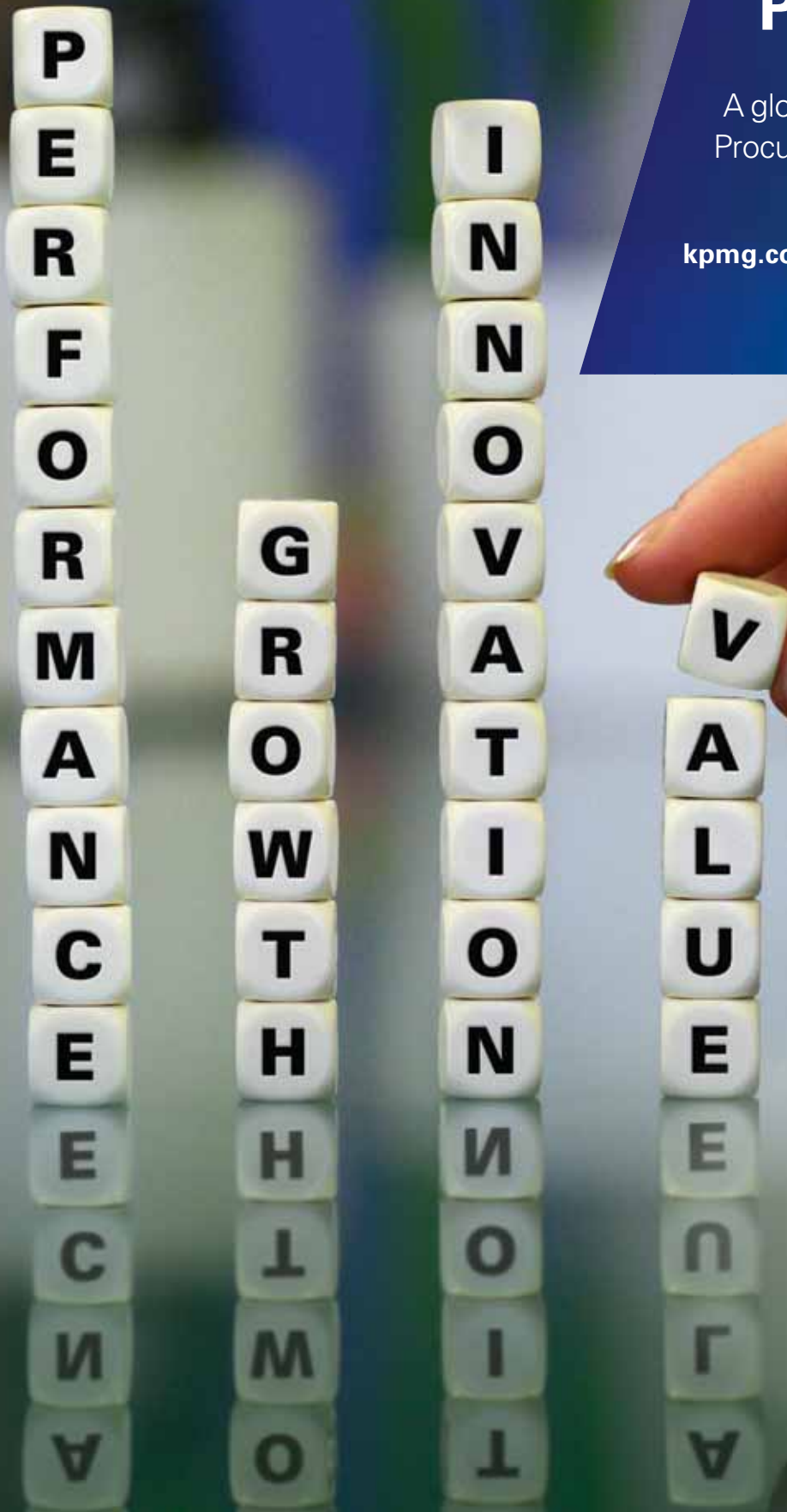


The Power of Procurement

A global survey of
Procurement functions

kpmg.com





foreword

Ask any business leader

what their top challenge is today and – more than likely – the answer will be cost. Indeed, KPMG's 2011 European Business Leader Survey demonstrated that realising cost efficiencies is now the top priority for business leaders across all industry sectors¹. Ever since the first rumblings of the global financial crisis, businesses have been feverishly stripping out costs; headcount reductions have been the most typical immediate reaction to cost reductions, but organisations have also become acutely aware of the potential sustainable cost savings to be had across the supply chain.

Clearly, it is time for Procurement functions to shine.

However the reality is that most Procurement functions have not moved as quickly to address supply chain efficiency as some organisations have demanded. In fact, according to our research, many Procurement functions have struggled to raise their game beyond simple tactical activity and (re)negotiating low cost contracts, to a broader and more strategic role within the wider business.

The expectations of Procurement are shifting. Not so long ago, Procurement was considered to be an add-on service; it was the business that decided which suppliers were core to the organisation and little more was expected of Procurement than to battle some cost out of the contract and then hand the relationship back to the business to manage.

Today however, many executives are increasingly looking to Procurement to engage the business in strategic conversations about how the supply chain can be optimised to deliver the greatest returns. But, overwhelmingly, Procurement has been slow to evolve. Our research shows that – across the board – there is not enough focus on ongoing supplier relationship management, precious little involvement in demand management, even less participation in the 'make versus buy' decision process and an often dangerous lack of preparation, mitigation and action around supply chain risk.

And as the world continues to wade through its financial morass, the Procurement function will also find itself under increasing pressure in areas currently considered to be low priority. Supply Chain sustainability will once again become a key challenge for business, and more focus will be placed on leveraging systems and technology to drive greater value, innovation and market differentiation from suppliers.

We believe that this report provides an unprecedented insight into the key challenges currently facing Procurement functions. What is more, the research represents the state of the function from the perspective of Chief Procurement Officers and Supply Chain Directors themselves, and should therefore more accurately reflect the actual challenges and opportunities facing the function today.

And while the findings may not paint the most positive picture of the maturity of Procurement functions overall, the accompanying analysis and insight offers a clear roadmap by which Procurement can raise its game to meet – and even exceed – the expectations of the business.

This report is the first of an annual series that will continue to compile data from Procurement organisations around the world and across sectors to provide an ongoing and consistent benchmark for Procurement functions to measure their progress against that of their peers.

I encourage you to contact any of the authors of this report – or your local KPMG member firm – to explore the implications of these findings for your business or to participate in this ongoing research study.

Richard Nixon

Partner, KPMG in the UK

¹ Business Leaders' Survey, KPMG, June 2011

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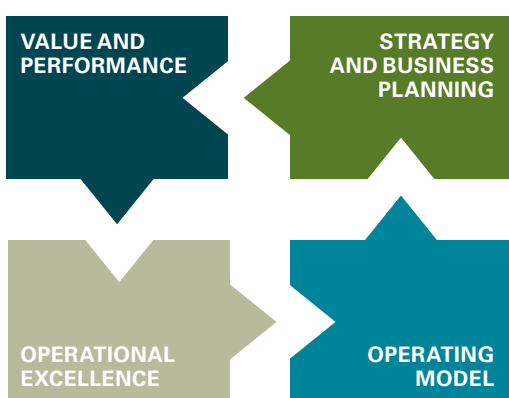
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deconstructing the survey framework

Key elements of the framework



Four-level maturity model



In 2011 KPMG, in association with CPO Agenda, conducted an online global survey of 585 Procurement leaders from across all industry groups and sectors.

The survey was designed in two parts, each intended to deliver a dynamic yet realistic view of the level of maturity and influence of Procurement functions within businesses around the world. The methodology itself is based on KPMG member firms' work with a broad range of leading organisations over many years, and has been designed to accurately reflect the Procurement maturity journey.

Respondents were initially asked to provide a series of data points related to their direct and indirect spend across a series of key measures: Value and Performance, Purchase to Pay, Supply Base Management, Category Management and Operating Model.

From this data, a robust set of ratios and measures were calculated to provide an objective comparison between organisations on core Procurement disciplines.

Participants were then asked to map their behaviours and attributes in four key elements of Procurement: Strategy and Business Planning, Operating Models, Operational Excellence, and Value and Performance.

To facilitate this, respondents were presented with a series of attributes from which they selected the statements that best reflected the current state within their organisation. From these responses, KPMG and CPO Agenda determined where the function sat on a four-level maturity model.

Those reporting low levels of maturity in these elements were ranked in the 'foundation' category, those indicating strong progress were termed as 'established', functions reporting more mature attributes were ranked as 'leading', and organisations with the highest level of maturity were designated in the 'excellence' category.

It should be noted that these levels are cumulative, meaning that those ranked higher on the maturity framework were expected to demonstrate all of the attributes of the lower ranks, while also indicating an adherence to some of the more mature attributes and behaviours.

executive summary

Around the world and across all sectors,

organisations are experiencing an unprecedented pace of change. As a result, businesses are rapidly re-evaluating their operating models and market strategies not just to withstand these market forces, but capitalise on them.

Clearly, Procurement has a significant role to play in helping their organisations achieve their objectives and prepare for the uncertainty ahead. In part, this will require Procurement to focus on driving costs out of the business. But the opportunity also exists for the function to add value in a much more strategic way.

And as we engage with Procurement functions around the world, KPMG firms' professionals have witnessed a number of highly mature Procurement organisations that have stepped-up their game, fundamentally changing the way they work with the business and – as a result – are increasingly taking a leadership role in helping drive growth and reduce costs across the organisation. But what exactly does a 'mature' Procurement function look like? How are they adding value beyond traditional cost-cutting measures? And what can less mature organisations learn from their more evolved peers?

In order to better quantify the maturity of Procurement functions around the world KPMG, in association with CPO Agenda, surveyed 585 Procurement leaders across the world. What we found was that – overall – there is a significant gap between where Procurement is now and where they could be.

In particular, our research identified five key areas where Procurement could be elevating its game to add significant value to its organisation:

- **Partnering with the organisation:** For Procurement to achieve a place at the table, more work should be done to align to key stakeholders and understand the business operations to become a true strategic partner. This means moving up the value chain to ensure that the function is involved much earlier in the decision-making processes and clearly demonstrating how active involvement adds tangible value to both the bottom and the top lines.
- **Moving beyond cost savings:** Driving costs from supply contracts will always be a central tenet of Procurement, but many organisations seem to be struggling to extend their activities proactively into core capabilities such as category management, and beyond into demand management, Supplier Relationship Management (SRM) and risk management. With relatively low levels of spend under contract and under management in many sectors, there remains a significant opportunity for Procurement to stretch beyond cost savings to deliver more strategic value to the organisation.
- **Achieving the optimal operating model:** Whilst the majority of Procurement organisations have already adopted a more centralised operating model, many still face challenges in translating this into strategic value for their businesses. CPOs and Supply Chain Directors will increasingly find themselves reassessing their operating models to squeeze greater value from their activities around the world, while providing a robust centralised framework that delivers efficiencies across the business at a reduced operating cost for the function as a whole.



