



Realizing the power of procurement

Results from the 2019
Assessment of Excellence
in Procurement Survey

KEARNEY

To enjoy growing profit, we need to focus on the single largest cost.

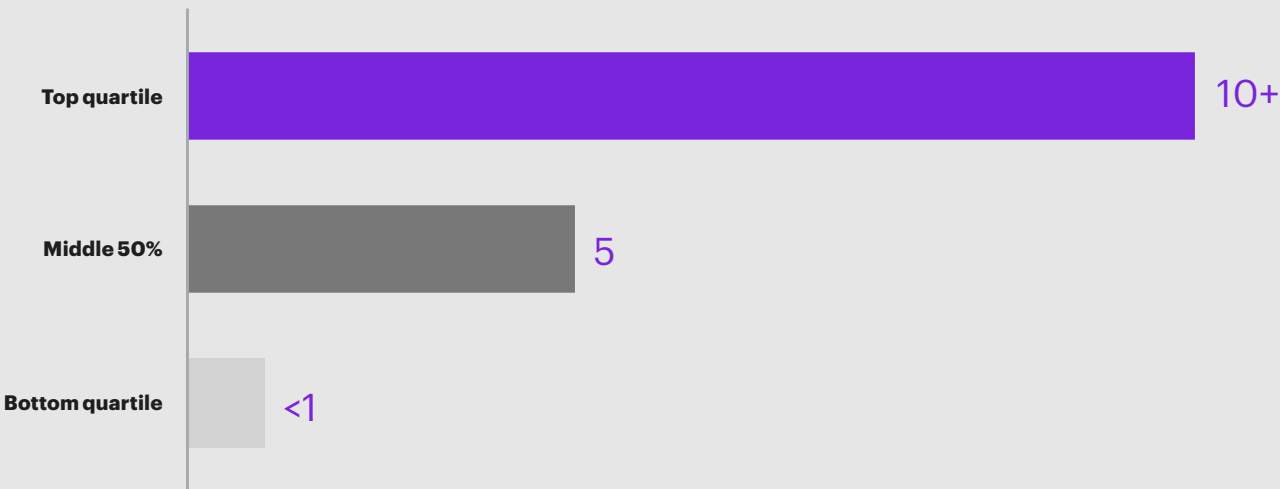
The money trail leads quickly to externally procured spend. It's a company's single largest cost element and a crucial component of the value chain. Procurement represents 30 percent of a service company's revenue and at least 50 percent of a manufacturing company's revenue. It's also, then, a company's biggest opportunity to transform business performance. We need to reduce these costs and optimize the supply base to achieve competitive advantage and add fuel for profitable growth.

But many companies aren't realizing the benefits that state-of-the-art procurement promises. In our work, we see wide variation in procurement success. Many CFOs use a simple ROI calculation to measure procurement's contribution. They ask: what is a company's return on its investments in procurement? We call it the Return on Supply Management Assets (ROSMASM) score. Our research in procurement, informed by many procurement engagements, shows a wide gap in performance between leading organizations and the others. This year, as shown in figure 1, companies in the top quartile achieved ROSMASM scores that are two to three times higher than those in the two middle quartiles. And they are more than 10 times higher than those of the companies in the bottom quartile—which are, at best, just breaking even.

Figure 1
The range of procurement success is wide

Return on Supply Management Assets (ROSMASM) scores by quartile, 2011–2019

Leaders get a 2-3X higher Return on Supply Management Assets (ROSMASM)



Note: Return on Supply Management Assets (ROSMASM) is calculated as the financial results achieved divided by the supply management operating costs.
Sources: 2011–2019 ROSMASM database; Kearney analysis

