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CPO Rising Keeping Score

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REPORT OVERVIEW



This independent research report seeks to present a comprehensive, industry-wide view into what is happening in the world of procurement today by drawing on the experience, performance, and perspective of more than 270 Chief Procurement Officers and other procurement executives. The report is organized into the following chapters:

Chapter One – The State of the CPO: This chapter looks at the continuing evolution of the role of the Chief Procurement Officer and its level of engagement and alignment within the enterprise today as well as the motivations and internal and external drivers that shape procurement leaders' priorities and plans this year and beyond.

Chapter Two – The State of Procurement: This chapter offers an assessment of the general progress of the procurement function by analyzing the current state of its people, process, and technology while also detailing the different areas within the enterprise that see and feel procurement's impact.

Chapter Three – Procurement Performance: This chapter provides procurement performance and operational benchmark statistics and a profile of Best-in-Class performers and their distinguishing characteristics. The chapter also discusses the different ways that procurement performance (at the department or organization level) is measured by CPOs and the larger enterprise.

Chapter Four – Strategies for Success: This chapter presents a series of recommended strategies and approaches for CPOs and procurement departments that are seeking to improve their operations and their results. This chapter also introduces the CPO Scorecard™.

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Scoring procurement performance can be as complex and nuanced as the value that the function delivers; linking that performance to overall business objectives and results can be even more difficult. Nonetheless, it is incumbent upon CPOs to “keep score” of their team’s performance and use that opportunity to develop a set of metrics that can help procurement departments prioritize and focus their resources, track and improve their performance, and communicate how their work and results support enterprise objectives and what they plan to achieve in the future.

This report looks at procurement performance measurement and the strategies that different CPOs and enterprises use to score it. The report also captures the experience, performance, perspective, and intentions of more than 270 Chief Procurement Officers and other procurement executives and includes case studies, benchmarks, and recommendations that procurement leaders can use to score their group’s performance and improve upon it.

CHAPTER ONE – THE STATE OF THE CPO

“The more successful you are, the more they expect.”

– **Stephen Abrahams, Head of Non-Trade Procurement (“CPO”), Woolworths**

Game On

In 2012, the good news for many Chief Procurement Officers (“CPOs”) and their staffs is that they have a secure place on their enterprise’s “varsity” team; for most, it is a position that was rightly earned. The deep and sudden shock that the 2008-2009 financial crisis had on business performance served as a wake-up call to all enterprises, but, particularly to those that were caught flat-footed and without flexibility in their cost structures and supply chains. The CPOs, who were able to respond to the market shift and execute amidst global turmoil and general uncertainty, gave their executives (and ultimately, themselves) a big lift. And, while much has been made of the significant role



that procurement played during the tough times, the CPOs who were able to quickly pivot their operations and manage growth when the market rebounded strongly were no less important. As the **CPO of a US-based Tier One Automotive Supplier** said, “We weathered the downturn in strong fashion in 2009 and started to see things come back quickly in 2010 and 2011. What a difference a year or two makes! We were struggling to manage down capacity in 2009, then struggling to find it in 2011.... Now, we’re bracing for Europe in 2013.” [See “Industry Spotlight on Automotive” in Chapter 2]

Procurement’s success in recent years has paid the dividend of greater executive awareness of the procurement function overall and greater visibility for its leader, the CPO. A direct result of this dividend is that many CPOs have been given greater responsibility and control over business operations including more active roles in new corporate initiatives. Of course, for those to whom much responsibility is given, much accountability is required. Hitting “the numbers” for leading

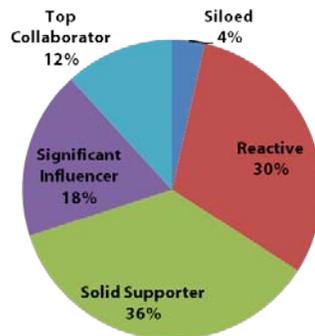
departments can become a baseline expectation that draws little fanfare while more pressure mounts to find other ways to deliver value. It is here in this story that it makes sense to pause; because while some CPOs are rising stars within the enterprise [See the “Career Spotlight: From CPO to...” case studies at the end of each Chapter], more often than not, the Chief Procurement Officer is found toiling in the corporate trenches with numerous unrealized opportunities.

A Work in Progress

In an attempt to share the innovative and progressive strategies that CPOs have used to transform their departments and to get more procurement professionals to consider the far-reaching possibilities that exist for the procurement function, this annual CPO Rising research series (and the [website](#) of the same name) highlights the best practices of leading organizations. The reality, however, is that not every CPO is positioned to take advantage of the newest strategies or latest technologies. While some CPOs have truly “arrived” in the C-Suite and others are knocking on the door, just as many struggle for relevance, engagement, and traction within the enterprise today.

As shown in **Figure 1** below, the CPO landscape is cut roughly into thirds where the leading procurement segment reports that its CPO is either a top collaborator (12%) or influencer (18%), the middle segment finds that its CPO is capable of delivering solid support (36%), and the lagging segment finds that its CPO is either reactive (30%) or siloed (4%). Reflecting on the issue, the **Senior Director of Supply Management at a Global Pharmaceutical Company** said, “One of the challenges that the procurement function continues to face is that there is no unified definition of what procurement does. In many companies, procurement is simply a collection of processes that the group manages. It becomes difficult to explain or normalize the role to all stakeholders.” On the other hand there are many CPOs, like the **Corporate Director of Global Sourcing & Supply (“CPO”) in the Sustainable Energy Industry** who can boil his team’s role down to its essence in twenty-three words, “We are charged with risk rationalization while trying to drive cost out of the product and manage the challenges in our local markets.” Whether a specific CPO is a “collaborator-in-chief,” a “loner,” or someone in between, the role of the CPO, in aggregate, remains a work-in-progress.

Figure 1: The CPO’s Level of Engagement



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The CPO's Agenda



The pressures, priorities, and plans of the average CPO in 2012 are quite similar to those of the average CPO captured eighteen months earlier in Ardent Partners' report, **CPO Rising 2011: Innovative Ideas for the Decade Ahead**. For example, "finding more savings" (65%) remains the CPO's top business pressure, while "improving collaboration" - both internal (43%) and external (25%) - and "sourcing more" (33%) remain the primary CPO responses to that pressure. Over the next three years, the average CPO is focused on savings first then improving processes and managing people. One difference between 2011 and today is that many more CPOs have expressed serious concern over the 2013 business environment, citing the current slowdown in China and the huge economic uncertainty across Europe as two potential catalysts to another global recession. As one **CPO of a Fortune 100 industrial conglomerate** said, "There is real uncertainty regarding next year's global business environment. What we're trying to do this fall is create contingency plans." For some CPOs, globalization and the interconnection of different economies present newer challenges while others, like **Rick Hughes, CPO at Procter & Gamble** ("P&G") who said, "Every one of my thirty years at P&G has offered up some type of uncertainty or wild card for procurement. Our job is to be ready to react," have been successfully managing these issues for years.