An opportunity exists for Procurement professionals to drive real value for their organisations and – as a result – tangible competitive advantage



- **Prioritising supply chain risk:** Given the events of the past five years – financial crisis, natural disasters and massive supplier failures, to name just a few – the research demonstrates a worrying lack of leadership in the area of supplier risk. Procurement will need aggressively to push the inclusion of supply chain risk on the broader business agenda in order to protect the business from the uncertainty and turbulence that almost certainly lies ahead.
 - **Leveraging systems and technology:** Whilst supply chain technology and business systems have evolved rapidly, many Procurement functions seem unable – possibly unwilling – to leverage these new capabilities in order to bring greater automation to the business. In many cases, the situation is even more alarming: having made the investments, they have yet to realise the value. In particular, the business will increasingly be looking to Procurement to maximise their existing systems and technology to provide greater clarity into the Management Information and Business Intelligence processes.
- Not surprisingly, our research also uncovered a number of differences across the various business sectors. Some – such as Manufacturing, Consumer Packaged Goods and Retail – boast fairly mature Procurement capabilities reflecting the importance of suppliers within the core business. Others, however, still have some way to go. In brief:
- **Financial Services** organisations performed well in a number of key capabilities such as risk management, bringing spend under contract and formalising Procurement policy. However, the sector will likely face significant challenges as a result of new and proposed regulation.
 - **Transportation and Logistics** organisations reported mixed maturity with some organisations performing very well, with others noticeably lagging behind their peers, particularly in demand management and use of systems and technology.
 - The **Public Sector and Health** sectors also reported a mixed level of maturity, with a small number of exemplars who have achieved ‘excellence’ in category management and strategic sourcing disciplines. This was balanced by the majority who were still performing at ‘established’ levels and managing less than 60 percent of spend, showing that the wider Public Sector still has considerable opportunity to improve.
 - The **Not-for-Profit** sector showed a comparatively low level of maturity.
 - **Retailers** reported some of the highest levels of maturity, particularly in their Goods For Resale (GFR) spend, but indicated some room for improvement in the Goods Not For Resale (GNFR) arena.
 - **Manufacturing and Consumer Packaged Goods** respondents returned impressive results in SRM and Contract Management, but reported weak capabilities in Risk Management.
 - Good progress has been made by organisations within the **Energy & Natural Resources, Chemicals & Pharmaceuticals and Infrastructure** sectors with firmly established maturity in Risk Management and the use of Systems and Technology.
 - **Technology, Media, Telecommunications and Business Services** organisations generally performed well in areas such SRM, Contract Management and Risk Management, there are significant opportunities for Procurement to bring more spend under management and rationalise the supplier base.

Based on these findings, our global team of Procurement professionals has developed five key recommendations for CPOs and Supply Chain Directors seeking to raise the maturity of their function and ten questions that should be answered to provide a realistic and practical assessment of your Procurement maturity.

One thing is clear, however: An opportunity exists for Procurement professionals to drive real value for their organisations and – as a result – tangible competitive advantage. Now it’s up to CPOs and Supply Chain Directors to make the most of this opportunity.

key functional findings

ONE



1.1 A PLACE AT THE TABLE?

What will it take to elevate Procurement into a strategic role, worthy of a seat at the boardroom table?

For years, Procurement Managers have sought to ascend to the boardroom table to take a place alongside other enterprise services such as Marketing, Operations and Finance.

But, according to our survey, many Procurement functions still do not operate at a strategic level within the context of their wider organisations and – as a result – are neither recognised nor delivering as a true partner to the business.

Indeed, respondents seem to indicate that Procurement is continuing to struggle to make a strategic impact on the organisation. For example, our survey shows that – on average – Procurement influences less than 60 percent of spend across both direct and indirect categories, which puts them in the ‘foundation’ segment of maturity (figure 1). What’s more, as illustrated in figure 2, most companies outside of the Retail sector indicate that less than three-quarters of their direct spend is currently under contract.

Figure 1a: Percentage of direct spend under management

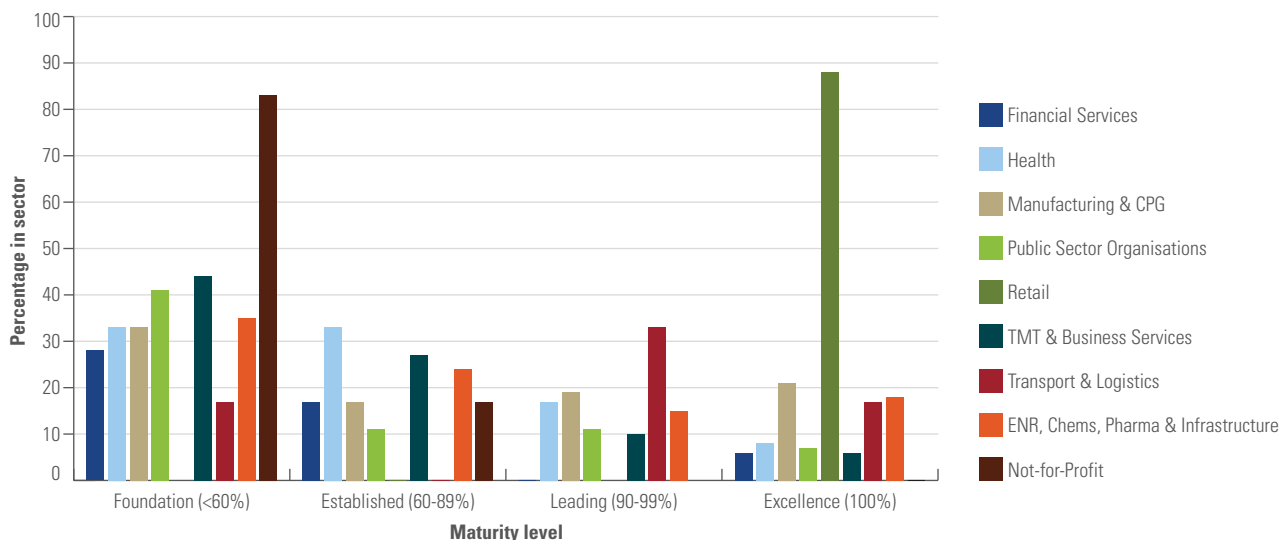
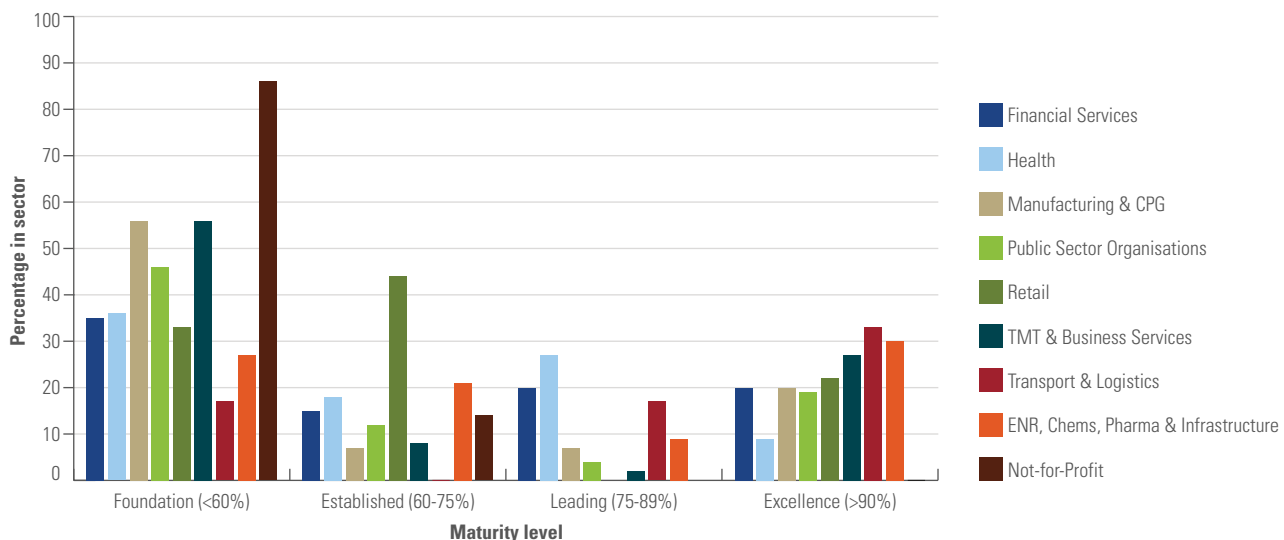


Figure 1b: Percentage of indirect spend under management





With the exception of Retail, less than 75% of third-party spend is under an active contract



Figure 2a: Percentage of spend under contract (of total direct spend)