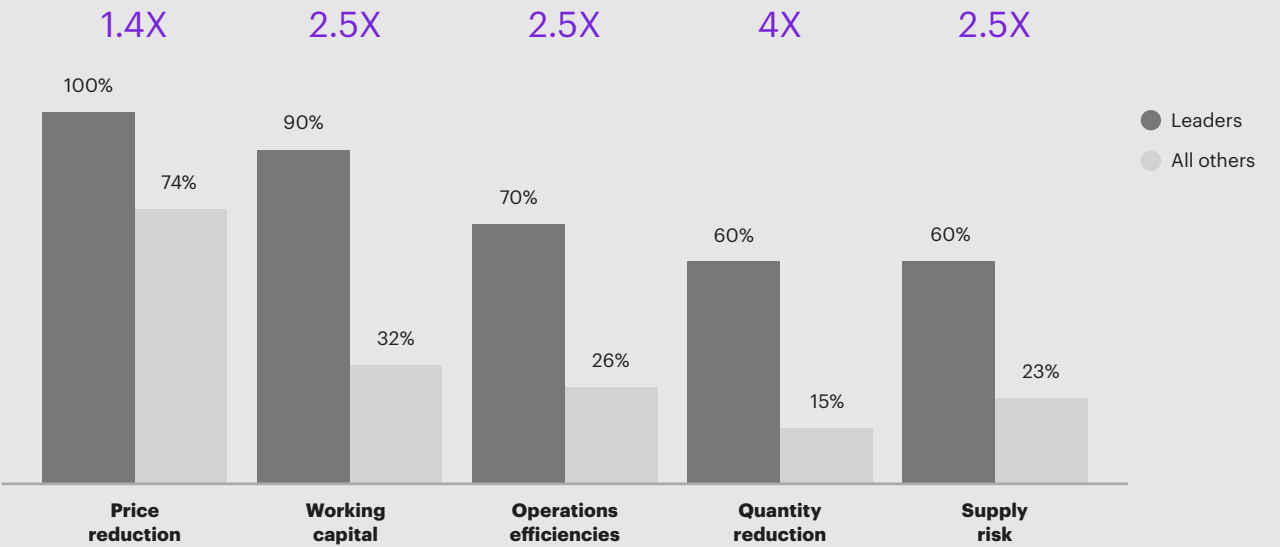
But the benefits of state-of-the-art procurement go far beyond costs. Procurement, at this level, has become a business partner that supports the organization in achieving its broader enterprise goals. Figure 2 presents the key value areas where procurement has made a high impact for businesses. And it shows the variation in responses between leading procurement organizations and all others. Procurement within all companies has made significant contributions to price reductions, its traditional bread and butter. But there are greater gaps across other dimensions. Leading companies are more than two and a half times more likely than other companies to see that procurement had a high impact on working capital reduction, operating efficiencies, and supply risk management. And they are four times more likely to see that procurement had a high impact on quantity reduction.

To help executives understand the factors that differentiate successful procurement, we have conducted global research studies on procurement since 1992. Here, we present the 2019 Assessment of Excellence in Procurement (AEP) study. We compare the responses of “leaders”—the top 7 percent of AEP respondents in procurement performance—to all other companies surveyed. And we share the results of surveys of finance executives and other key stakeholders, including marketing, human resources, and IT professionals, too. For more information, see sidebars (Take the AEP survey on page 3) and (Research background on page 5).

Figure 2
Procurement has made a high impact in several areas at businesses with leading procurement organizations

Percentage of respondents reporting that procurement had a high impact on each dimension of value

Leaders get a broader array of value (% responding “high impact”)



Sources: 2019 AEP; Kearney analysis

Take the AEP survey

The AEP is the gold standard of procurement organization benchmark studies. It focuses on leadership practices in procurement and the resulting business performance. Previous AEP studies have found that more than half of the value chain comes from externally purchased goods and services. They have also shown that leading companies are increasingly finding new ways to drive more value from this dominant portion of their value chain.

After taking the two-hour AEP survey, you will receive:

A customized feedback report that shows your procurement organization’s capabilities compared with other companies worldwide, as well as those in your industry and region. The report will identify gap areas that your organization can address to become world-class. Previous AEP participants will also have an opportunity to understand their progress.

A CFO-friendly metric (Return on Supply Management AssetsSM or ROSMASM) that communicates the financial value that your procurement organization delivers to your company.