The CEO and the CPO

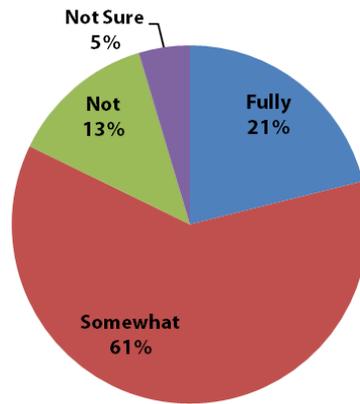
In 2012, the average CPO's managerial sophistication continues to advance with the vast majority of CPOs creating and using a strategic plan to manage their departments; the same could not be said five years ago. **K. Venkat Krishnan, Sourcing Leader at GE Energy** said that, "We use a three-year plan and a one-year plan to drive our strategy. We recalibrate our one-year plan three times a year." With nearly one in five CPOs reporting to either the CEO or President of their company, the likelihood that the CPO's agenda would be tightly-linked to the CEO's strategic plan seems high. Sometimes that is the case, as with the **CPO of an Indian-based Pharmaceutical company** who said "Our new CEO is in the process of rolling out a new strategic plan and procurement will be a big part of it." Unfortunately, Ardent Partners' research indicates (see Figure 2 below) that just slightly more than one in five CPOs is working on a plan that is well aligned with the enterprise's top goals and objectives. So, while it has greatly improved in recent years, the CPO's coordination and alignment with the CEO is also a work in progress.

Reflections on Career Advancement by a Former CPO

"Being able to align the procurement strategy to an overall business strategy makes you a much more attractive candidate to the rest of the company. Understanding what the business does and what the business units are trying to do and then coming up with a roadmap to determine what procurement needs to do to support those needs is not easy.... While it can be quite difficult to articulate the connection of procurement performance to company results, it is a worthwhile pursuit and something that I feel was very helpful in my career advancement." - Srisu Subrahmanyam, EVP and COO at BrightPoint (and a former CPO).

Figure 2: How Closely Integrated are the CPO and CEO Agendas?

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A Brave, New, and Even Lower-Cost World

One trend that will continue to bring the CEO and CPO closer together is globalization which has driven competition and fostered innovation while also introducing layers of complexity across the typical supply chain. Whether an enterprise is sourcing critical product components from global suppliers or utilizing an outsourcing service that is based in a low-cost country, enterprises will increasingly rely on procurement to understand global market shifts and manage risks. One company that leverages its procurement organization to the hilt is IBM.

In 2006, **John Paterson, IBM’s Chief Procurement Officer**, moved his office from IBM’s headquarters in Somers, NY to Shenzhen, China’s third largest port city. When discussing the move at the time, Paterson said that “in a globally integrated enterprise, for the first time, a company’s worldwide capability can be located wherever in the world it makes the most sense, based on the imperatives of economics, expertise, and open environments.” Paterson’s move to China was done to accelerate the development of a growing supply base in the region and expand IBM’s local procurement expertise. IBM had established the first procurement center in Shenzhen a decade earlier, but Paterson’s move was seen by many as a major indication that global supply markets were rapidly shifting to the east. Paterson noted that after his move to China, he found himself

Career Spotlight: From CPO to VP of Sales

“Bringing a cost discipline into sales can drive profitability for a small company. I would say that the most valuable skill set that I learned as a CPO in my new sales role was how to navigate a company to identify key resources and bring them together to drive an opportunity or project.” - Mike S., VP of Sales, Software Company (and a former CPO)

spending significantly more time interacting directly with IBM's CFO and other executives than when he was based in the IBM headquarters.

Earlier this year, Paterson and IBM did it again when they moved IBM's "Office of the Chief Procurement Officer" from China to Hungary. The move was done so that Paterson could be closer to IBM's Eastern European and African suppliers and be better able to support operations at IBM's newest procurement center in Accra, Ghana which opened in November, 2011. If IBM's history were to repeat itself in Africa, the investment opportunities in this region should be pretty attractive to companies and investors on both the buy and supply sides.

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Career Spotlight: From CPO to EVP & Global Head of Business Services

When Scott Singer decided to move from Connecticut to Brisbane in early 2008 and become Rio Tinto's Head of Procurement ("CPO"), he was already a renowned procurement leader who had spent many years leading the Best-in-Class procurement operation at United Technologies. Singer was looking for an adventure and the opportunity to lead Rio Tinto Procurement ("RTP"), the 1,000+ person organization that coordinates all strategic sourcing, buying, inbound logistics, and warehousing for the global mining company fit the bill.

First up for Singer was the challenge of combining the RTP team with their counterparts in the newly acquired Alcan organization while also delivering significant synergies. With an integrated team and a streamlined set of processes in place, Singer set about to automate, simplify, and transform the entire RTP operation by attaining a consistent, high-quality view of all spend and by aligning processes to leading technology solutions.

Four years into his adventure, Scott made another move, this time to Singapore, to assume the role of Rio Tinto's EVP and Head of Global Business Services (GBS) with responsibility for the Procurement, IT and Shared Services functions within the Business Support & Operations portfolio at Rio Tinto. In his new position, Singer is leveraging his experience in procurement to drive transformational and cultural change and further integrate the three functions within Global Business Services so it can deliver consistent, effective and pragmatic support to the parent company. Scott is also the interim CIO and the senior-most company official in Singapore today. "We have numerous initiatives that will allow me to directly leverage the skills I developed during my career in procurement." said Singer. "For example, the ability to drive innovation in the market is reliant upon third parties; the skills that procurement professionals develop in vendor management are extraordinarily valuable in that regard. Additionally, anyone who spends time working in procurement develops a total cost of ownership mindset that helps avoid short-sightedness and keep a focus on driving value through internal and external relationships."