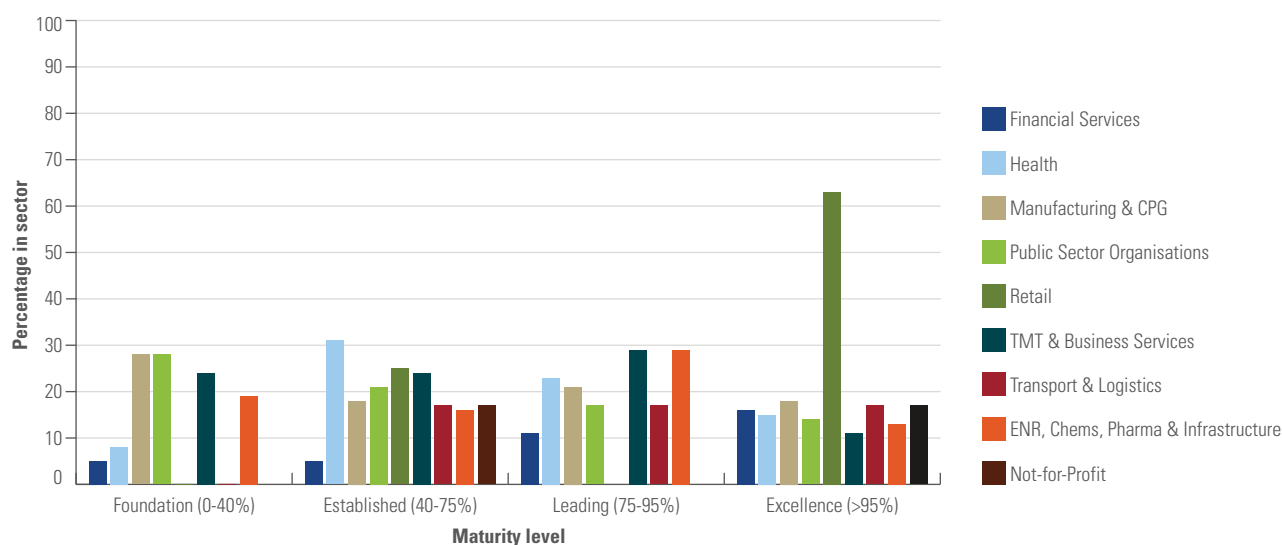
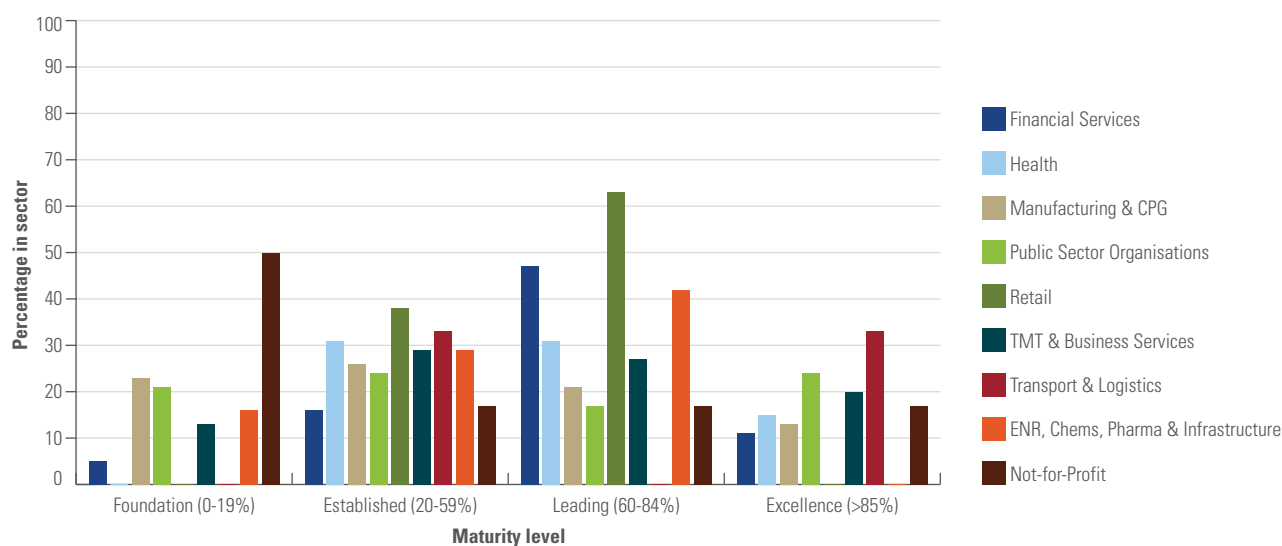


Figure 2b: Percentage of spend under contract (of total indirect spend)



By increasing the level of spend under contract, Procurement can achieve significant strategic benefits for the organisation such as increased leverage of spend, improved pricing, higher discounts, reduced risk of supply failure or contractual disputes. Moreover, effective contract management also

tends to result in better supplier segmentation allowing businesses to identify and track their top suppliers and – as a result – better manage risk (an area of particular importance given the high volatility experienced by most businesses in recent years).

Procurement generally influences less than 60% of spend across both direct and indirect categories

Interestingly, as we see in figure 3, only a small number of organisations claim to have 80 percent of their spend concentrated within 20 percent of their supplier base, indicating that many Procurement functions continue to

be spread thinly across multiple categories and vendors, thereby missing opportunities for improved SRM and supplier performance management, and driving up the cost of the Procurement function as a whole.

Figure 3a: Percentage of suppliers accounting for 80% of spend (for direct spend)

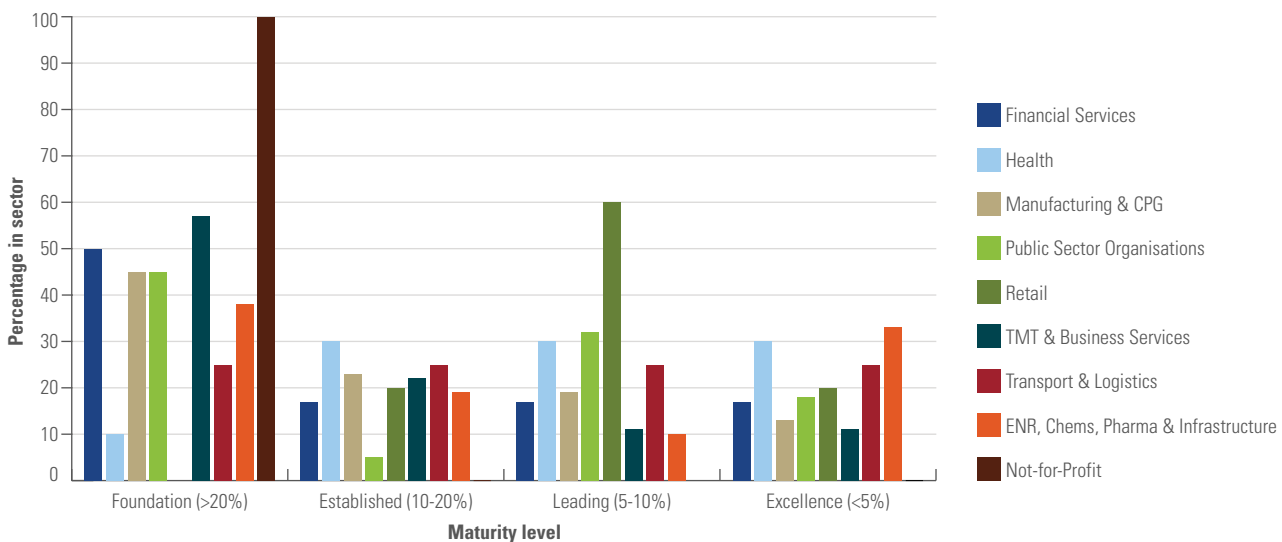


Figure 3b: Percentage of suppliers accounting for 80% of spend (for indirect spend)

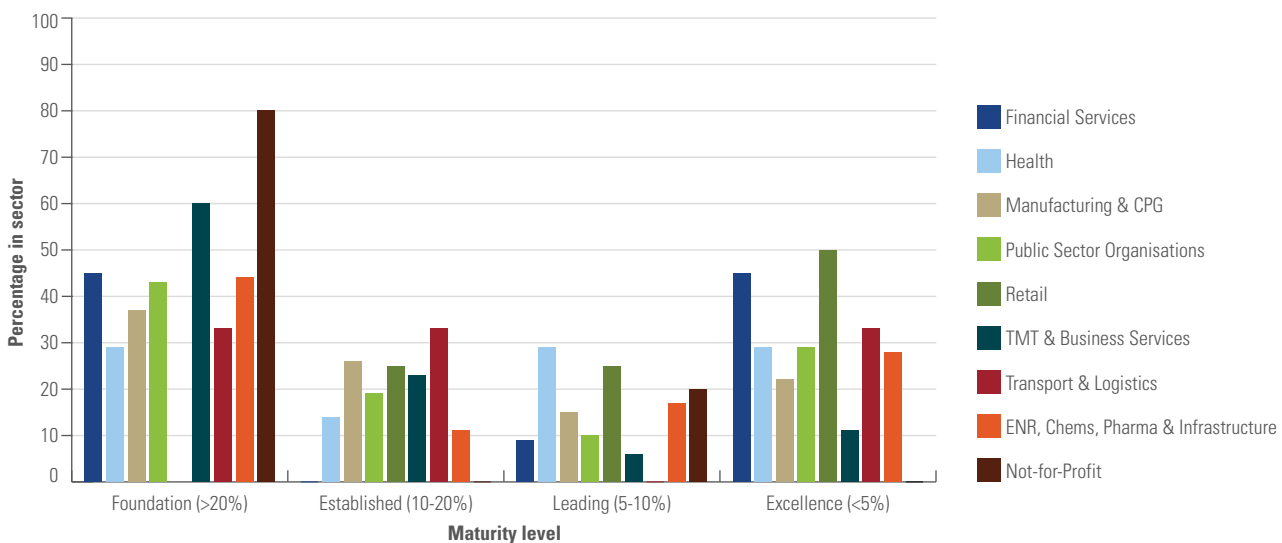
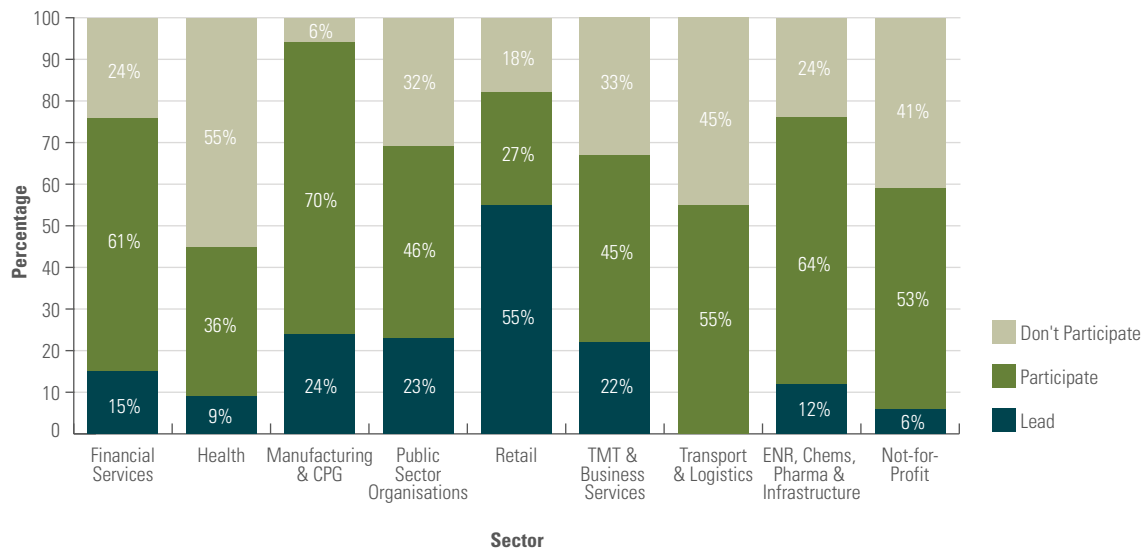


Figure 4: Level of involvement in 'Make versus Buy' decisions

Respondents also indicated a rather low level of participation in their organisation's 'make versus buy' decision-making process (figure 4). Only 17 percent said that they currently lead the process and almost a third (31 percent) admitted that they do not participate in the process at all. While the Procurement function is not strictly responsible for taking 'make versus buy' decisions

on behalf of the business, this is the point at which a large portion of the cost of the good or service is determined. Procurement departments have a critical role to play in driving value for money and managing the risk associated with these decisions. Those that take a leading role in this process tend to enjoy an enhanced strategic profile within the broader company.



