, supply management, and accounts payable. For the last 17 years, Andrew has focused his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their procurement and finance departments. Andrew is also the publisher of CPO Rising, the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 250 times in eight different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their supply management operations and his research has been used as part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on procurement and finance.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than $500 million in aggregate client spend), business process transformation, and software implementation provides a "real-world" context for his research and writing. Andrew has been named a "Pro to Know" by Supply and Demand Chain Executive multiple times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

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About Ardent Partners

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the CPO Rising and Payables Place websites. Register for exclusive access to (and discounts on) Ardent Partners research at ardentpartners.com/newsletter-registration/ and join its LinkedIn Group.

Report Demographics

The research in this report is drawn from respondents representing the following demographics:

Job Function: 89% procurement; 4% finance; 2% supply chain; 5% other

Job Role: 48% VP-level or higher; 24% director-level; 23% manager-level; 5% staff-level

Company Revenue: 77% Large (revenue > $1 billion); 12% Mid-market (revenue between $250 million and $1 billion); 11% Small (revenue < $250 million)

Region: 64% North America; 30% EMEA; 6% Asia-Pacific

Industry: More than 25 distinct industries are represented. Manufacturing, Oil and Energy, Pharma, CPG, and Financial Services are the largest industries in the survey pool; no industry represents more than 13% of the overall survey respondents.