Uncharted Territory
Financial Supply Chain Management in Leading Global Companies
Global Chief Procurement Officer survey conducted by BrainNet Management Consultants
People Creating Connected Solutions
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1. The Dark Side of Procurement

By Sven T. Marlinghaus and Dr. Lars Immerthal

Ever since our school days we have known about the dark side of the moon. We can learn a great deal about the moon solely by observing its bright side, but we can only fully understand it by looking at the dark side as well. To do so, we need a considerable knowledge of astronomy and state-of-the-art technology. But is that a good reason to be satisfied with only half the truth?

The financial supply chain is the dark, as yet unexplored side of traditional procurement. Although the last few years have seen major changes in the range of tasks a purchaser is expected to perform, his or her strategic role in the organization and own understanding of that role, the job description essentially remains the same: to manage the company’s logistical supply chain in such a way that the organization is kept supplied with all the necessary resources – from raw materials to innovations – as cost-effectively as possible and with low risk.

Against a backdrop of highly integrated global value creation chains, increasing scarcity of raw materials, new risks, and legal, cultural, and ecological hurdles, this role is challenging enough in itself. And yet this is only half the job – the ‘bright side’ of procurement.

The dark side is the financial management of the supply chain. Everything the purchaser does triggers significant financial streams and has a direct impact, not only on tangible and intangible stocks, but on the overall financial situation of the business, too. This may seem an obvious correlation but it has long been pushed into the background, with the result that procurement officers rarely became involved with the financial aspects of their work. For its part, the finance department, whose task this was, knew too little about procurement to optimally manage the financial side of the procurement process.

But in the face of tough global competition businesses are called upon to exploit every value lever at their

Sven T. Marlinghaus

Dr. Lars Immerthal
disposal. That is why there have recently been greater efforts to bring financial supply chain management out of its dark corner and leverage its value-enhancing potential. This places traditional finance issues such as working capital and tax optimization, supply financing and the use of finance metrics to control and monitor procurement on the agenda of the CPO. Obviously, the CPO cannot master this single-handedly or indeed overnight.

This study therefore attempts to clarify the current situation in financial supply chain management, both in procurement and in the finance department of leading global enterprises, and to identify trends and areas where action is needed. We asked CPOs from all over the world to give us an insight into their organizations. We would like to thank everyone involved for their fascinating input, and hope that the results of the study will contribute to a better understanding of this issue.

Sven T. Marlinghaus
Partner, BrainNet Management Consultants

Dr. Lars Immerthal
Head of Risk Management Practice,
BrainNet Management Consultants
2. Who will Talk to the Bank?
By Joachim von Schorlemer

As one of the world’s largest banks, we view supply chain management from two perspectives. On the one hand, we ourselves are faced with the challenge of structuring our procurement department so that it makes a strategic contribution to the success of the organization. As this study clearly shows, that can only be achieved if the procurement department takes into account the financial processes associated with the supply chain. In this respect there is still a considerable need for improvement across all sectors of industry.

On the other hand, as a financial services provider we are called on to help our customers implement successful and sustainable financial supply chain management. If we consider the past few years from this perspective, we can see the significant changes that have occurred in the range of tasks a procurement department is expected to perform. Nowadays every area of the company must measure itself in terms of the contribution it makes to improving the company’s overall financial situation. Positive effects on the essential financial indicators – cash flow, EBIT, tax burden, risk portfolio and liquid assets – have become the fundamental framework conditions for defining a procurement strategy. An understanding of the tools and methods required for this should therefore be an integral component of any procurement employee’s professional knowledge.

However, this broader focus encompasses not only far-reaching changes in the range of procurement tasks but also a new quality of cooperation between CFO and CPO. Seen in this light, the question of “Who will talk to the bank?” quickly loses its rhetorical nature and becomes a challenge to the established division of labor in most organizations. If we take the issue of financial supply chain management to its logical conclusion, the answer must be that in future, we will have two points of contact.

Joachim von Schorlemer
Country Head, BNP Paribas
3. Analytical Focus and Survey Design

In recent years it has become increasingly clear that the performance of the procurement department has a direct and significant impact on the overall performance of the company. At the same time the procurement department has grown to become a strategic, cross-sectional entity that relies on close interaction with other areas of the organization. In this context, financial processes play a central role. Although it may seem obvious that flows of goods and services always go hand in hand with financial processes, to date there has not been sufficient linkage between the finance and procurement departments.