31 % admitted they do not participate in 'make versus buy' decisions



The ability not only to create Procurement policy for the wider enterprise, but also to report and manage non-compliance is key to achieving a more strategic role for Procurement. However, as figure 5 clearly demonstrates, an overwhelming majority of respondents across sectors seemed to indicate an 'established' level of maturity here, meaning that while policies are evident and created

in collaboration with the organisation, they are not fully embedded in the Purchase to Pay process nor is non-compliance generally reported or managed. As a result, many Procurement organisations find themselves tied-up managing issues related to too many suppliers, off-contract purchases or varying price points, and missing the opportunity to improve their standing with Finance.

Figure 5a: Degree of maturity relating to Procurement Policy (for direct spend)

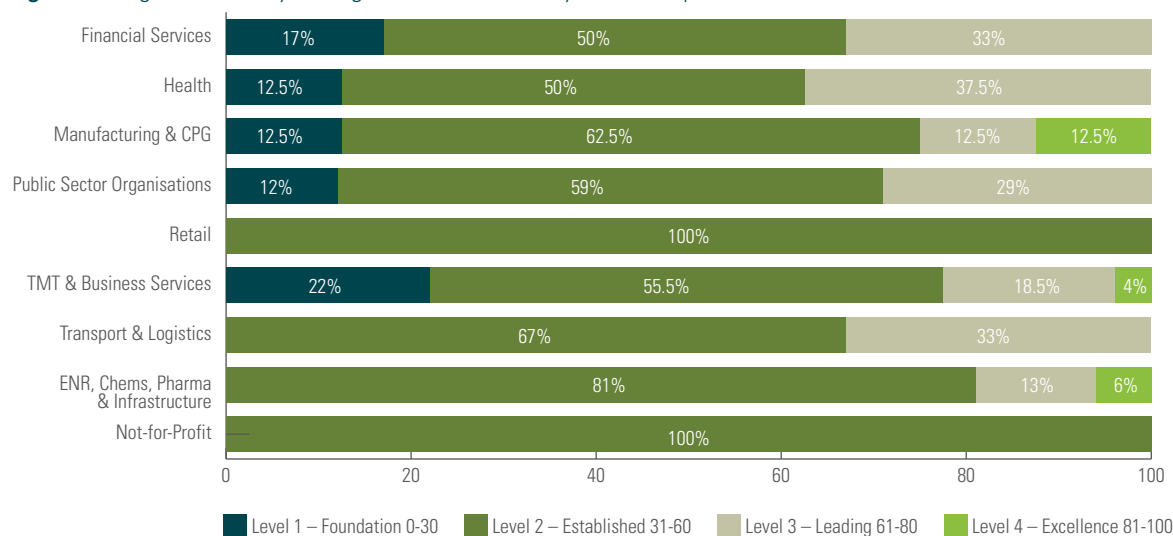
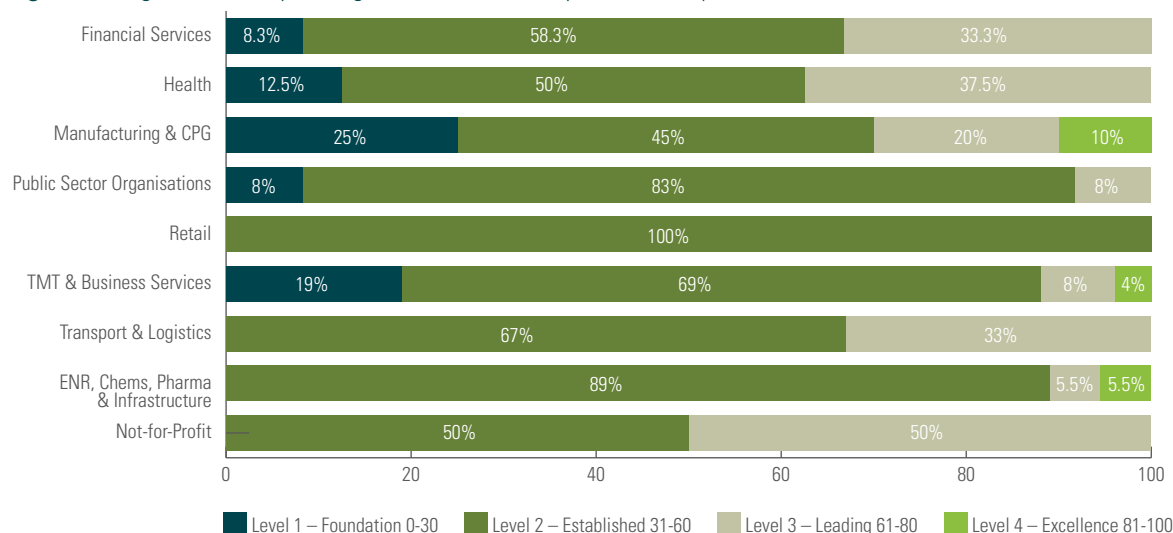


Figure 5b: Degree of maturity relating to Procurement Policy (for indirect spend)



Level 1 – Foundation 0 30	Level 2 – Established 31 60	Level 3 – Leading 61 80	Level 4 – Excellence 81-100
<ul style="list-style-type: none"> Procurement policies exist, but are not consistent, widely communicated, or adhered to 	<ul style="list-style-type: none"> Policies are evident across most categories of spend, processes, and systems Policies are created in collaboration with the organisation and publicised 	<ul style="list-style-type: none"> Policies are embedded in Purchase to Pay systems Non-compliance is reported and actively managed 	<ul style="list-style-type: none"> Policy is used as a mechanism for driving behavioural change throughout the organisation Non-compliance is exceptional

KPMG VIEWPOINT

The evidence indicates

that the majority of Procurement functions still don't have a strategic role and are generally not considered (nor optimally delivering) as a true business partner to the organisation.

In many cases, this is a direct outcome of ineffective governance, policies and procedures or a lack of appropriate Procurement engagement during the early stages of the procurement process. As a result, those organisations are failing to make effective purchasing decisions, not fully leveraging their spend and economies of scale, and leaving themselves open to significant business and commercial risk.

So whilst early Procurement involvement has been proven to deliver higher savings, the reality is that Procurement is usually brought into the process to either close a deal or advise on the contract terms, when it is often far too late to add significant value – or often only when the commercial process has already broken down.

The results also show that Procurement is not placing sufficient focus on monitoring and tracking compliance across the organisation and – with no real repercussions for non-compliance – is facing real challenges in maintaining control over both direct and indirect spend, and in supporting demand management activities.

Across the board, CPOs will need to place more focus on becoming effective change leaders and in engaging internal customers to better communicate the value of Procurement. According to one respondent “We use a lot of buzzwords like SRM and category management, but it doesn't mean much to the business. We must start to communicate in a language that the business understands.”

Of course, this will also require Procurement to refocus their efforts to include other value-added services to the business besides simply reducing purchasing costs. However, this usually requires a culture-shift, taking Procurement away from the tactical, category-focused culture that seems to dominate most functions, to one that is fully aligned with the organisational goals and active in the strategic decision-making processes of the business. For example, by helping the organisation to develop a 'cost conscious culture', the function can drive greater strategic value and fill the role of change leader rather than order taker.

1.2 STRETCHING BEYOND SAVINGS

How will Procurement elevate their game beyond savings to deliver real value to the organisation?

Whilst most Procurement functions have made great progress in terms of creating value for their organisations, our research indicates that momentum has somewhat stagnated recently. In large part, this is because much of the 'low hanging fruit' has already been harvested in terms of cost savings, leverage and price. As a result, Procurement functions will need to stretch to identify and capitalise on opportunities to add value, while also securing appropriate organisational investment to enable Procurement to develop into this more strategic role.

Our research indicates a direct link between an ability to achieve greater cost savings and an overall maturity in category management, strategic sourcing and SRM (see figure 6). Indeed, those organisations that reported either 'excellence' or 'leading' maturity in these areas tended to deliver a higher percentage of savings than their slightly less mature peers.

For example, in 'mature' Procurement functions, SRM is seen to provide a structured approach to contract or service performance management that offers Procurement an opportunity to leverage the relationship and drive continuous incremental value to both the top and bottom line. However, outside of the Manufacturing and Consumer Packaged Goods industries, our research indicates that only around half of all Procurement functions currently lead the SRM process within their organisation.

As illustrated in figure 7, focus must also be placed on category management and strategic sourcing. Only four percent of Procurement functions claim to have achieved 'excellence' for direct spend – defined as having a strategic place within the organisation as a generator of value beyond merely savings through competitive negotiations. Rather, the vast majority (64 percent) fell into the 'established' category, where category management and strategic sourcing processes have been created, but were not fully recognised within the organisation as potential sources of value.

Figure 6: Correlation between SRM maturity and % cost reduction savings (direct spend)

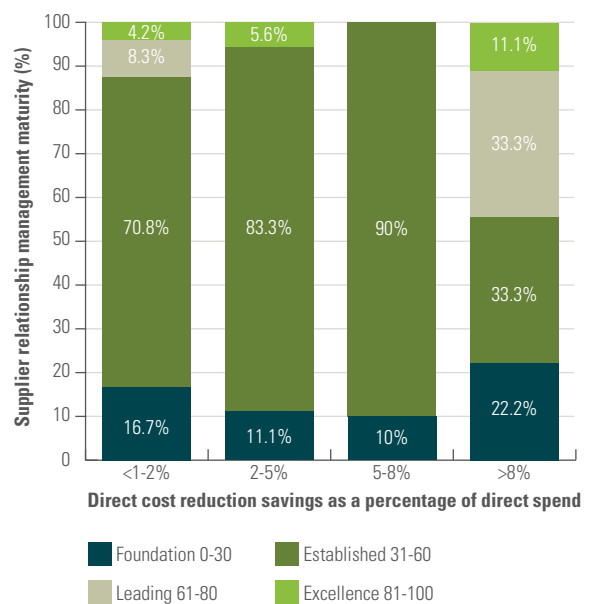
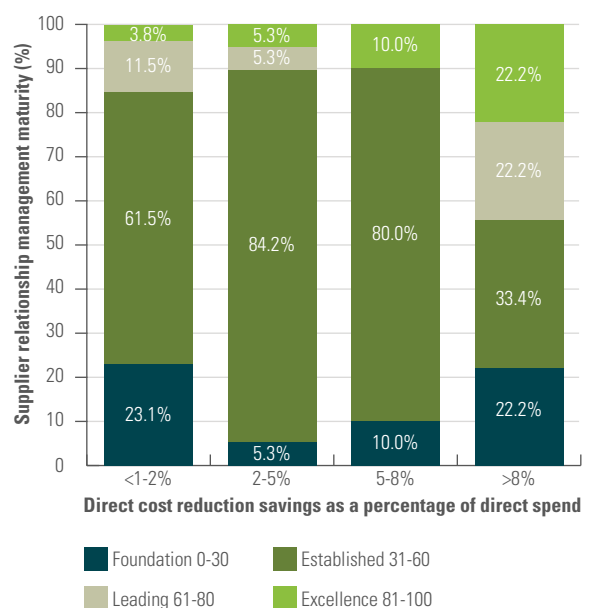