CHAPTER TWO: THE STATE OF PROCUREMENT

"The will to win is important, but the will to prepare is vital." – Anonymous

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The state of procurement in 2012 is strong; strong, that is, relative to any other point in the history of the profession (which only dates back to the late 1800s). Consider that Wall Street analysts are increasingly focusing on supply chains and supplier relationships when they evaluate a company's business, make buy and sell recommendations, and review corporate strategy. As a result, they have come to understand the value of procurement and supply management. "Either a merchant or a supply chain/operations-focused executive would be a good fit," said **Laura Champine, an analyst for Canaccord Financial Inc.** when she was recently asked to recommend a desired CEO profile for Lowe's Inc. Champine's view is not without precedence [See "Career Spotlight: From CPO to COO to CEO" at the end of Chapter 4] as more and more industries now believe that having supply management experience is a valuable asset for their senior executives. On the entry-level side of the procurement profession, more undergraduates are entering the workforce with some direct exposure to procurement and supply chain in their classrooms and in the real world before graduation. In general, the CPOs participating in this research effort report that there is less budgetary pressure on headcount in the current Q4 budgeting cycle than in past cycles and that a large number of technology initiatives have already been approved for the next year. Considering where it was ten years ago, the state of procurement in 2012 is strong. Of course, it ultimately needs to get stronger.



Procurement Capabilities

That the average procurement department still struggles with some aspects of its operations and does not always manage to efficiently and effectively deliver value is not ideal; but, in a broader review of other enterprise functions, procurement's performance is not so unique. For example, earlier this year, CFO Magazine performed a research study that showed that only 8% of companies had improved their working capital metrics over the last 12 months and CIO Magazine often reports that salespeople and many other business professionals are notoriously poor adopters of technology solutions. While the evidence, as presented here, is clearly anecdotal, a world where some groups do very well and others are inconsistent in their execution and performance, is consistent with Ardent Partners' research across the source-to-settle process.

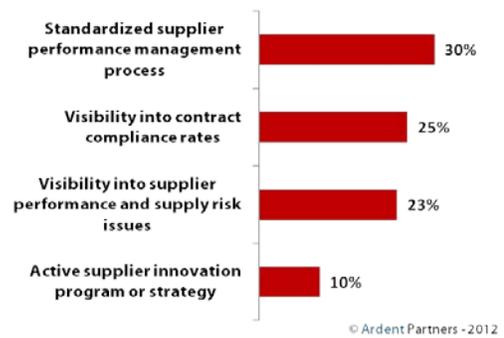
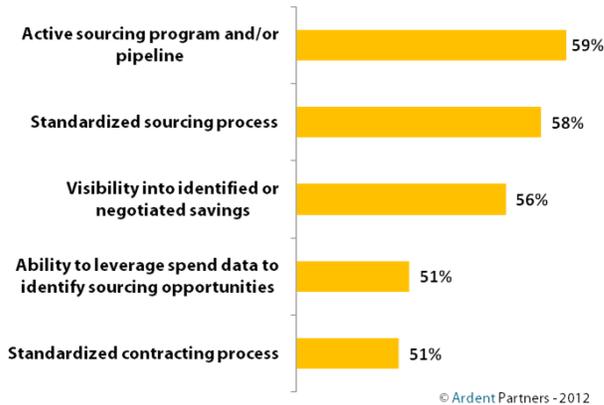
That other functions face similar struggles is by no means an excuse for faulty leadership, poor organization, sloppy execution, or lackluster results from any procurement department. In the larger scheme of things, however, procurement continues to advance, but still has far to go. Figure 3 below highlights the capabilities that are in place at more than half of all procurement organizations today while Figure 3A shows those capabilities that are in place at 30% or less of the

same groups. These results are consistent with earlier Ardent Partners research.

Figure 3: Most Common Capabilities

Figure 3A: Least Common Capabilities

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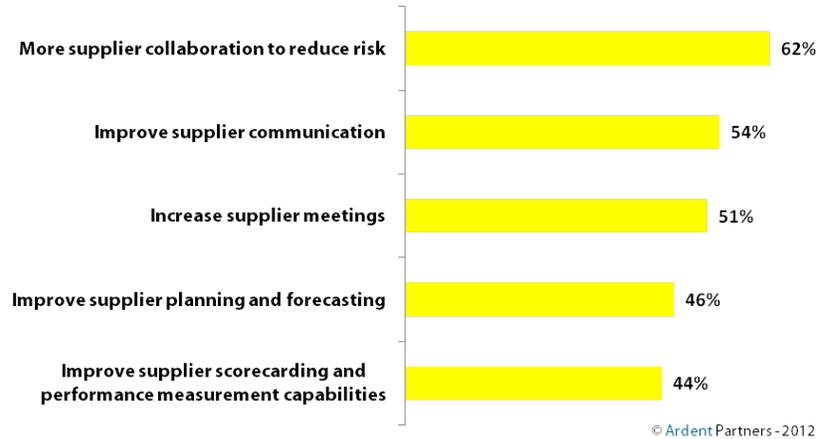
It is not surprising that procurement departments are most capable in the area of strategic sourcing as there can be great leverage (i.e. savings) found by investing resources there. In fact, many strategic sourcing operations are highly sophisticated and extremely efficient. **K. Venkat Krishnan, a Sourcing Leader at GE Energy** is part of a team that is looking deeper into its supply chain to find value. Says Krishnan, “We extensively work on what is known as ‘demand aggregation’ for our Tier 2 and Tier 3 suppliers. We try to see if there are opportunities to strategically position an aggregator of materials, components, tooling, and the like. We will work with an aggregator [i.e. supplier] and review product drawings to define quantity and type of materials/components.” For Krishnan and his team, setting up the relationship with the aggregator is the easier part of the process, while the challenges of working with the different tiers of suppliers and their different systems to ensure the right costs flow up and back to GE Energy is the larger challenge. Krishnan says that the demand aggregation strategies help GE Energy from a cost standpoint where he estimates that they pay only a slight incremental premium over a direct mill/manufacturer buy. It also helps GE better understand its suppliers’ cost structures and ensure availability of supply.

It is also not surprising that groups, which struggle for internal visibility and internal engagement, fall down when it comes to managing external relationships and achieving external visibility. Of course, many of the factors that have drawn procurement to the center of business activity in recent years are complex issues (i.e. globalization and supply risk) that require nuance, deft skills, and sometimes, luck. The **CPO of a Large Global CPG company** regrettably agreed when he said, “The truth is that there is almost no conceivable way to provide ourselves with assurances through our international distributors and suppliers that they are actually following protocols and procedures and presenting you with zero risk. In all honesty, we rely on being lucky rather than being good. That is literally the state of the art in our industry.”

Many CPOs are aware of their lack of supplier performance management and the supply risk gaps that exist within their operations and are making deliberate strides to close them (see Figure 4) in an effort to establish better relationships with strategic suppliers, identify and mitigate supply risk, and improve overall supplier performance.