We aim to discuss explicitly the close correlation between procurement and financial business processes, which we will term financial supply chain management. We will look at a wide range of elements:

**Definition of financial supply chain management – Key elements**

- Working capital optimization
- Supplier risk management
- Supply chain financing
- Tax optimized procurement
- Impact of procurement financial key metrics
- Efficiency of the procure-to-pay process
In this study we discuss how considering procurement processes from a financial point of view can lead to the optimization of information and cash flows within an organization. This can be considered all the more important as traditional areas of cost-cutting potential have been largely exhausted in recent years. The focus therefore shifts increasingly to procurement, which can have a massive impact on the company’s overall situation through the optimization of financial processes and taxation, and the improvement of the risk situation and working capital. But the CPO can only leverage this potential if he or she has a solid understanding of finance and works together closely with the CFO. For this reason, the study also touches on the status of this cooperation. We will also examine regional differences and trends in Europe, the Americas and the Asia-Pacific regions. These differences – often the result of local legislation and capital market structures – play a significant role in the planning of global finance strategies for international organizations.

Survey objectives
4. Survey Design

We surveyed close to 60 Chief Procurement Officers (CPOs) and senior executives from leading global companies. The chosen interviewees represent all branches of industry, from automotive through consumer and healthcare, and the service industry.

The study was carried out all over the world. A good 50 percent of the organizations surveyed are based in Europe, 30 percent in the Americas, and 16 percent in the Asia-Pacific region. The results reveal some noticeable regional differences, but also general trends regarding challenges, topics and tools. All interviews were conducted on a one-to-one basis to obtain in-depth, differentiated responses.

The questions covered all relevant aspects of financial supply chain management as they relate to procurement. These were as follows: Working capital optimization, supplier risk management, supply chain

Survey responses by industry
financing, tax-optimized procurement, impact of procurement on financial key metrics, and efficiency of procure-to-pay.

Between them, the companies surveyed generate a turnover of more than 365 billion euros. A national economy with a gross domestic product of this magnitude would rank among the world’s top 30, roughly on a level with the Netherlands, Russia, Mexico or Taiwan.

This comparison not only illustrates how representative the results of the study are, but also highlights the fact that the impact of procurement is fundamental and of significant macroeconomic relevance. In other words, the link between procurement strategies and finance is visible to the naked eye. Although the majority of the participants spend less than 1 billion euros per year on procurement, a quarter of the participating companies spend more than 5 billion euros per year.
During the course of the survey it became clear that the question of which issues and tasks are covered by financial supply chain management goes hand in hand with the question of who is responsible for financial supply chain management. This question is by no means a trivial one, because this issue is straddled between the organizationally separate departments of finance and procurement. Even an examination of the reporting structures in the relevant organizations does not reveal a clear-cut answer. Rather we can see that procurement is a cross-sectional entity that is difficult to classify. It is striking, however, that in one in three companies the CPO is neither a member of the Board nor reports to one of the three most senior managers. Given the strategic importance of procurement, this is a somewhat startling statistic.

However, most companies are well aware of the importance of this issue, as the diagram below illustrates.

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“Single segments have been identified and dealt with but there is no structured common financial supply chain management approach.”

Peter Kraft, (Head of Procurement, Bristol Myers Squibb)
All the same, 63 percent of companies systematically engage in financial supply chain management issues. But at the same time it is clear that this discipline has not yet found a place within organizational structures (as a department in its own right, for example) and organizational processes (in the form of routine communication between the CPO and CFO). If we look at regional differences we can see, however, that this statement is mainly true of Europe and the Americas, and much less so of Asia-Pacific:

Current status of financial supply chain management by region

<table>
<thead>
<tr>
<th>Issue</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potentials and risks deriving from financial supply chain management are systematically evaluated &amp; managed</td>
<td>57%</td>
<td>52%</td>
<td>87%</td>
</tr>
<tr>
<td>A particular department / role / specialist focuses on financial supply chain management</td>
<td>26%</td>
<td>52%</td>
<td>86%</td>
</tr>
<tr>
<td>Regular meetings with CFO on financial supply chain management</td>
<td>54%</td>
<td>52%</td>
<td>86%</td>
</tr>
<tr>
<td>Financial supply chain management will become more important in future</td>
<td>85%</td>
<td>86%</td>
<td>87%</td>
</tr>
</tbody>
</table>

“Today many financial supply chain management aspects will be implicitly dealt with driven by tactical necessity. To achieve more strategic goals a higher awareness resulting in a strategic model will be necessary.”