Figure 7: Correlation between maturity in Category Management and Strategic Sourcing, and % cost reduction savings (direct spend)





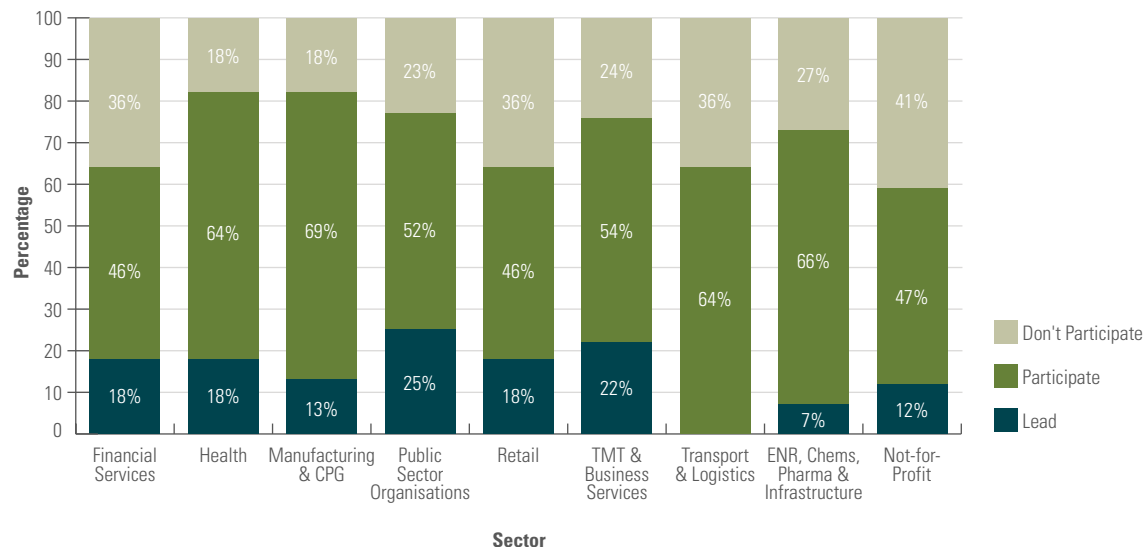
Our research indicates a direct link between cost savings and maturity in category management, strategic sourcing and SRM



Demand management is another key lever of value creation available to Procurement functions. But, as we see in figure 8, only 17 percent of respondents said that they lead their organisation's demand management activities and more than a quarter admitted that they do not participate in this activity at all. And whilst this may

imply a larger focus on negotiating commercial terms rather than achieving specific functional requirements, it is likely a result of Procurement either being brought into the process late in the business cycle, or not being sufficiently engaged within the business in the first place.

Figure 8: Level of involvement in Operational Demand Management activities



17% of Procurement functions lead demand management activities and 29% do not participate in this activity at all

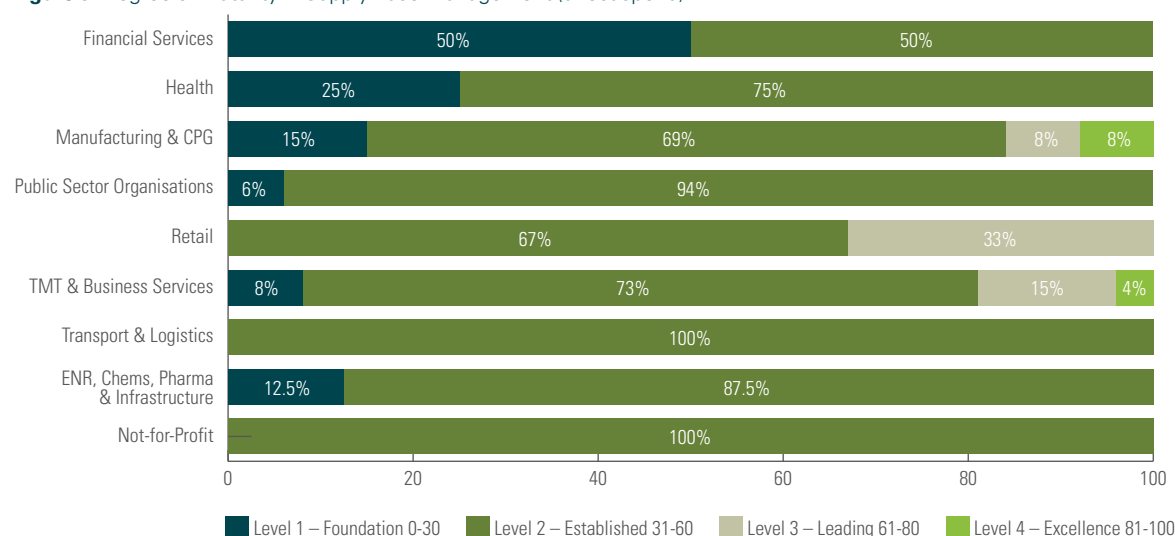


Only 4% of respondents claimed to have achieved 'excellence' in strategic sourcing and category management for direct spend

The other discipline critical to helping Procurement functions add value is supply base management (see figure 9), where savings can often be achieved through approaches such as supply chain simplification, product and service consolidation, or joint supplier / customer innovation. On the more positive side, more than

three-quarters of respondents suggested that they had achieved a risk-based segmentation of suppliers and realised a contract management database (or equivalent) that covered at least three-quarters of their direct and indirect spend, suggesting strong progress in this area for many organisations.

Figure 9: Degree of maturity in Supply Base Management (direct spend)



Level 1 – Foundation 0-30	Level 2 – Established 31-60	Level 3 – Leading 61-80	Level 4 – Excellence 81-100
<ul style="list-style-type: none"> Suppliers are qualified using a balanced set of criteria Supplier performance measurement is limited to supplier generated data Contract and supplier specific interventions are reactive Supplier management activities lack formal processes for delivery Significant contracts and/or suppliers are identified using a risk-based evaluation 	<ul style="list-style-type: none"> Supplier performance management is established and includes customer generated data Contract and/or supplier reviews are held periodically against a defined agenda The supply base management strategy is defined Supplier performance management includes a commercial element and is linked to the award of future contracts; poor performance is escalated in a controlled manner to executive level and leads to exit over time 	<ul style="list-style-type: none"> Contractual obligations are tracked throughout the whole contract management life cycle Supplier development is an integral part of the organisation's supply base management strategy 	<ul style="list-style-type: none"> Significant contracts and/or suppliers have active executive level involvement Collaboration with suppliers occurs regularly and drives tangible additional value from the relationship

KPMG VIEWPOINT

Clearly, Procurement functions

will need to place renewed focus on building capacity in a number of key disciplines if they hope to deliver greater value to their organisations. Across category management, strategic sourcing, SRM, demand and supply base management, our research suggests that significant opportunities still remain to drive sustainable bottom line and top line value.

Some of the 'heavy lifting' in this regard will fall on the shoulders of Procurement, who will need to stretch beyond savings to become a centre of value creation throughout the organisation. Executives will also need to play a part. Poor results in category management, for example, often reflects a lack of understanding on the part of the executives who – without an immediate need to drive out costs – may not see the full value in category management. Indeed, a wider organisational

recognition and investment in the role of strategic Procurement is essential in enabling the function to deliver a greater contribution to the business.

That said, the data also demonstrates that many organisations are progressing along a value creation journey. So whilst some organisations that achieved 'excellence' or 'leading' rankings in key areas reported a lower percentage of cost reduction savings, this is more likely indicative of organisations that are well progressed along this journey rather than an unsophisticated Procurement function. This is also the case for certain sectors (such as Retail) where the supply market is largely inflationary.

Similarly, a number of respondents to our survey reported achieving relatively high cost savings while at a 'foundation' or 'established' level of maturity in the core processes, indicating the reaping of low hanging fruit.

The Evolution of Supply Chain Finance

As capital becomes increasingly dear, many Procurement organisations are starting to explore innovative Supply Chain Finance models aimed at freeing up working capital and ensuring productive relationships with key suppliers.

There are various structures of Supply Chain Finance programmes:

- Supplier driven programmes (or Receivables Financing);
- Inventory Finance;
- Purchasing Cards, and
- Buyer driven programmes.

In **supplier-driven programmes**, suppliers 'sell' their receivables to a bank in exchange for a fee (typically in the range of 2-4 percent). In return, the supplier is immediately advanced 80 percent of their invoice value, thereby providing instant access to working capital. However, the model is often considered to be expensive for suppliers and costs are generally added into the price offered to buyers.

With **inventory financing**, suppliers own stock held on the buyer organisation's site until the buyer uses it. While this means that less of the buyer's cash is tied up in stock, it can lead to increased cost of goods. **Purchasing cards** can be an excellent tool for consolidating low spend transactions and can provide

access to rebates, but the fees charged by card providers can make it an expensive option for the supplier.

In **buyer-driven receivables** models, a company that has a good credit standing sets up an arrangement with a bank to provide funding to the company's suppliers. The programme allows suppliers to sell or discount their receivables from their sales invoices and get immediate cash payments. The discount rate depends on the credit rating of the buyer rather than the supplier. The buyer has the benefit of an enhanced relationship with its suppliers and, through helping the supplier gain funding, is reducing risk within its own supply chain. Appropriate IT systems and effective communication between parties is critical to enable this type of programme.

More recently, **buyer-driven payables** programmes have emerged whereby the buyer pays early in return for early payment discounts from suppliers. In some cases, buyers arrange a preferred rate with a bank which is used to settle invoices within a shortened timeframe. However, buyers with strong balance sheets may consider funding the mechanism themselves, essentially allowing the buyer to turn cash into additional revenue. The model is considered to be a fairly straightforward but innovative option that provides a win-win situation for both buyers and sellers.

Selecting the appropriate model will depend on the specific drivers and circumstances of an organisation, as well as the internal capability to deliver.

KPMG formed part of the Supply Chain Finance working group, chaired by The Association of Corporate Treasurers, which reviewed the supply chain finance market in 2010. The report of this working group can be found at www.treasurers.org/scf

1.3 CENTRING ON VALUE

Does a centralised Procurement operating model provide better value and performance to the organisation?