Figure 4: Top CPO Strategies to Improve Supplier Relationships and Performance



Industry Spotlight - Automotive

As Europe continues to struggle with its debt crisis, one high-profile Automotive Industry CPO reflects on the challenges ahead for the entire industry:

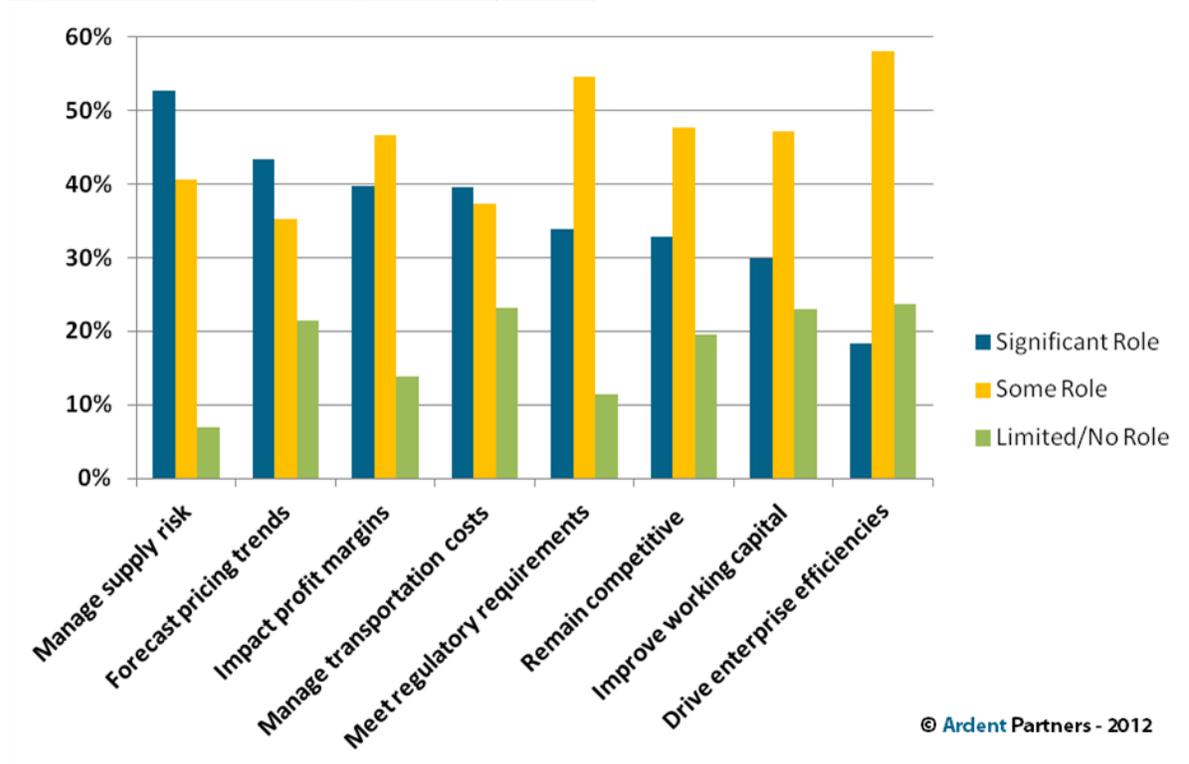
“We are facing an interesting dilemma as it relates to what we refer to internally as the impending ‘European meltdown.’ The recent Paris Auto Show (October, 2012) was pretty much doom and gloom and the consensus among the Automotive OEM (“Original Equipment Manufacturers”) executives in attendance was that we’re just starting to see the tip of the iceberg to the problem in Europe - 2013 and 2014 will be very difficult. Europe right now feels like what was happening in the U.S. in 2008 and the beginning of 2009.... and, we know how that story turned out - with two of the “Big Three” filing for bankruptcy and 42% of suppliers in the automotive supply chain being viewed as high risk. Our view is not ‘if’ this will happen, but ‘when’ it will happen and how deeply will it go. The European OEMs will likely not survive without some government intervention.

What this means for my procurement team is that we are more under the microscope for supplier risk management. Our 2013 focus is to have more visibility into supplier risk and our company goal is to be 50% better than the industry average [of the overall percentage of high risk suppliers]. While I regularly report the percentage of suppliers that we view are ‘at risk’ to our CEO, there is an asterisk with that number since we do not track a very large number of our suppliers. The suppliers that we don’t track tend to be private companies in lower cost economies which would tend to have higher risk ratios to start.... We absolutely need to get more data, more frequently and we would love to have more tools to track supplier risk.”

Procurement's Impact

Reporting relationships and the level of engagement and alignment with the business help to provide a map to the current state of procurement; but, where the rubber hits the road is procurement's impact on results. Figure 5 below shows the series of enterprise objectives where at least 75% of all procurement organizations are making a real impact (which Ardent defines as those areas where procurement either plays a "significant" or "some" role). Procurement's ability to impact areas like supply risk (93%) and profit margins (86%) make sense as they typically fall within procurement's typical sphere of influence, while maintaining regulatory compliance (89%) and improving working capital (77%) indicate a broader level of value that is being delivered or supported by the typical procurement team. Helping the enterprise stay competitive (81%) is another positive marker for procurement and one that should underlie the CPO's strategic plan. It is worth noting that while increasing revenues (58%) and entering new markets (42%) did not reach the top of the overall list, they are areas where procurement can and does play a valuable role.

Figure 5: Procurement's Impact on Objectives



Looking Ahead

"Our priorities for 2013 are (1) Ensuring delivery and quality from a supply standpoint while minimizing risk (2) Delivering our metrics (i.e. cash and costs) and (3) Innovation" – **Rick Hughes, CPO, Procter & Gamble**

Beyond the general CPO priorities discussed in Chapter One which included savings, processes, and people, many of the participants in this year's research effort are expecting a more difficult global economic environment caused largely by the troubles in Europe. Optimizing working capital is a frequently mentioned initiative with approaches focusing on the cash conversion cycle and inventory management. And, considering the general outlook for the market, there are a significant number of technology projects planned. Said a soon-to-be very busy sourcing manager at a global healthcare company, "We have twenty goals to achieve in 2013... At the top: implement eSourcing, initiate category strategies, and follow responsible sourcing to mitigate risk."