Dr. Günther R. Reinelt
[Head of Corporate Purchasing, Miele]
It appears that Asian companies have already responded to the growing importance of financial supply chain management with organizational measures and anchored this discipline in their organizations in terms of both structure and processes. This is partly due to the fact that procurement has financial roots within Asian companies. But there is more to it than that. Most companies in the Asia-Pacific region systematically evaluate and manage the potential and risks associated with financial supply chain management and are already well aware of the necessary link between the CPO and CFO: Most of the companies (86 percent) hold regular meetings between CPO and CFO to discuss financial supply chain management issues. 57 percent even have a specific officer who specializes in financial supply chain management.

Companies in Asia-Pacific are playing a pioneering role in the establishment of an organizational framework for financial supply chain management. But this shouldn’t distract us from the fact that even they still have a lot to do. If the focus is not on financial supply chain management as a whole but on the sub disciplines we mentioned earlier, considerable scope for improvement can be seen in many areas.

In order to make procurement an effective tool and exploit its full potential in terms of optimizing the company’s financial situation, it is essential to take a holistic approach to financial supply chain management. The CPO and CFO should therefore devote their attention not only to the positioning of financial supply chain management within the organization, but also to the continued development of all its disciplines.

So what is the situation in relation to the individual disciplines of financial supply chain management? This question is discussed in the next chapter.
6. An In-Depth View of Financial Supply Chain Management

6.1. Working Capital Optimization

The optimization of working capital constitutes one of the most important tasks of financial supply chain management. This is due to the fact that in a global economy increasingly dominated by economies of speed, the optimum allocation of financial resources is essential to the operational capabilities of the organization. Financial management has a whole range of mechanisms at its disposal for optimizing working capital and reducing the commitment of liquid assets.

Working capital optimization is a prime example of the need for close collaboration between the finance department, which has the necessary methods and tools, and the procurement department, which is responsible for many of the relevant processes and inventories. Yet in most companies, procurement experts are only involved in this process for specific situations or projects. The result is often a one-sided optimization from a financial perspective. The consideration of the costs, risks and benefits of a tool from the point of view of procurement would lead to a more valid assessment of the available courses of action.

A glance at working capital optimization reveals not only a certain degree of standardization, for instance...
in the global importance of make-or-buy analyses, but also a number of regional differences and preferences for certain tools. These characteristics are often governed by regionally differing market and finance structures.

In the Americas, for example, leasing is by far the most important tool for working capital optimization, whereas in Asia-Pacific this tool is rarely used and often the market structures needed for it are simply not in place.

Supply chain financing plays a decisive role in Asia-Pacific, where there are a large number of small suppliers who need stability. The use of particular tools has also evolved over time. In Germany, for example, early payment discount management is more mature than the pure extension – a tool that is very important in the US. But these regional differences also give international companies an opportunity to effectively exploit a variety of tools, by making use of benchmarking and bundling regional expertise.
BrainNet financial supply chain management report

Working capital optimization: Regional differences in usage of tools & strategies

- **Make or buy analysis**: Americas - 69%, Asia Pacific - 71%, Europe - 91%
- **Supply chain process optimization**: Americas - 71%, Asia Pacific - 74%, Europe - 85%
- **Consignment warehouse**: Americas - 61%, Asia Pacific - 71%, Europe - 77%
- **Extension of payment terms**: Americas - 57%, Asia Pacific - 57%, Europe - 85%
- **Leasing programs**: Americas - 29%, Asia Pacific - 57%, Europe - 71%
- **Improve fixed asset utilization**: Americas - 54%, Asia Pacific - 44%, Europe - 71%
- **Implementation supply chain financing**: Americas - 31%, Asia Pacific - 71%
- **Inventory ownership sharing**: Americas - 22%, Asia Pacific - 31%, Europe - 43%

Regions:
- Americas
- Asia Pacific
- Europe
6.2. Supplier Risk Management

In recent years supplier risk management has become a crucial topic on the agenda of executive boards. There are several reasons for this. The globally networked and integrated economy brings a whole range of new risks as well as new opportunities. Businesses today operate in several currencies and in different political and cultural systems. As a result, geopolitical unrest and fluctuations in the currency and financial markets have a much greater impact on company performance than was the case five years ago. Added to this is the fact that low internal value creation makes businesses more vulnerable. Firstly, this means that problems affecting a single supplier can disrupt the entire supply chain. Secondly, it means that companies often have difficulty imposing their own management and governance standards owing to close integration with their partners. Additionally, legislation in Western countries has become much tougher in recent years, where non-compliance can result in fines running into billions of euros and even prison for the management team.

All this has led to a massive expansion in risk management systems, but many companies have not yet realized that risk management cannot be the job of an individual department, usually finance. The procurement department, which is responsible for managing external value creation and controlling the supply chain, has rarely been included in the risk management process. The CPOs of the companies surveyed see themselves as being confronted with a whole range of risks, however. To fend off these risks they have various tools at their disposal, some better developed than others.