As the global business landscape becomes increasingly competitive and complex, many organisations are adjusting their Procurement operating models to achieve greater value creation and operational performance. However, over the long-term, few organisations regularly review their operating models or make the necessary adjustments to continuously ensure that Procurement is integrated into the business and delivering increasing levels of value.

Our research demonstrates that the majority of organisations around the world now subscribe to a more centralised operating model (figure 10), enabling businesses to leverage their buying power across the globe, gain greater control of their spend and build core standard business processes to drive greater consistency and value from Procurement. It is not surprising, therefore, that centralised organisations tended to report the greatest value from a cost savings perspective (as shown in figure 11).

Figure 10a: Percentage of spend managed by various operating models (direct spend)

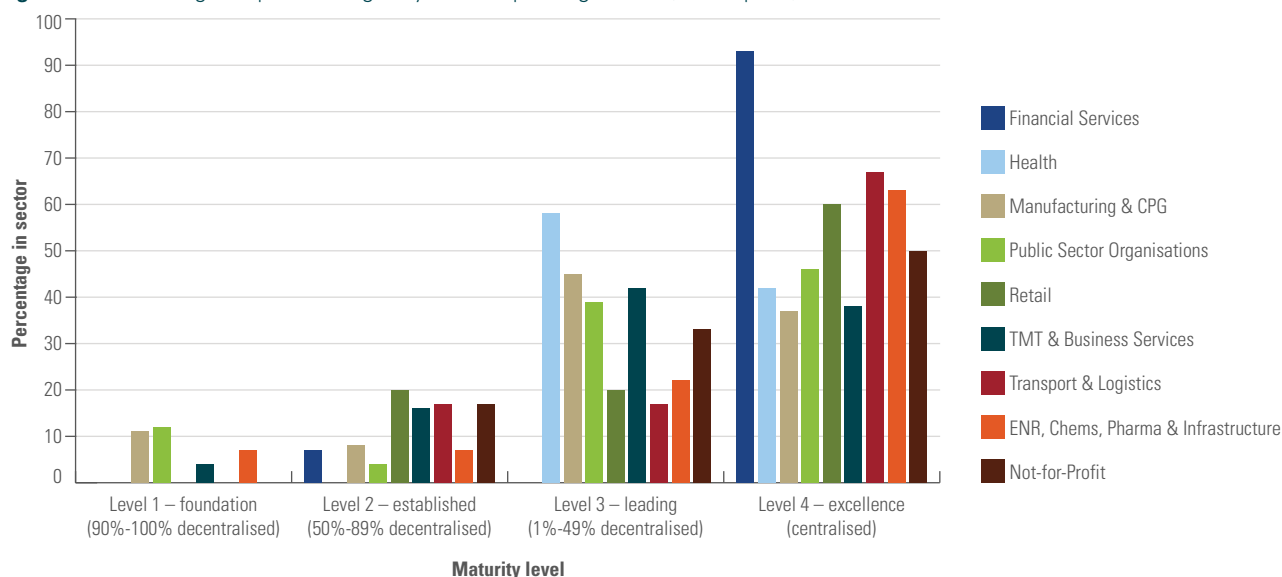
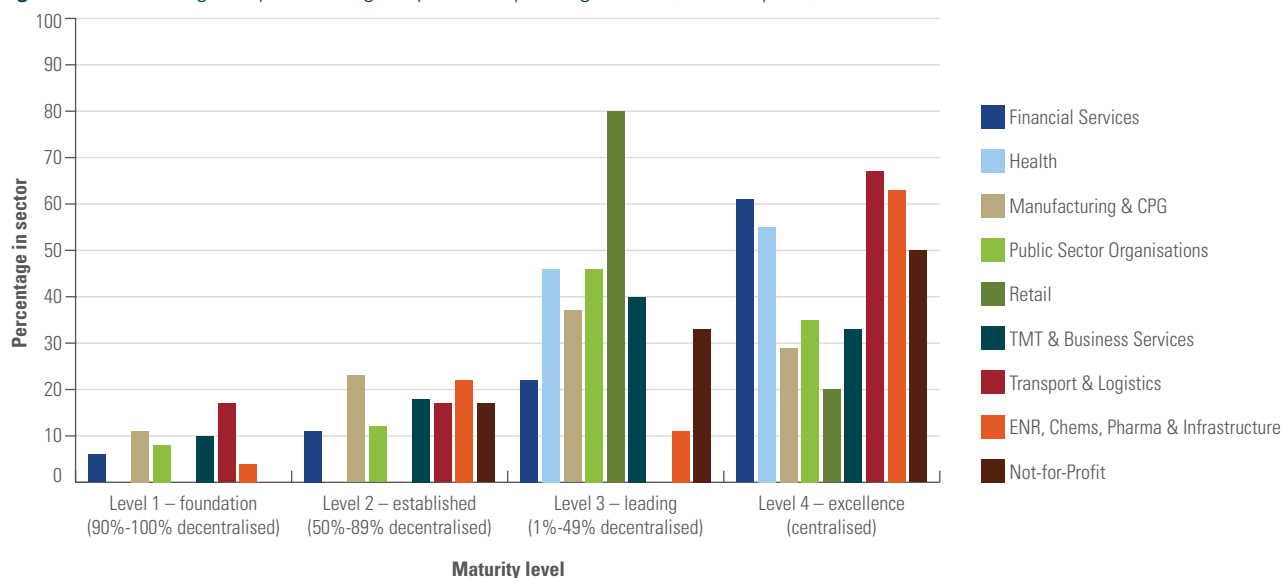


Figure 10b: Percentage of spend managed by various operating models (indirect spend)





Half of all respondents indicated that they had adopted either a centralised or centre-led operating model



Figure 11a: Average cost reduction savings for various operating models (direct spend)

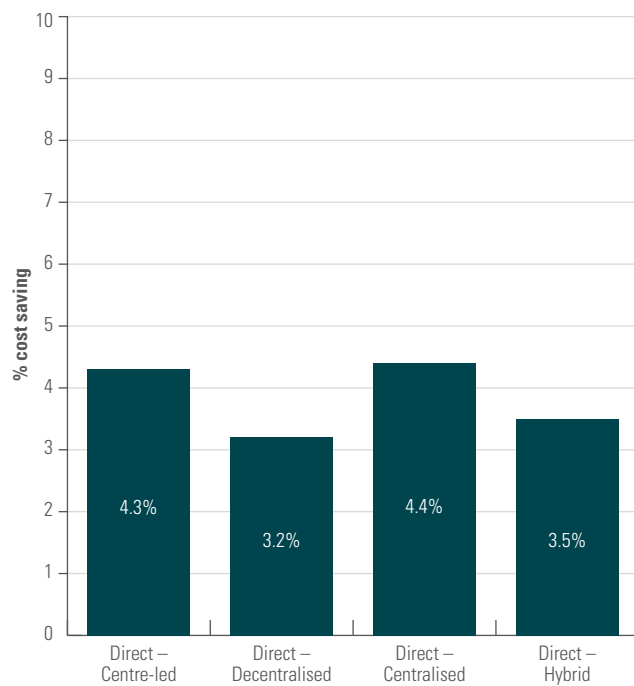
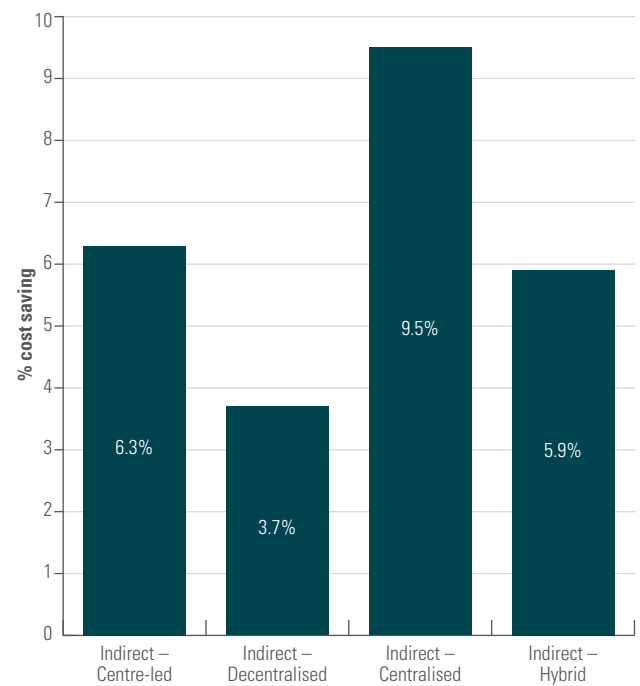


Figure 11b: Average cost reduction savings for various operating models (indirect spend)



Centralised and centre-led functions report the highest levels of cost reduction and spend under management



The centralisation of Procurement also seems to help organisations deliver greater value beyond cost savings. For example, as figure 12 illustrates, centralised models tend to achieve greater strategic focus and demonstrate a higher degree of influence over spend, which not only cuts costs and results in better category management, but also results in a higher profile for Procurement across the organisation.

In comparison, organisations operating under more decentralised models typically report an impact on their ability to maximise value through activities such as supply base consolidation, increasing spend under management, or capturing efficiencies and savings. So while a decentralised model may be preferable for organisations facing unique local requirements, organisational considerations or close supplier relationships, this research clearly demonstrates that it is much less conducive to driving value in the long-term than more centralised models.

Interestingly our research indicates a clear correlation between operating models and the maturity of Procurement’s indirect category management and strategic sourcing capabilities (figure 13). For example, those with decentralised operating models tended to report ‘foundation’ maturity in this area, characterised by poor compliance and a lack of integration within the organisation leading to sporadic utilisation.

At the same time, those with more centralised or centre-led operating models tended to exhibit more ‘excellence’ in category management, largely the result of achieving a high level of consistency by having all Procurement operations managed from a single location. In these cases, respondents report having processes that are mandated and which are widely viewed as a generator of value throughout the organisation.