A comprehensive executive summary detailing how leaders are enhancing business performance through procurement excellence.

There is no charge for participating in the AEP survey or for receiving the AEP customized benchmark report. The data you provide will be held in **the strictest confidence, consistent with our stringent client confidentiality practices.**

Find out more [here](#).



Leaders in the procurement field

We find that procurement leaders follow a three-part success formula: team excellence, category excellence, and supplier excellence. Companies that prioritize these three pillars manage procurement most effectively. And as a result, they are most likely to win in the competitive marketplace.

Procurement team excellence

Procurement executives at leading companies see themselves as strategic business partners. They’re aligned with the CFO. They maintain strong credibility and visibility within the enterprise. And they work collaboratively with business units—not just to reduce basic costs, but also to evaluate trends and identify new drivers of value. As a participant at our CPO Roundtable explained, “CPOs get fired for not delivering high-impact cost reduction, and promoted if they also deliver strategic value that goes beyond cost reduction.”

In the survey results, all procurement executives at leading companies see themselves as strategic enterprise business partners—compared to 75 percent at other companies. And the most substantial gap between leaders and other companies in this area is the extent to which they focus on strategic activities. While 80 percent of leaders focus more than 70 percent of their procurement team on strategic activities, only 17 percent of other companies do the same.

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Leading companies are also more likely to have purposeful procurement talent strategies and place an emphasis on creating high-performing teams. Approximately 80 percent of procurement leaders have proactive internal and external recruiting strategies, compared to 30 percent of other companies. These companies are largely reactive, simply filling vacancies as they arise. And all leaders—as opposed to only one in three other companies—have formal mentoring processes and a culture of recognition and celebration to motivate teams and retain talent. All leading companies have a continuously refreshed talent strategy, compared to only 40 percent of other companies. And 90 percent of leaders have high-impact, sustainable capability-building programs, compared to only 5 percent of other companies.

Procurement executives, finance partners, and stakeholders are also aligned on digital investment in procurement. Technology for risk management, robotic process automation, and artificial intelligence are hot topics for most companies. Procurement as a function is changing with these advancements in technologies. Leading companies view analytics as a key strategic differentiator and investment area while 40 percent of other companies limit it to spend analysis. The expected effect of digital investment is huge in terms of greater efficiency, enhanced digital experience, smarter decision-making, and lower costs for goods and services. However, companies are struggling to adopt digital and achieve these gains. The stumbling blocks include the slow pace of change, lack of investment, competing initiatives, and shortage of talent. A broader discussion of these issues can be found in the article, [For Direct Procurement, Speed Chess Will Be the Name of the Game](#), part of our ongoing [Future of Procurement series](#).

Procurement category excellence

Leading companies are twice as likely as other companies to have robust, long-term category strategies in place. They take a multiyear view. They define a balanced scorecard with key metrics aligned to the broader business goals. They embed analytics to assess and monitor key cost drivers, as well as advanced strategic sourcing levers. Leaders apply more methods from the Purchasing Chessboard® and explore multiple value creation opportunities. By contrast, other companies rely largely on competitive market events focused on price reduction.

In our data, 80 percent of leaders create multiyear category strategies for key spend areas, including risk analysis and mitigation—compared to only 9 percent of other companies. All leaders have visibility into more than 80 percent of their direct and indirect spending, as opposed to a little more than 50 percent of other companies. Leaders use advanced analytics in sourcing, whereas 40 percent of other companies still conduct Excel-based traditional analytics. And leaders have comprehensive analytics that allow for a complete understanding of their cost drivers. Other companies, by contrast, find it hard to collect this necessary data and analyze it to identify complexity reduction opportunities.

Research background

Kearney's Assessment of Excellence in Procurement (AEP) represents a series of in-depth global research studies on procurement. It examines the use of leadership practices and their impact on business results. It is intended to help the profession and C-suite executives understand the state of the art and the impact that excellence can have on business performance.