CPOs are particularly aware of the issue of raw material price volatility. Although this is considered the most likely risk, many CPOs still have no satisfactory response or adequate tools to at least soften the
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CPOs are particularly aware of the issue of raw material price volatility. Although this is considered the most likely risk, many CPOs still have no satisfactory response or adequate tools to at least soften the impact of this kind of price fluctuation. In contrast, they have a veritable arsenal of weapons at their disposal for dealing with supplier insolvency or price risks.

On this point, however, there are some very noticeable regional differences.
The fear of risks posed by volatile raw material prices is particularly acute in the Asia-Pacific region. Businesses in this region have a similar attitude to currency risk, as numerous economists believe that many currencies in Asia are undervalued. Politicians in Europe and the US are even calling for a revaluation of Asian currencies to protect their own economies against growing competition from this region. In recent years many Asian countries have been exporting far more than they import. Although this has resulted in the Asia-Pacific region generating by far the highest trade surpluses in recent years, revaluation of the relevant currencies has so far stayed within certain limits.

What is also striking is the negligible interest shown by European companies and the virtually non-existent interest shown by Asian companies in compliance issues, or in the Sarbanes-Oxley Act (2002), referred to as SOX, so critical to business in the US. Unsurprisingly, this issue has a very high profile in the US. But we must not forget that many European countries have passed legislation based on the same principles as SOX. In addition, SOX is a basic requirement for companies that want to do business on the US market or be listed on a US stock exchange. Given the rapid progress of globalization, neither European nor Asian companies will be able to ignore this issue for much longer.

Procurement departments shape and are responsible for many of the processes in which these risks arise. The risk management system, for which the CFO is responsible, is an essential requirement for managing supplier relations. Likewise it is crucial to take the CPO’s perspective into account when it comes to designing the risk management system.
6.3. Supply Chain Financing

Supply chain financing is a method that allows suppliers to refinance on the buyer’s (usually much more favorable) terms. In exchange, suppliers offer their customer better prices and payment terms. A method first used by the US manufacturing industry, supply chain financing is now especially popular with Asian companies, too. This should not surprise us. For one thing, financing the supply chain is of great importance to the buyer in terms of liquidity and EBIT – a key issue, particularly for US companies, who source more of their finance from the capital market than Asian or European firms. In addition, an efficient supply chain financing model also means higher financial security for suppliers. This is of prime importance in the Asian market with its fragmented supplier structure. As far as European companies are concerned, the advantages of using supply chain financing are to be found mainly in the greater transparency of the supply chain. In any event, an intelligent supply chain financing model creates a win-win situation for customers and suppliers that results in a whole range of benefits. The CPOs surveyed attached the greatest importance to securing better conditions, improving the working capital situation, and the financial stabilization of suppliers:

“With our financial supply chain management activities we aim for a win-win situation together with our suppliers. This is because procurement reports to the CEO who is more sales and innovation oriented.”

Daniel Cameron
(CPO, Royal Mail)

Supply chain financing: Reasons for using

- Negotiate better prices: 71
- Improve working capital situation: 60
- Stabilize supplier financially: 51
- Increase flexibility in pricing options: 47
- Increase transparency: 44
- Increase days payable outstanding: 42
- Increase control: 33

0 = irrelevant, 100 = highly relevant
These figures show that despite regional differences, supply chain financing is still very much in its infancy. This is surprising for two reasons. Firstly, supply chain financing offers clear benefits to both sides. Secondly, framework conditions in the global market are becoming increasingly similar, with the result that the incentives to use supply chain financing – which are currently subject to fairly significant regional variation – are starting to ‘add up’. Again, the explanation for this may lie in the dividing line between finance and procurement. The implementation of supply chain financing requires extensive financial know-how, which procurement departments do not currently have to a sufficient degree if at all. It also requires a very detailed understanding of supplier structures, which again a company’s financial experts do not have. The future development of supply chain financing, too, will therefore depend on better and closer coordination between the CPO and the CFO.