Figure 12a: Average spend under management for various operating models (direct spend)

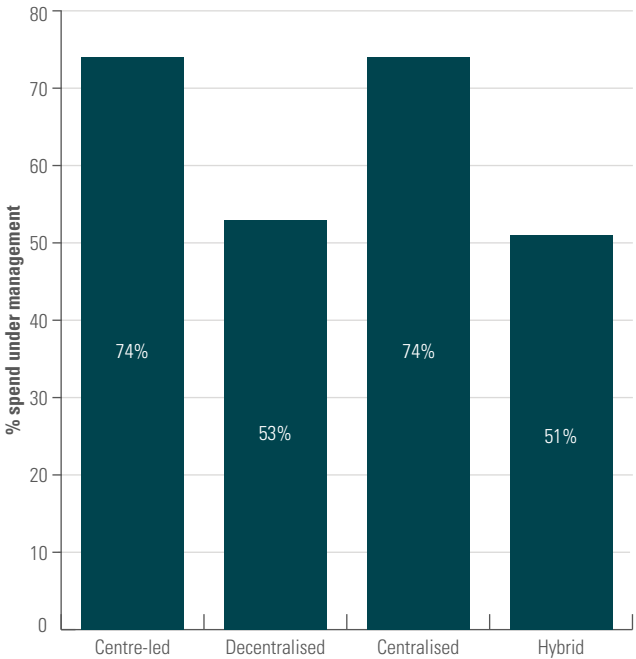


Figure 12b: Average spend under management for various operating models (indirect spend)

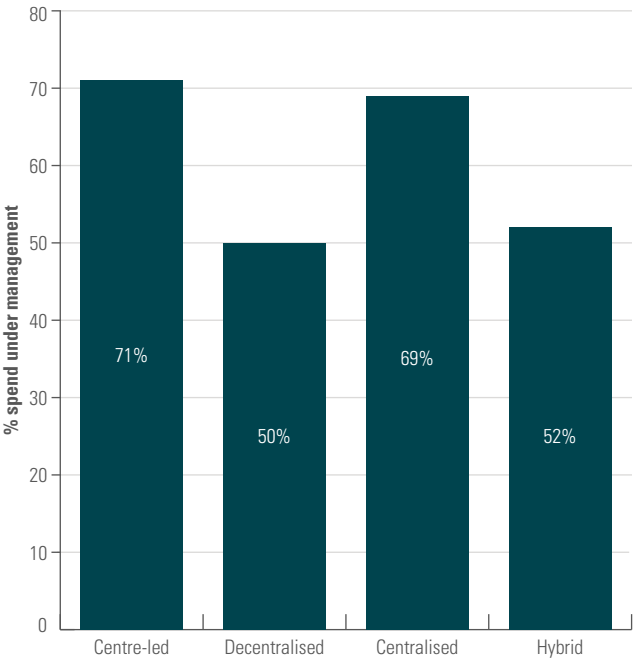
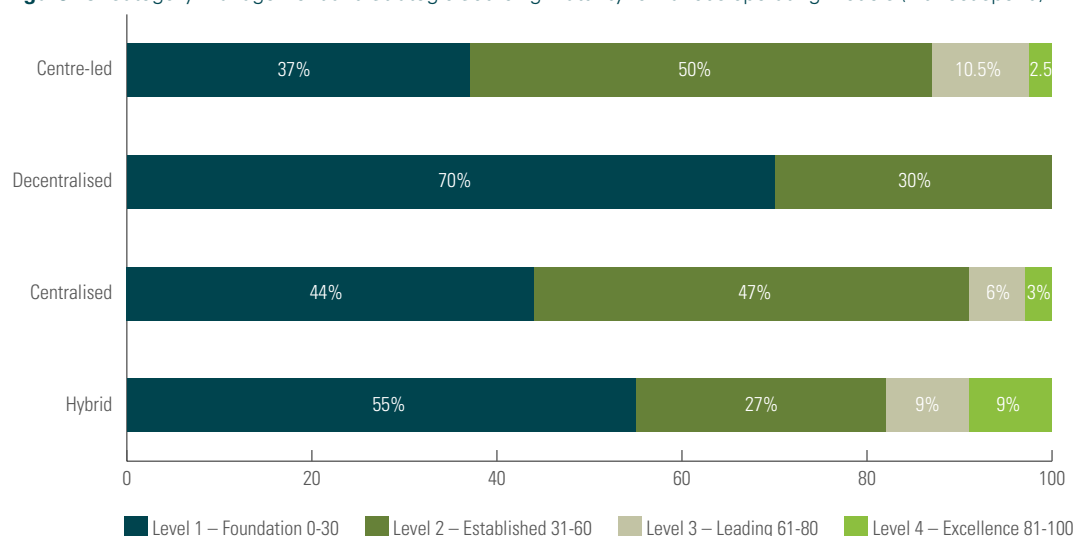


Figure 13: Category Management and Strategic Sourcing maturity for various operating models (indirect spend)

Level 1 – Foundation 0-30	Level 2 – Established 31-60	Level 3 – Leading 61-80	Level 4 – Excellence 81-100
<ul style="list-style-type: none"> The organisation has basic category management and strategic sourcing processes documented Discipline around process adherence is poor with the processes not fully engrained within the organisation leading to sporadic use 	<ul style="list-style-type: none"> Developed category management and strategic sourcing processes exist and are engrained within the procurement department and the wider organisation Category leadership and team members from the wider organisation have clear roles and responsibilities assigned 	<ul style="list-style-type: none"> All spend is managed through category management and strategic sourcing processes with a competitive sourcing process mandated, (exceptions are subject to executive level approval) Extensive collaboration on global categories/strategies 	<ul style="list-style-type: none"> Category management has a strategic place within the organisation as a generator of value with total buy-in from executive level Procurement are seen as market makers with target suppliers identified and engaged where necessary



Organisations operating under more decentralised models typically report an impact on their ability to maximise value



KPMG VIEWPOINT

While the benefits of employing a more centralised operating model are widely accepted in academia, this research provides continuing evidence that centralised operating models lead to greater value creation and control over spend than that enjoyed by decentralised models.

So while there is little doubt that decentralisation may well work in specific instances, evidence shows that the supply chain benefits often pale in comparison to those achieved through centralisation.

More recently, a small number of organisations have started to evolve their centralised model further still; having developed and formalised the appropriate processes, controls and governance frameworks, the function is now starting to shift more of the operations back out to the business through partnering and a greater focus on internal customer management. In effect, this has elevated Procurement into a change leadership role where – instead of policing policies – the function instead provides guidance, counsel and support in helping the organisation adopt and comply with existing (centrally defined) policies.

That said, it should be noted that there can be other benefits with a decentralised model. More autonomy in the business units and regions often allows the organisation to identify opportunities for innovation within their market and may provide more flexibility to smaller business units in a period of high growth.

1.4 RUNNING THE RISK

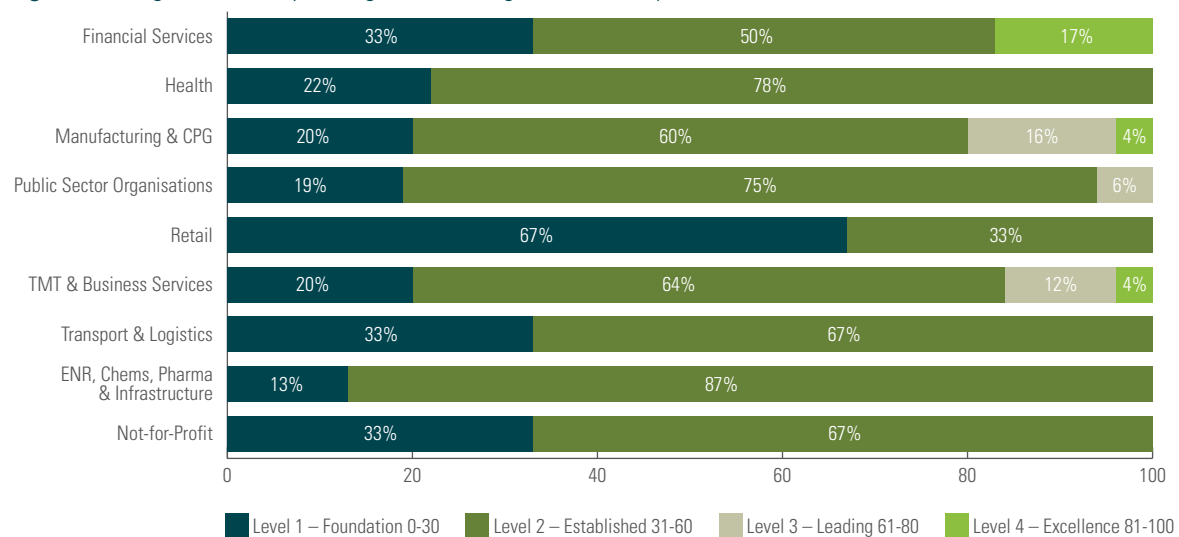
How can Procurement functions integrate their role in supply chain risk management into the organisation's overall risk process, strategy and execution?

Despite the often harsh lessons meted out by the global financial crisis, our survey finds that Procurement's role in supply chain risk management is immature in terms of the organisation's wider risk management process and strategy.

As illustrated in figure 14, more than a quarter of all respondents reported only 'foundation' maturity in terms

of risk management, and the vast majority (60%) ranked themselves as 'established'. And while this means that a significant number now deploy a reasonable approach to categorising and risk-assessing their suppliers in terms of criticality to the business, this level of maturity falls far short of best practice in risk management.

Figure 14a: Degree of maturity relating to Risk Management (direct spend)



Across all sectors, 82% of respondents reported 'foundation' or 'established' maturity in risk management for direct spend, while 92% reported the same for indirect spend

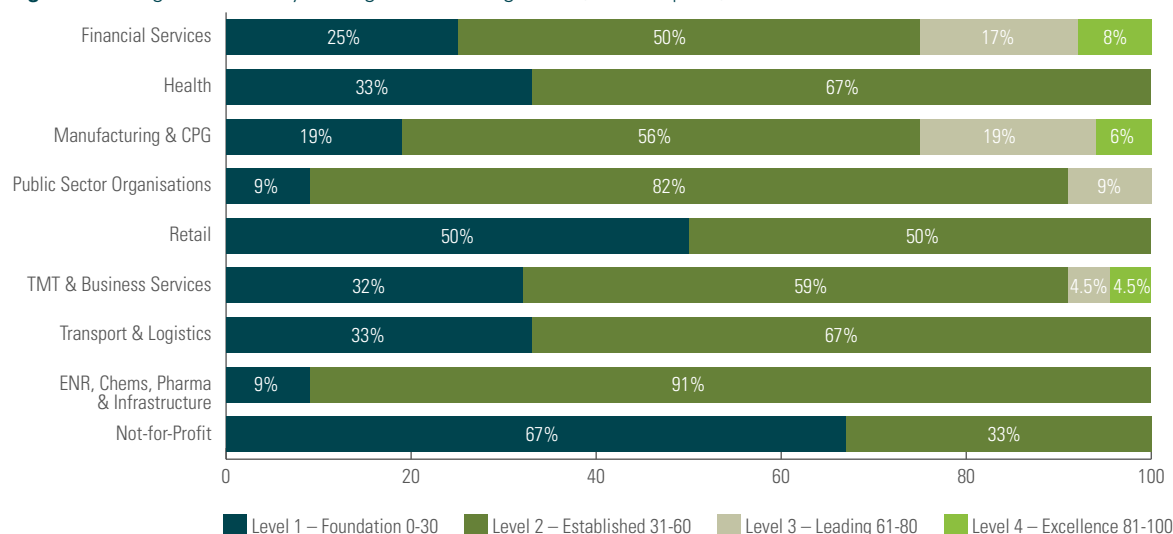




More than a quarter of respondents struggle to get beyond the basic level of maturity for Procurement risk management