"Our top priority for 2013 is to hire a CPO and merge our three buying groups." – Gary A. Smith, CFPIM, CSCP, CPSM, CPSD, & Director of Supply Chain Operations, New York City Housing Authority

Career Spotlight: From CPO to COO

Mark Roenigk has been working in the high tech industry his entire career. Said Roenigk, "I have an affinity for high growth companies and they offer an environment where experienced procurement and supply chain pros can add a ton of value as the companies grow in scale." An engineer by trade, Mark grew up in mechanical design and development and became involved early on as a procurement engineer at Compaq. "This was before you could call 1(800) CHINA to get everything you needed. In effect, the procurement engineers operated as General Managers for their commodities or components. It was an invaluable experience and a great introduction to general management." Over the next two decades, Mark quickly advanced from both a job responsibility and title perspective as he moved from working on hardware at Compaq to working with software (and sometimes hardware) at Microsoft where he held broad operational duties in the launch of new products and services over a ten-year career. Mark later moved to Intuit where he ran Supply Chain Operations and then XM Satellite Radio where he ran all of Operations before landing at eBay as the Chief Procurement Officer and VP of Operational Excellence. Next up for Mark was a return home to Texas when he was appointed as the Chief Operating Officer of Rackspace, a fast growing, cloud-computing company that could leverage his procurement and operational excellence background and his experience with high-growth, hyper-scale tech companies.

"I always tried to take an approach to procurement, supply chain and operations that was inclusive and transparent. I like to include our supply chain partners in our planning and strategy meetings. At Rackspace, I manage with a great deal of transparency too. It's all about getting better every day and reaching our full potential as an Open Cloud company."

On how his background in procurement helped him succeed in other roles, Roenigk said, "I chose to be more of a utility player and an expert problem solver over the course of my career rather than focusing on being an expert in any function, using every opportunity possible to learn more about the business and taking on a variety of challenging roles that enabled me to add value to any business situation. Broad experience managing categories and different businesses within the high-tech vertical has really served me well over the course of my career."

CHAPTER THREE: PROCUREMENT PERFORMANCE

This chapter is designed to enable the reader to do the following:

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1. Benchmark their performance to industry averages and understand how they are performing relative to the average procurement department in the marketplace.
2. Understand what operational and performance metrics define Best-in-Class performance levels for procurement departments in 2012.
3. Understand the people, process, and technology levers that Best-in-Class procurement departments use to outperform the market.
4. Gain insight into how procurement performance is measured by different enterprises from around the world.

Keeping Score

"Selecting the right metrics and gaining credibility for them is much more important than the numbers themselves." - **Chief Procurement Officer, Financial Services Company**

Businesses measure their revenues and profits for a reason – because they matter. These numbers matter to employees, they matter to owners and shareholders, and they matter to customers and suppliers. The bottom line numbers that get reported are a final “score” for a “game” that was played last quarter or last year. And, businesses, by and large, are playing that game to win. If they were not, they would not keep score. For Chief Procurement Officers (“CPOs”) and their departments, procurement results matter and they increasingly matter to the larger enterprise. Scoring procurement performance can be as complex and nuanced as the value that the function can deliver and linking that performance to overall business objectives and results can be even more difficult. Nonetheless, CPOs must keep score of their team’s performance and they should use the opportunity to develop a set of metrics that can help procurement prioritize and focus its resources, track and improve its performance, and help communicate the value that it delivers in support of enterprise objectives and what it plans to achieve in the future. “The onus is on the CPO to demonstrate clearly and unequivocally, what procurement’s value proposition is to finance [and the rest of the company],” said **John Paterson, Chief Procurement Officer of IBM**. To win and advance and continue to broaden the influence and impact that procurement has on the enterprise, CPOs must play the game and play it well.

Spend under Management:

The measure that captures the percentage of total enterprise spend that a procurement organization manages or influences. Ardent Partners’ research has found that for every new dollar that is placed under management of the procurement department, the average enterprise realizes a benefit of between 6% and 12% during the first contract cycle.

The 2012 Procurement Benchmarks

The Procurement Benchmarks in Table 1 represent the performance and operational results of the average procurement department in the market today. The average procurement department manages just slightly over 60% of total enterprise spend which means that it will take a few more years before it can gain a full understanding of the total spend opportunity and begin to optimize it. On average, procurement departments delivered annual savings that totaled 5.8% last year and are expected to deliver 6.6% this year. While the target is a reasonable increase over last year's actual results, it is the lowest target seen in recent years and may reflect a view that the largest savings opportunities in this business cycle have already been taken. Sourcing throughput which has moved from approximately 25% in 2008 has stayed consistently near 50% since 2009. Compliance levels, which remain surprising low, are a cause for concern with only 53% of all spend and only 62% of all transactions compliant with contracts. Finally, the percentage of enabled suppliers continues to move steadily higher as more enterprises leverage technology suites to manage their suppliers.

Table 1: The 2012 Procurement Benchmarks

Metrics	Market Average
Spend under management	60.6%
Savings 2011 (Actual)	5.8%
Savings 2012 (Target)	6.6%
Addressable spend that is sourced	52.9%
Spend that is contract compliant	52.6%
Transactions that are contract compliant	62.0%
Contracts stored in a central, searchable repository	61.7%
Enabled suppliers	27.3%

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The Importance of Spend Under Management

Spend under management refers to the percentage of total enterprise spend (which is comprised of all direct, indirect - including capital, and services spend) that a procurement organization manages or influences. Ardent Partners is a strong proponent of the use of this metric as it provides great insight into a procurement department's likely performance and maturity. It is also a powerful comparative metric that can be uniformly applied to procurement organizations no matter their size, vertical or region. Spend under management represents the opportunity that procurement has to influence and impact the enterprise. And, while there is no guarantee that managing more spend will result in superior performance, Ardent Partners' research has consistently shown that the procurement groups that manage more spend report superior

performance across most other key metrics. Ardent Partners’ research has shown that for every dollar that is placed under management of the procurement department, the average enterprise sees a benefit of between 6% and 12% during the first contract cycle.



Best-in-Class Performance

Ardent Partners defines Best-in-Class performance in this research effort as the 20% of enterprises that manage the most spend in the market. This means that procurement departments that are currently managing 85% or more of their total spend are operating at a Best-in-Class level. A discussion of the Best-in-Class performance benchmarks and their levers for success follows.

Table 2: Best-in-Class Procurement Benchmarks

Metrics	Best-in-Class	All Others
Spend under management	>85%	54.4%
Savings 2011 (Actual)	6.3%	5.8%
Savings 2012 (Target)	5.8%	6.7%
Addressable spend that is sourced	73.4%	48.8%
Spend that is contract compliant	69.4%	48.4%
Transactions that are contract compliant	71.9%	59.7%
Contracts stored in a central, searchable repository	76.2%	58.8%
Enabled suppliers	37.5%	25.4%

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The Best-in-Class Advantage

Managing more than 85% of total enterprise spend is an impressive accomplishment and one that can take years to achieve. As **Stephen Abrahams, Head of Non-Trade Procurement at Woolworths** noted while discussing his group’s progress, “In September 2010, we were given a board mandate to build a procurement organization. We have centralized the management of all spend categories, except IT and now have 50% oversight of all operating expenses and capital items.” And while spend under management may never displace savings as the top CPO metric, many CPOs are focused on measuring it each year.