“I expect supplier financing to be very valuable for companies with integrated supply chains (e.g. automotive business) to generate improved cash flows and financing for entire supply chains”

Todd Pankey [Vice President, Supply Chain, Motor Coach Industries]
6.4. Tax Optimization

In particular, corporate groups with autonomous operating companies in several markets frequently encounter the problem of – sometimes greatly – differing tax systems. On the one hand this naturally creates additional complexity. But on the other hand, the intelligent use of these differences can have a direct impact on group profit and is therefore of considerable importance from a competitive point of view. Depending on the industry sector and corporate structure, the procurement department may be responsible for up to 70 percent of all company costs. It follows that the activities of this department are very important from a tax perspective. However, tax is not generally a topic of concern for today’s procurement organizations, as the present study shows:

**Procurement perspective of tax optimization**

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</thead>
<tbody>
<tr>
<td>40%</td>
<td>87%</td>
</tr>
<tr>
<td>23%</td>
<td>70%</td>
</tr>
<tr>
<td>19%</td>
<td>37%</td>
</tr>
</tbody>
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- **Tax is not a KPI for procurement**
- **Responsibility of finance department**
- **Legal implications**
- **Organizational implications**

**Grafik: 75%**

Source: BrainNet

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- **Tax is not a KPI for procurement**
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- **Legal implications**
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**Grafik: 75%**

Source: BrainNet
87 percent believe that tax is not a KPI for procurement. More than one third of the companies are evaluating and reviewing the options of tax optimization. Less than one quarter of the companies are planning to relocate procurement shared service centers offshore and only one fifth have relocated parts of the procurement process offshore into shared service centers, but tax optimization is not the driver for doing so. A number of regional differences can certainly be noted:

**Lowering TCO by tax optimization: Regional differences**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluation of options</td>
<td>38</td>
<td>35</td>
<td>57</td>
</tr>
<tr>
<td>Planned offshoring of procurement shared service center</td>
<td>31</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Offshored procurement shared service center</td>
<td>23</td>
<td>14</td>
<td>17</td>
</tr>
</tbody>
</table>

0 = irrelevant, 100 = highly relevant

Regions: Amercas, Asia Pacific, Europe

"Especially for shared service approaches financial supply chain management subjects are highly attractive as they allow SSCs to provide company wide transparency and efficient process frameworks."

Dr. Ulrich Piepel
[Head of Corporate Procurement, RWE Systems]

However, the clear conclusion is that the financial significance of procurement has not yet been adequately recognized by the responsible individuals. As a result, the tax optimization potential associated with the appropriate management of procurement processes cannot at present be exhausted. This may also be due to the fact that there is scarcely another sub-area of financial supply chain management that is subject to so many regulations and directives as tax optimization. Today tax authorities worldwide take a much tougher stance towards the traditional tools that tax directors have relied upon.

However, the increasing regulation of tax systems is just one reason for reticence. Several respondents also mentioned the ethical implications of the issue. From a national perspective, these reservations may well be justified. But there are two things that should not be overlooked. In the global market, companies in high-tax countries have a structural competitive disadvantage compared to their competitors in low-tax countries. In addition, companies contribute in many ways to the smooth functioning of the economy and not through taxation alone. Globalization has affected both wage costs and tax systems. The complex question of how this new flexibility should be handled is not an easy one to answer. But failing to recognize and analyze it would be simply negligent, because one thing is certain: By aligning tax planning and procurement strategy it is possible both to enhance the operational benefits and manage the company's tax liabilities more effectively. This is the essence of tax-effective procurement. However, it is necessary to take a holistic view and create an integrated strategy for tax optimization. Once again, this illustrates the urgent need for better cooperation between the CPO and CFO.

"Financial supply chain management in procurement is not only about bringing up savings but also about consolidating those savings in the P&L. This consolidation process should turn forecasted savings into real cash."

Pedro Martinez
[CPO, NH Hotels]
Lowering TCO by tax optimization: Regional differences

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Overview: Offshoring / Tax optimization by regions

<table>
<thead>
<tr>
<th>Regions</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 = irrelevant</td>
<td>17</td>
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Pedro Martinez
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6.5. Impact of Procurement on Financial Key Metrics

Procurement makes a direct and decisive contribution to the company’s overall performance. Yet at the present time companies do not make full use of KPIs to measure procurement performance.

If we look at the relevant KPIs, only savings generated from the Request for Quotation process and budget savings – highly standardized metrics – are sufficiently tracked, scoring 98 percent and 82 percent respectively.

More in-depth profitability metrics comparing profits to invested capital, for example, are normally only considered and implemented by the finance department. It would be effective to more closely involve procurement, since it is strongly connected to bottom line results. It also means, however, that the procurement department is forced to shape its strategies towards contributing to the financial clout and stability of the company.