The 2019 AEP benchmarking set includes procurement executives from 153 companies in a broad range of industries and geographies: 23 percent of companies represent process industries, 28 percent are in consumer industries and retail, 16 percent are in discrete manufacturing, and 33 percent are in services.¹ Thirty-nine percent are located in the Americas, 53 percent in Europe and the Middle East, and 8 percent in Asia Pacific.

¹ Process industries include chemicals and plastics, oil and gas, mining, and metal and glass processing. Services industries include communications, financial services, healthcare services, and education, among others. Discrete manufacturing includes automotive, aerospace and defense, transportation, and industrial equipment.

Supplier excellence

Supplier excellence represents the most significant untapped opportunity for companies. Leading companies have a defined supplier relationship management (SRM) process and team accountability that allow the full supplier life cycle to be monetized. They have multiyear, robust collaborative processes with strategic suppliers for innovation and risk management. They proactively manage the number of suppliers to ensure the right number of suppliers with the right capabilities. And they assess supply risk and deploy systematic risk management strategies.

The AEP 2019 data confirms these differences. Most leaders have a formal and structured SRM program in place, compared to more than 50 percent of other companies, which have only an ad hoc approach to SRM. About 70 percent of leaders have differentiated programs for strategic and mainstream suppliers, compared to less than 5 percent of others. And 70 percent of leading companies have formal supplier innovation processes and targets; innovation for most other companies is largely accidental.

Kearney conducted the first survey of procurement executives in 1992, and this report represents the 10th edition. This year, Kearney also got input from other C-suite executives and stakeholders on the procurement function. Other Kearney studies related to procurement also inform this report. The Return on Supply Management Assets (ROSMASM) tests procurement performance and financial impact. The Kearney CFO Survey explores the views of the finance group on procurement. And our C-Suite Stakeholder Survey provides additional perspective on procurement's performance. This research, coupled with our Fortune 1000 client experience, provides a comprehensive view of the role and impact of procurement across more than 5,000 companies.



The challenge ahead for procurement

We’ve recently seen a positive shift in executives’ perception of procurement. In 2016, 70 percent of CFOs agreed that procurement had a regular seat and active role at the executive table. By 2019, this number increased to 90 percent. Two out of three CFOs now believe they have a good understanding of procurement performance—up from only one out of three in 2016. CFOs overwhelmingly report that their companies have global procurement leaders and structure in place. And 60 percent of CFOs report that they are quite confident in the benefits of procurement.

The finance group is not the only part of the company that now sees the value in procurement. More than 70 percent of stakeholders agree that procurement and supplier-related benefits are important to their companies’ overall performance. As a result, companies are now actively investing in this function. They recognize that it brings returns—in lowering the overall cost structure in a company’s single largest value chain component, and in supporting the broader business objectives around quality and service levels, innovation and growth, sustainability and diversity.

While leading organizations are achieving these benefits, many CFOs’ perceptions of procurement are still too narrow. They only see the value of procurement through the lens of hard cost savings, and they don’t understand procurement’s broader strategic impact. While the majority of procurement executives see themselves as equal business partners in the organization, less than half of CFOs agree. Most CFOs view procurement as a transactional function that is primarily useful for negotiating hard savings. Other stakeholders concur.

Procurement executives must rise to this challenge. They must show stakeholders that they understand internal business requirements. And they must communicate that state-of-the-art procurement is more than cost savings. In an increasingly unpredictable environment, procurement is vital to success. To enjoy growing profit, we need to focus on the single largest cost—and pay close attention to the factors that could influence it in coming years. The AEP 2019 offers leading companies and others that seek to improve a framework for this planning and sustained growth.

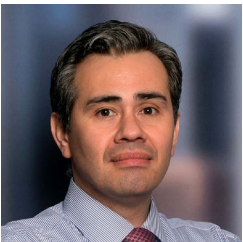
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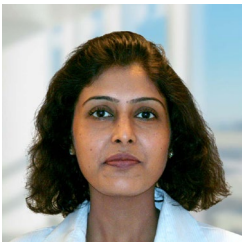
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