Typically the groups that manage more spend report higher savings totals and targets, but, the Best-in-Class savings metrics generated in this year’s returns pose a minor puzzle as Ardent’s analysts have never seen a large survey sample of procurement practitioners report a lower savings target than the one just achieved. While the pressure to deliver savings has clearly receded over the past three years and the overall savings rates achieved in the market have gone down, Ardent believes that the lower Best-in-Class savings target for this year is evidence of a view

that market pricing has previously bottomed out, the largest near-term sourcing opportunities have been realized, and/or that inflationary pressures are beginning to creep into the budget planning process of the more mature procurement groups. Lower savings targets are also the likely result of the relatively high levels of sourcing activity (73.4% this year) that the Best-in-Class have supported over the past three years. While the Best-in-Class advantage in compliance over the rest of the market remains significant, their overall compliance levels have room for improvement and present a real opportunity in the near-term. Finally, the percentage of suppliers that the Best-in-Class has enabled started to approach 40% and indicates an expansion in supplier development and collaboration programs as well as a greater number of integrated P2P solutions in the market. There are, however, near-term limits as to how many suppliers will be enabled for as **one former CPO turned consultant** mentioned, “Even the most mature procurement organization does not have a plan to manage its ‘tail’ suppliers.”

Best-in-Class Levers for Success

The Best-in-Class have differentiated themselves with superior performance across the primary procurement performance metrics above (see Table 2) and have utilized the levers for success noted below to a greater degree and a greater effect to gain a significant advantage in the marketplace.

People Levers – Staff skills and size are viewed as a constraint by a majority of CPOs but the Best-in-Class leaders are 67% more focused on trying to increase the broader business skills of their staff, which they do in part by being 157% more likely to initiate advanced training programs for skills development and technology usage. Additionally, the Best-in-Class are 80% more likely to have formal mentoring programs.

Process Levers – The Best-in-Class think more holistically about their operations and their processes. They are 68% more likely to have revamped and improved processes in a formal initiative over the past two years and they report significantly higher levels of process standardization for strategic sourcing and tighter linkage of P2P processes and systems. The Best-in-Class are 80% more likely to have full visibility into spend and a full 90% of all Best-in-Class groups have the ability to leverage spend data directly into their sourcing efforts (almost twice the rate of their competitors).

Technology Levers – The Best-in-Class edge begins by having a significantly higher level of visibility into spend which they accomplish via automated spend analysis and by leveraging their eProcurement systems to greater degree, capturing a significantly higher percentage of spend and driving superior compliance.

Procurement Performance Measurement

The amount of savings delivered by a procurement department on an annualized basis has so many different inputs that fall beyond the influence of the department that evaluating

procurement performance based solely on savings can fail, by a significant margin, to capture the full value that the procurement group delivered in the period. And yet, savings remains the CPO's top performance metric (see Figure 6). Not surprisingly, savings is also the primary metric that enterprises use to evaluate their procurement departments (see figure 6A). In this regard, savings poses a "chicken or the egg" dilemma: Do CPOs prioritize savings above all else because their executive teams demand it or do executives focus solely on savings because that is all the CPO shares?

Savings, to paraphrase Winston Churchill, may be the worst procurement performance measurement, except for all the others; but, Ardent Partners believes that it is incumbent upon CPOs to broaden the procurement performance discussion at every turn and inject other metrics into their performance reports. CEOs and CFOs may choose to ignore them in the short term, but, over time, the dialogue will begin to change.

Figure 6: The CPO's Top Metrics

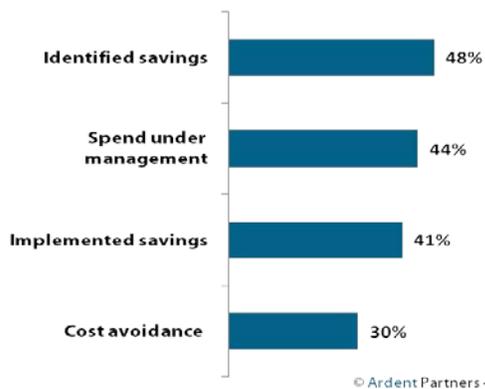
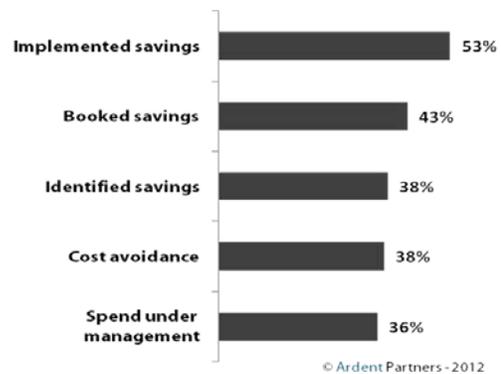


Figure 6A: Enterprise's Top Proc. Perf. Metrics



The CPO and the CFO

The average CPO spends a good deal of personal and department time and energy trying to improve the working relationship that the procurement department has with finance. Sometimes these efforts yield positive results and true partnerships are established. As is often the case, the CPO's efforts do not bear significant fruit. But, no matter the end result, the effort is always worthwhile because of the reporting relationship that may exist between procurement and finance and/or because of the power, control, and influence that the CFO wields within the enterprise.

CPOs who believe that they do have a successful partnership with their CFO often define that success and their alignment with the CFO almost solely in the context of having an agreement on the definition of performance metrics, specifically savings. While this is an important attribute, having alignment on measurements is not the same thing as having alignment on strategy and values. Certainly, many CPO-CFO relationships are much more robust than a simple agreement on

the definition of procurement savings. But, savings, for most CFOs, remains the primary and in many cases, sole measure of procurement’s performance. Savings, assuredly, is an important component of procurement performance, but a focus on it to the disregard of other key metrics does procurement and the CPO a huge disservice and devalues their contribution. More importantly, it can serve to limit procurement’s actual contribution to the business. In any capacity, a diminished procurement function should be a black mark on any CFO’s report card.

“CFOs do procurement a disservice when they put the CPO in the same bucket as a Controller and not with the Treasurer. When business leaders meet with a Controller, they know what’s going to happen - the Controller is going to impose policies and processes on their operations. When business leaders meet a Treasurer, they see opportunity and growth and eagerly engage.” - Lamar Chesney, former CPO & former CFO

How Procurement Performance is Measured

During the course of this research effort, Ardent Partners interviewed a series of CPOs and other procurement executives from around the globe to understand how their procurement department’s performance is measured. Included below is a sampling of the views and approaches of different procurement departments today.