Percentage of companies quoting financial KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings from the RfQ process</td>
<td>98%</td>
</tr>
<tr>
<td>Budget savings</td>
<td>82%</td>
</tr>
<tr>
<td>Savings from the supplier management process</td>
<td>53%</td>
</tr>
<tr>
<td>EBIT contribution</td>
<td>53%</td>
</tr>
<tr>
<td>ROCE contribution</td>
<td>35%</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>16%</td>
</tr>
<tr>
<td>Current ratio</td>
<td>12%</td>
</tr>
<tr>
<td>ATR (Acid Test Ratio) / Quick ratio</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: BrainNet
In order to understand the special balance sheet issues and where they fit into the corporate whole, management teams need to ensure that procurement departments are given special training in the workings of the financial market. The situation in Europe and Asia-Pacific is especially alarming. In Europe the average procurement employee receives just 1.3 days of professional training per year. In the Americas this figure is much higher at an average of 12 days per year. The same situation applies to VC-financed companies.

Like the issues mentioned earlier, such as working capital, tax optimization and supply chain financing, the worrying lack of knowledge and proper management of financial indicators highlights a basic problem in financial supply chain management. At stock listed companies the importance of financial KPIs increases and eventually the focus on procurement influencing financial KPIs increases as well.”

Edwin Ehrhard
[Head of Strategic Procurement, Sirona]

Impact of procurement on financial key metrics: Training days within 12 months

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>38%</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>Training</td>
<td>62%</td>
<td>57%</td>
<td>43%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Training days</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>min. value</td>
<td>1,5</td>
<td>1</td>
<td>0,5</td>
</tr>
<tr>
<td>max. value</td>
<td>40</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>average</td>
<td>12</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

"At stock listed companies the importance of financial KPIs increases and eventually the focus on procurement influencing financial KPIs increases as well.”

Edwin Ehrhard
[Head of Strategic Procurement, Sirona]
modern procurement organizations. The demands that procurement is expected to meet and the cross-sectional function it serves within the organization are not yet adequately reflected in organizational structures. If procurement is to be successfully transformed, we should note at this stage that far-reaching changes are needed in better defining the role of procurement. This extends far beyond the realignment of the organizational position of the CPO and his or her department; it relates primarily to the fact that procurement employees should see themselves as entrepreneurs. The taking on of entrepreneurial co-responsibility demands a multidisciplinary, holistic view encompassing not just the company as a whole but also its environment. An in-depth understanding of financial processes is indisputably of central importance in this respect, because they are the lifeblood of the organization.
6.6. Efficiency of the Procure-to-Pay Process

One of the key drivers in the evolution of procurement over the last 10 years has been IT. Considerable progress has been made both in terms of cost savings and of the business value of processes. Accordingly, this area represents the best developed element of financial supply chain management.

Efficiency of the procure-to-pay process

“In order to further optimize the P2P process the cooperation between finance and procurement needs to be intensified.”

Andreas Kath
[Director Procurement Europe, Invista]
The results of the survey show that the recipe for success over the past few years – process automation and standardization – will continue to be an important strategy in procure-to-pay. Within this general strategy, however, companies have very different focal points. Based on the results it is also reasonable to expect the pace of change to differ in the different regions.

In five years, companies in the Asia-Pacific region – which are still playing catch-up as far as digitization is concerned – will be setting the pace. They have the ability to quickly adapt processes developed in other regions and a pioneering role in the institutionalization of financial supply chain management. The objectives pursued in the various regions through process automation in procurement correspond to general procurement priorities.

US companies – the current leaders in process automation and the consideration of procurement from a financial perspective – tend to focus on financial issues. Europeans are particularly strong in the implementation of compliance and transparency, two

### Procure-to-pay processes: Automation is king

<table>
<thead>
<tr>
<th>Invoice process:</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully automatic</td>
<td>28%</td>
<td>10%</td>
<td>18%</td>
</tr>
<tr>
<td>Semi-manual</td>
<td>41%</td>
<td>80%</td>
<td>44%</td>
</tr>
<tr>
<td>Manual</td>
<td>31%</td>
<td>59%</td>
<td>38%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Fully automatic</th>
<th>Semi-manual</th>
<th>Manual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Today</td>
<td>28%</td>
<td>41%</td>
<td>31%</td>
</tr>
<tr>
<td>In 2 years</td>
<td>56%</td>
<td>29%</td>
<td>15%</td>
</tr>
<tr>
<td>In 5 years</td>
<td>65%</td>
<td>23%</td>
<td>11%</td>
</tr>
<tr>
<td>In 2 years</td>
<td>10%</td>
<td>80%</td>
<td>0%</td>
</tr>
<tr>
<td>In 5 years</td>
<td>31%</td>
<td>82%</td>
<td>0%</td>
</tr>
<tr>
<td>In 2 years</td>
<td>18%</td>
<td>44%</td>
<td>38%</td>
</tr>
<tr>
<td>In 5 years</td>
<td>42%</td>
<td>35%</td>
<td>23%</td>
</tr>
<tr>
<td>In 5 years</td>
<td>55%</td>
<td>34%</td>
<td>12%</td>
</tr>
</tbody>
</table>
The results of the survey show that the recipe for success over the past few years – process automation and standardization – will continue to be an important strategy in procure-to-pay. Within this general strategy, however, companies have very different focal points. Based on the results it is also reasonable to expect the pace of change to differ in the different regions.

In five years, companies in the Asia-Pacific region – which are still playing catch-up as far as digitization is concerned – will be setting the pace. They have the ability to quickly adapt processes developed in other regions and a pioneering role in the institutionalization of financial supply chain management. The objectives pursued in the various regions through process automation in procurement correspond to general procurement priorities.

US companies – the current leaders in process automation and the consideration of procurement from a financial perspective – tend to focus on financial issues. Europeans are particularly strong in the implementation of compliance and transparency, two areas that have gained hugely in importance over the last five years because of far-reaching legal changes. Asian companies, which until recently have been clear stragglers in process management, primarily concentrate on laying the foundations for sustained process optimization. Once, it is clear again that compliance is a matter of little real importance in Asia. This will change, however, when Asian companies become more active on Western markets or are forced into action by new legislation.

Efficiency of procure-to-pay process by focus

<table>
<thead>
<tr>
<th>Focus</th>
<th>Americas</th>
<th>Asia Pacific</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce manual processes</td>
<td>63%</td>
<td>79%</td>
<td>88%</td>
</tr>
<tr>
<td>Increase transparency</td>
<td>50%</td>
<td>67%</td>
<td>79%</td>
</tr>
<tr>
<td>Increase invoice accuracy</td>
<td>57%</td>
<td>60%</td>
<td>77%</td>
</tr>
<tr>
<td>Increase compliance</td>
<td>20%</td>
<td>53%</td>
<td>74%</td>
</tr>
<tr>
<td>Reduce reconciliation effort</td>
<td>62%</td>
<td>53%</td>
<td>60%</td>
</tr>
<tr>
<td>Increase response time</td>
<td>47%</td>
<td>55%</td>
<td>60%</td>
</tr>
</tbody>
</table>

“We already have lots of data and information but at the end of the day what do we do with that? We want to see true value in the information and data being supplied by the system.”

V. Venkateswaran
[Head of Global Sourcing, Mahindra]
6.7. Impact of Industrial and Spend Volume Differences

By analyzing the surveyed companies by type of business, such as manufacturing or non-manufacturing, it is apparent that there are strong similarities between the two groups. In terms of both business impact and the maturity of the respective processes, the characteristics of supply chain financing and tax optimization are lagging significantly behind the other criteria. Conversely, that demonstrates that this is exactly where companies can find the greatest opportunities for achieving an edge over the competition.

But a closer examination reveals some differences, too. The business impact of working capital optimization and procure-to-pay process efficiency is ranked much more highly by manufacturing companies than non-manufacturing companies. Evidently, the reason...
BrainNet financial supply chain management report

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But a closer examination reveals some differences, too. The business impact of working capital optimization and procure-to-pay process efficiency is ranked much more highly by manufacturing companies than non-manufacturing companies. Evidently, the reason for this is linked to the nature of the company. The much larger flow of goods, in comparative terms, and the lower internal value creation make these two factors more important in manufacturing companies.

If we look at the procurement impact on financial key metrics, the picture is reversed. Here it is non-manufacturing companies that lead the way, in terms of both business impact and process maturity. But there is no reason why this should remain so in the long term. On the contrary, manufacturing companies should do everything possible to close this gap. That the non-manufacturing sector is ahead of the manufacturing industry in this respect is due largely to the fact that this is a day-to-day discipline for financial service providers, who form part of the non-manu-

Financial supply chain management key elements by maturity: Non-manufacturing vs. manufacturing

<table>
<thead>
<tr>
<th></th>
<th>Non-manufacturing</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital / cash flow optimization</td>
<td>56%</td>
<td>59%</td>
</tr>
<tr>
<td>Supplier risk management</td>
<td>27%</td>
<td>49%</td>
</tr>
<tr>
<td>Supply chain financing</td>
<td>22%</td>
<td>49%</td>
</tr>
<tr>
<td>Offshoring / tax optimization</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>Procurement impact on financial key metrics</td>
<td>57%</td>
<td>46%</td>
</tr>
<tr>
<td>Procure-to-pay process efficiency</td>
<td>63%</td>
<td>61%</td>
</tr>
</tbody>
</table>

“Private equity owned companies do have a strong focus on financial supply chain management subjects. Currently we set priorities in process optimization and condition management.”