Procurement Executive	Procurement Measurement Strategy
Heidi Landry-Chan, Chief Procurement Officer, Dow Corning	“We issue a monthly scorecard that tracks raw material pricing year on year with currency and volume neutralized... We identify, negotiate, and propose savings ideas to the business. Once approved, there is a transfer of ownership from procurement to the business which creates dual ownership of the results and helps ensure we realize the full opportunity. “
VP, Direct Materials, Industrial Chemical Company	“Our performance is based solely on PPV which is computed against last price paid.”
Rick Hughes, P&G’s CPO	“Savings is always part of our balanced scorecard, but its weight changes as we move through business cycles”
CPO, Fortune 100 company	“We report roughly 30 different metrics across the operation. From invoice holds and payment terms to productivity and quality... and they all matter.
Stephen Abrahams, Head on Non-Trade Procurement, Woolworths	“Our main KPIs – (1) Savings (2) Percentage spend oversight (3) Black Economic Power scorecard (4) % spend under contract.”
Sourcing Director, Construction Industry	“We primarily track savings, defined as a price-to-price comparison only (no avoidances). Procurement is also heavily involved in working capital, and we track the cash conversion cycle (A/R + Inventory – A/P) performance.”
CPO, Financial Services Industry	“Our overall assessment of our performance is more subjective than objective... 360-feedback at year end is how our success is defined.... no formal metrics in place”

Procurement Executive	Procurement Measurement Strategy
CPO, Global Manufacturer	"We are measured on three things: how much benefit we bring to the bottom line as measured by EBITDA contribution, risk profile, and operational costs like inventory management."
João Seffrin, Director Indirect Procurement Latam, Johnson & Johnson	"Our main metrics are savings, spend under influence, diversity spend, training, and promotions. We have a global policy for savings definition to keep it objective."
CPO, Global Agricultural Trading Company	"I am tracking and report 13 different KPIs on a monthly basis... metrics like total spend in each region, spend in scope, contracts, savings, number of suppliers, etc. to make sure we are on the right path in our journey. For now, hard savings is the only metric being tracked by the larger enterprise."
VP, Indirect, Services, and Real Estate, Fortune 200 Company	"We report many metrics to our CFO on a monthly basis. The only metric he was really interested in is our annualized savings number."
Gary A. Smith, Director of Supply Chain Operations at the New York City Housing Authority	"We are measured on six key metrics: (1) Supplier scorecarding performance (2) Cost per PO (3) Discounts generated from early payments (4) Savings (5) Buyer productivity and (6) Line item and order fill rates."

Case Study: A CPO and His CFO

When **Bruce Kilkowski started as the Vice President and Director of Procurement and Strategic Sourcing** in 2008, he worked with the CFO and the EVP of Strategy to develop a list of the procurement department’s key objectives. The list included four primary areas - value-added savings, operational excellence, organizational development, and (internal) customer service. Kilkowski tacked three others onto the list that he felt would become more important in the future – sustainability, risk management, and technology. “We then set up a balanced scorecard with metrics to track each of these areas,” said Kilkowski. “Some metrics were easy to score while some were not. But we used the scorecard to communicate our goals to the company and to develop a culture of accountability within the team.”

“Every quarter I would meet with the CFO (Kilkowski’s manager) and if we were on-track with the numbers, we would focus our discussion on other topics,” continued Kilowski. “Once the metrics, people and policies are in place, the next step is to find the best suppliers and improve their performance. How do you become better integrated with your strategic suppliers and develop a strategy to make them better? How do you find a true competitive advantage?”

Career Spotlight: From CPO to CFO

During the recent tough times, many CPOs went above and beyond the call of duty to drive value for their enterprise when it was needed most. Their superior leadership and managerial skills were put on full display, as they, and their teams, executed to perfection. As enterprises and business cycles reverted to a more steady state, it was only natural that some of those high-performing CPOs would be considered for roles that command greater responsibility and control. The alignment and close reporting relationships between procurement and finance make it natural for CPOs with finance backgrounds to start making moves into finance and rise to become CFOs. Mark Guinan, Senior Vice President and Chief Financial Officer at Hill-Rom, is one such former CPO who is now focused on managing profit margins and share repurchases instead of managing supply. Guinan was most recently the Chief Procurement Officer at Johnson & Johnson ("J&J") responsible for almost \$30 billion in enterprise spend and very focused on sustainability and supply risk. "[At J&J] we used our purchasing power to drive more sustainable business practices on a broad scale," said Guinan who held a variety of senior finance and procurement roles at J&J and has a career that began at Procter & Gamble.

CHAPTER FOUR: STRATEGIES FOR SUCCESS

"Winning is not a sometime thing...it's an all the time thing. ...You don't do the right thing once in a while...you do them right all the time. Winning is a habit." - Vince Lombardi

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General Recommendations

Best-in-Class procurement departments have visibility into spend and manage more of it to greater result by taking a more standardized and holistic approach to their processes and utilizing technology to a greater degree to automate them. Beyond utilizing the Best-in-Class' Levers for Success (see Chapter 3), Ardent recommends the following strategies and approaches for CPOs and procurement departments seeking to improve their performance:

- **Establish a baseline view into total enterprise spend, if one does not already exist** – Operational excellence within the procurement function begins and ends with spend visibility. Less than half of all procurement departments (42%) have it today. Where budgets allow, invest in automated spend analysis (the returns on these solutions can be quantified) and link the output directly to the sourcing process. If automation is not possible in the near-term, invest resources in developing the IT and analytical capabilities to have regular spend reports for review and use – partial visibility is better than none.
- **Develop a more proactive and comprehensive development/performance program for key suppliers** – Opportunities for growth and value are increasingly found in an enterprise's supply chain. The Best-in-Class understand these prospects and are 3.3 times more likely to have a supplier initiative that is focused on innovation and/or performance improvement. They are also twice as likely to have a standardized supplier performance management process and three times as likely to have visibility into supplier performance and supply risk issues.
- **Institute a "no PO, no pay" policy** – The average procurement department today underutilizes its eProcurement system. Implementing a policy where no invoice is paid unless it is associated with a purchase order will drive greater system adoption while helping to gain visibility into complex services spend. While not required, the success of this policy can be greatly aided by using a seamless P2P system.
- **Initiate a new compliance campaign** – Market average compliance rates need to be improved. Ardent Partners estimates that the hard cost of non-compliance ranges between 5% and 18% for every dollar of off-contract spend. Unless an enterprise is operating without any real controls, the percentage of its on-contract spend should be higher than the percentage of spend under management. Leverage contract management and eProcurement systems in addition to our recommended "no PO, no pay" policy and

begin tracking and reporting non-compliance on a monthly basis and set goals to increase compliance rates every quarter.

- **Embed more staff with the business** – As CPOs attempt to win more friends (i.e. budget holders) and influence more spend, they should leverage their staffs and the relationships that they can develop by injecting them directly into business operations by increasing the frequency (and quality) of direct procurement staff interaction with stakeholders.

Procurement Performance Measurement Recommendations

Procurement and finance should work to develop and implement a CPO Scorecard™ to measure procurement's performance. Finance and procurement leaders must begin to consider, discuss, and develop a more sophisticated and comprehensive way to evaluate and present procurement's performance to the larger enterprise. If procurement's transformation is to continue, a more balanced approach to measuring its performance is needed. Specifically, Ardent Partners believes that the CFO and CPO should work together to develop a CPO Scorecard™ that incorporates the following:

- (1) **Hard financial metrics** including savings and cash flow impact
- (2) **Stakeholder metrics** including internal customer feedback and supplier performance and risk
- (3) **Process and technology metrics** including procurement efficiency and activity metrics
- (4) **People and knowledge metrics** including staff competencies, training, and retention

The scorecard metrics should be linked directly to a procurement department strategy document (or plan) which, in turn, should link to the primary goals and objectives of the enterprise. The actual metrics and their associated weights may be unique to each group and based upon specific strategy, industry, supply, and enterprise specific considerations. The CPO Scorecard™ should be used to evaluate the performance of the CPO, the procurement department as a whole, and individuals on the procurement staff. For many, changing the way that the procurement department's performance is measured will change the way in which the department is managed; but, all, who adopt a Scorecard, will now have a formalized mechanism to validate their strategic plan and evaluate their success in executing it as well as a clear way to communicate procurement's strategic value and vision to the larger organization.

Conclusion

As a profession, procurement is on a winning streak, but its continued momentum is not a foregone conclusion. CPOs and other procurement executives must continue to promote progressive strategies across their organizations, seek innovative ideas from multiple sources, and model Best-in-Class programs. As procurement extends the value that it delivers into new areas, measuring and communicating that value will become even more challenging. By tracking the right metrics in a customized CPO Scorecard™, the CPO has the opportunity to proactively define

and formalize how the procurement department should be measured and then use the new framework to determine how it should be managed. The stakes are high, but this game can be won.

Career Spotlight: From CPO to COO to CEO

Apple's founder, Steve Jobs, was a visionary who relied on the talents of others to help design the next generation products that the world did not know it needed. Over the last decade, Apple has executed as well as, if not better than, any other global company. When it came to execution, Steve Jobs relied on the talent of others to help realize his vision, perhaps no one more so than Tim Cook.

Cook joined Apple from Compaq Computers where he had briefly been the VP for Corporate Materials ("CPO") responsible for procuring and managing Compaq's product inventory. Cook attacked his role at Apple and within the first few years had successfully (1) reduced the number of key suppliers from a hundred to twenty-four, (2) outsourced manufacturing (3) negotiated better supplier deals and convinced many to relocate their plants for Apple's benefit (4) cut inventory from one month to two days and (5) halved the product build time.

Jobs was so impressed with Cook's impact that he soon promoted him to the role of Chief Operating Officer. In this position Cook continued to utilize many traditional "CPO strategies" to drive value. These included: (1) "paying up" to ensure exclusivity (2) "buying out" a supplier's capacity (3) cornering the market on certain commodities (4) pre-paying suppliers for huge commodity (or component) orders and (5) buying the capital equipment needed for production and leasing it to its suppliers.

Over the last years of his life, Jobs was quoted many times regarding his trust in Cook saying things like "Tim Cook came out of procurement which is just the right background for what we needed. [And] Before long, I trusted him to know exactly what to do. Tim had the same vision I did, and we could interact at a high strategic level, and I could just forget about things unless he came and pinged me."

So, it was no surprise that when Steve Jobs could no longer continue to run Apple, he wrote in his resignation letter that, "I strongly recommend that we execute our succession plan and name Tim Cook as CEO of Apple."

Throughout his career, Tim Cook executed classic procurement strategies to drive value for his employer and advance his career. This former CPO earned \$378 million in 2011. Reflecting on his career progression from CPO to the CEO of the world's largest company (by stock market capitalization), Cook said "Prepare and your chance will come. If you are prepared when the right door opens, then it comes down to just one more thing: make sure that your execution lives up to your preparation."

Steve Jobs, one of the greatest business leaders of the last century, was able to "think differently" about procurement and what it could deliver. It is time for your executive team to "think differently" about procurement too.

APPENDIX

ABOUT ARDENT PARTNERS

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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 (and discounts) to Ardent Partners research at ardentpartners.com/newsletter-registration/.

ABOUT THE AUTHOR

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Andrew Bartolini is a globally-recognized expert in sourcing, procurement, accounts payable, and supply management. Andrew focuses 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 first independent media site written for and about Chief Procurement Officers and other supply management executives (www.cporising.com).

Advisor to CPOs and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 140 times in seven different countries. Over the past seven years, Andrew has benchmarked thousands of enterprises across all facets of their sourcing, procurement, accounts payable, and supply management operations and his research is currently 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 supply management.

Prior to becoming an industry analyst in 2006, 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 three 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.

RESEARCH METHODOLOGY

Ardent follows a rigorous research process developed over years spent researching the supply management market. The research in this report represents the web-based survey responses of 267 CPOs and other procurement and business leaders as well as direct 30-60 minute interviews with more than 25 CPOs and procurement leaders (all of whom took the survey) and six former CPOs who have moved into larger operational roles. These roughly 270 participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class procurement performance and understand what levers the leading groups pull to obtain their advantage. Respondents also shared the way that procurement performance is measured within their enterprise. More than 70% of the total participants shared some personal insights and commentary to help provide greater context to the results. This primary research effort was also informed by the experience and analysis of the report author and the entire Ardent Partners research team. Complete respondent demographics are included below.

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REPORT DEMOGRAPHICS

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

- **Job Function:** 85% procurement; 6% supply chain; 3% finance; 6% other
- **Job Role:** 45% VP-level or higher; 21% director-level; 24% manager-level; 10% other
- **Company Revenue:** 71% Large (revenue > \$1 billion); 10% Mid-market (revenue between \$250 million and \$1 billion); 19% Small (revenue < \$250 million)
- **Region:** 65% North America; 23% EMEA; 11% Asia-Pacific; 1% South America
- **Industry:** Nineteen distinct industries are represented. Health Care, Financial Services, IT Services, and Manufacturing are the largest industries in the survey pool; no industry represents more than 10% of the overall survey respondents.

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