Klaus Linderich [CPO, Debitel]
facturing sector. They can and should serve as role models for manufacturing companies.

If we differentiate the companies surveyed by sales volume, we can see that the business impact of both risk management and tax optimization increases as the company’s size increases. Both these trends can be explained by the stronger global presence of larger organizations. Where tax optimization is concerned, the company must be present in different countries with as many different tax conditions as possible. Another requirement is a corporate group structure that allows some leeway in terms of internal transfer prices within the group. Both of these factors tend to hold true for large organizations. In addition, larger companies handle sums where it is more profitable to exploit all possible scope for tax optimization.

Financial supply chain management key elements by business impact: Procurement spend

- Working capital / cash flow optimization: 72% (77% for > 10 bil. EUR)
- Supplier risk management: 67% (76% for > 10 bil. EUR)
- Supply chain financing: 32% (35% for 1 – 10 bil. EUR)
- Offshoring / tax optimization: 18% (31% for > 10 bil. EUR)
- Procurement impact on financial key metrics: 61% (78% for > 10 bil. EUR)
- Procure-to-pay process efficiency: 65% (66% for > 10 bil. EUR)

Procurement spend: < 1 bil. EUR, 1 – 10 bil. EUR, > 10 bil. EUR
A growing global presence will naturally increase the complexity of a company’s processes and structures. It is therefore in the interest of large multinational groups to arm themselves against contingencies with a sophisticated risk management policy. Added to this is the fact that certain countries require companies to operate strict risk management policies, which must be implemented throughout the organization. However, this does not mean that smaller companies need not make every effort to close this gap.

As described in chapter 7.6, IT is often the key driver of the establishment of procure-to-pay systems. The greater the data volumes to be handled, the more it is worth investing in a more sophisticated IT infrastructure. This explains the greater progress of higher-turnover companies in terms of the maturity of these processes.

“The impact of financial supply chain management will increase as with tighter integration of the supply chain new tools and methodologies will be necessary in order to manage the rising complexity.”

Olaf Hansen
[CPO, Mettler Toledo]
7. A Look Into the Crystal Ball …

“The future has already arrived. It’s just not evenly distributed yet,” cult author William Gibson said once. You could almost believe that he had financial supply chain management, as it relates to procurement, in mind. The results of this study certainly present a very interesting picture. Over the next few years, financial supply chain management is set to become one of the most important tasks of the procurement department. What is more, the need for action is already extremely urgent.

The future has already arrived, but its components are rarely viewed from the same perspective and given the same importance by all the actors involved. But for all the regional differences it is possible to note some general trends with respect to financial supply chain management that will characterize procurement behavior over the next few years. In any event, the ongoing process of globalization will inevitably result in a continued dilution of region-specific character-

Mikael Kylberg
[Procurement Director, Mölnlycke Health Care]
istics in supply chain management. This trend can already be clearly observed.

CPOs, whether in the Americas, Asia-Pacific or Europe, will have to explore uncharted territory. And to do so they will need powerful tools and intelligent methods and strategies. There is still considerable potential for development in this respect because in the future, financial matters will become an integral part of every CPO’s daily tasks. Especially in offshoring / tax optimization and supply chain financing there is an acute need for development – since both subsets contribute immensely to a company’s overall performance.

The importance of a holistic view is therefore growing more and more. This is the prerequisite for any company to become leading edge. Consequently, the willingness of CPOs to recognize and take responsibility for all the financial implications of their actions needs considerable improvement.

This, in turn, requires CPOs to work shoulder-to-shoulder with their partners within the organization, especially CFOs. The results of this study show very clearly that financial supply chain management occupies a position exactly halfway between the two departments. Neither can act alone and be successful. Taking the plunge into unknown territory demands new skills, creativity, a broader self-understanding and the willingness to question established rules, forms of cooperation, and job descriptions. Everyone involved needs to summon up this courage if they are to make their companies fit for the future.

“Financial supply chain management subjects could provide a bridge between Finance/Controlling and Purchasing and consequently help to increase a better understanding of CFO and CPO.”

Rainer Lange
[Head of Strategic Procurement, Dresdner Bank]
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BrainNet is one of the leading international brands in supply chain consulting and qualification. With over 100 consultants worldwide, BrainNet develops customized solutions for blue chips, mid cap companies and public service organizations. BrainNet services the needs of about 220 innovative companies and organizations including Bertelsmann, CLAAS, Deutsche Post World Net, Deutsche Renten, Miele, RWE, SAP and Vattenfall. BrainNet has offices in Bonn, Boston, Budapest, Chicago, Hong Kong, Shanghai, Tampa, Wroclaw and Zurich.

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