Figure 14b: Degree of maturity relating to Risk Management (indirect spend)



Level 1 – Foundation 0 30	Level 2 – Established 31 60	Level 3 – Leading 61 80	Level 4 – Excellence 81-100
<ul style="list-style-type: none"> Established processes in existence for the consideration and mitigation of supplier risk including a basic audit capability and pre-contracting due diligence process 	<ul style="list-style-type: none"> Supplier risk processes assess operational success, reputation and financial risk, categorising and prioritising suppliers to ensure deeper risk assessments are undertaken across the 'critical' supply base, with risk management being part of the category strategy development process 	<ul style="list-style-type: none"> Risk management is an integrated part of the procurement day-to-day operations, and contract management process, with processes expanded to assess the total value chain risk situation Additional risk processes are in place to assess the risk of failure of Partnership contracting, Joint ventures and complex multi-firm contracts 	<ul style="list-style-type: none"> Procurement risk management is an integrated part of the organisation's overall risk process, strategy and execution forming part of the Business As Usual (BAU) and the continuous improvement programmes Strategic investments throughout the value chain are appropriately assessed as part of the risk management approach

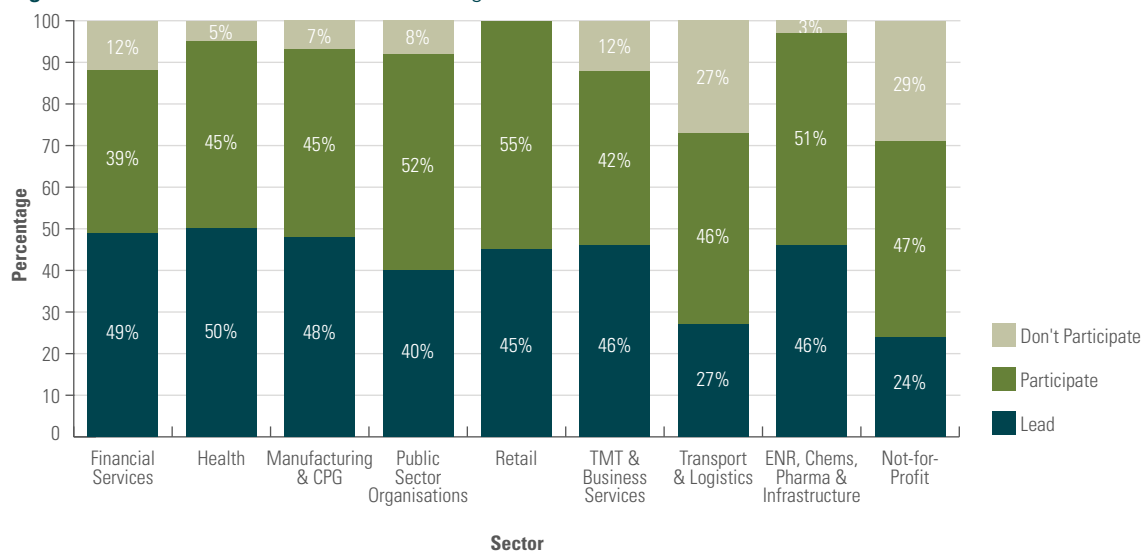
This is despite the finding that 44 percent of Procurement departments now lead their organisation's contract management activities (see figure 15), with a similar proportion taking a participatory role.

With most Procurement functions still achieving less than 60 percent of spend under management, many organisations are unwittingly exposing themselves to potential reputational and financial risk.

The research also indicates that most Procurement functions are not currently utilising tools and processes to enhance their risk management efforts. Only 22 percent

were in the upper maturity levels for Procurement policy relating to direct spend, and very few have rationalised their supplier base.

It is also worth noting the importance of active contract management in helping the organisation remain compliant with regulation. For example, the UK's Bribery Act 2010 requires organisations to have 'had in place adequate procedures designed to prevent a person associated with it from undertaking such conduct'. This extends to all material suppliers.

Figure 15: Level of involvement in Contract Management and Audit

Similarly, new regulation is expected in 2012 that forces US-listed companies to disclose whether certain minerals used in their operations originate from war-torn central Africa and – if so – the SEC will require organisations to demonstrate a full understanding of their supply chain for these minerals. Those found to be using ‘conflict minerals’ will likely be subject to scrutiny and significant public pressure to discontinue these practices, thereby creating a significant negative reputational effect for recalcitrant organisations.

However, by properly managing contracts and creating a robust audit trail of due diligence during both the on-boarding process and the life of the contract, Procurement can effectively ensure that the organisation remains compliant with this – and other similar – regulation, while simultaneously delivering the value promised in the contract.

44% of Procurement departments lead the contract management process, while a similar number participate in it

KPMG VIEWPOINT

Given the number

of high-profile supplier failures recently, coupled with the current state of flux in global markets and ongoing political unrest in certain parts of the globe, the relatively low level of maturity demonstrated in risk management is extremely concerning. Few companies are in a financial position to absorb a significant drop in revenue – nor the immense amount of management time required to resolve the long-term impact on reputation and customer satisfaction – that would result from prolonged stock-outs, interrupted service or safety recalls.

Even the best can be unexpectedly affected. Apple, the makers of the popular iPod and iPad devices suddenly found themselves facing a constricted supply of a chemical crucial to the manufacture of their lithium-ion batteries as a result of the natural disasters that hit Japan in March 2011. One can only assume that the company's Procurement professionals are now hard at work identifying a potential secondary source for the materials.

However, the results of the survey are not necessarily surprising: Procurement teams are typically driven by 'cashable savings' and it is often very difficult to put a cash value on the benefits of successful supply chain risk management.

It is telling, however, that results for indirect spend are generally better than those for direct. Indirect spend sits firmly within Procurement's remit and is often much easier for them to manage. Direct spend, on the other hand, is often somewhat more difficult to manage in terms of risk management, and Procurement may not be as proactive in taking ownership. It is also notable that developing countries tend to put a greater emphasis on the role of Procurement in reducing bribery, corruption and fraud. Procurement departments in more developed economies may do well to consider how they are tackling these issues, particularly

in light of increasingly demanding regulatory and legislative environments.

There is often no clear home for 'supplier risk' in organisations, meaning that it can fall between the gaps. And whilst finance, legal, and internal audit all play a role, none possess the combination of sourcing, contracting, legal, operational and financial expertise that can more easily be drawn together by the Procurement function. Indeed, when an issue arises with a supplier, the Board undoubtedly looks to Procurement for an answer and, as such, Procurement should seize this opportunity to take a more proactive role in risk management.

This will require Procurement professionals to act as central co-ordinators who own the supplier risk agenda, drawing on relevant expertise from other areas of the business as needed. This will help to ensure that the needs of all interested parties have been incorporated so that, for example, contracts are not only watertight from a legal perspective, but also practical from an operational standpoint.

Procurement will also need to work with the business to achieve greater visibility of the needs of the organisation, to understand better how individual contracts may need to be structured to reflect operational changes. In our member firms' experience, this activity is rarely carried out and long-term contracts are seldom re-visited post award.

The low percentage of spend under management and under contract also indicates that a large part of the supply base remains outside of Procurement's scope. This is particularly concerning as Procurement cannot own risk effectively without knowing the individual suppliers and their related contracts, and will therefore struggle to target spend for cost savings and efficiencies. The increasing complexity and collaborative nature of the supply chain creates greater trust in suppliers; but Procurement must have the

ability to identify where risks extend into billing and reporting accuracy, and be in a position to mitigate these risks through ongoing monitoring procedures.

For many organisations, this will only be possible if they are able to rationalise the supplier base. The simple truth is that few organisations possess the resources to manage the full spectrum of suppliers. They therefore focus their attention on their larger strategic suppliers, leaving a long tail of smaller suppliers that are essentially unmanaged. But it is worth noting that the potential for damage is rarely proportionate to the level of spend. For example, the loss of customer data by a small supplier providing niche services without a contract is no less damaging – either from a commercial or reputational standpoint – than the loss of data by a larger, more strategic supplier.

Organisations need to carefully consider where the balance lies between creating a reasonably rationalised supplier base and the need to ensure security of supply in the event of a supplier failure. In part, this can be accomplished by a degree of commercial tension amongst providers to create some flexibility to allow terms and pricing to be negotiated if required. But in KPMG firms' experience, this balance is often based on 'gut feel' rather than a well thought-out and formalised process founded on robust data and evidence.

That said, the centralisation of Procurement models is a positive portent for Procurement risk management as it creates a focal point with centralised expertise in managing contracts and supplier relationships. However, centralised Procurement functions must also remain cognisant of the impact of local and regional influences; a UK-based Procurement professional may not be privy to the nuances of the market and legislative risks in India, Russia or China, for example.

Procurement will also need to engage the Board in setting the risk appetite for the organisation's supply chain and then ensure that the right systems and processes are in place to effectively manage risk at the appropriate level. It is too dangerous to assume that the organisation will respond if it needs to. In the current volatile environment, supply chain disruptions will occur, and addressing how much time to invest in prevention is critical. Some organisations may think they can't afford the management time to do this, but – given the scale of the potential disruption – we would ask 'can you afford not to?'

Clearly, an effective approach to risk management can be a significant competitive advantage to companies operating in an increasingly turbulent and complex world. Procurement can – and should – play a greater role in protecting their organisations from risk but it is clear that many have some way to go before they can take their proper role in the organisation's risk management strategy.

Recent examples of disruption and reputational damage

- Thailand flooding halts Honda and Toyota auto production (November 2011) ¹
- Earthquake and Tsunami devastates Japan and interrupts world supply chains, particularly in the Auto industry (March 2011) ²
- Icelandic volcano eruption halts all air freight over Europe for six days (April 2010)
- Supplies of palm oil to Unilever alleged to contribute to destruction of Indonesia's rainforests (April 2008) ³
- Mattel forced to recall children's toys due to safety issue following sourcing of components from China (August 2007) ⁴

¹ www.autoblog.com/2011/10/13/thailand-flooding-halts-honda-and-toyota-auto-production/

² www.bbc.co.uk/news/business-12891710

³ <http://uk.reuters.com/article/2008/04/21/uk-britain-unilever-idUKL2153984120080421>

⁴ www.nytimes.com/2007/08/02/business/02toy.html

1.5 TAKING ADVANTAGE OF TECHNOLOGY

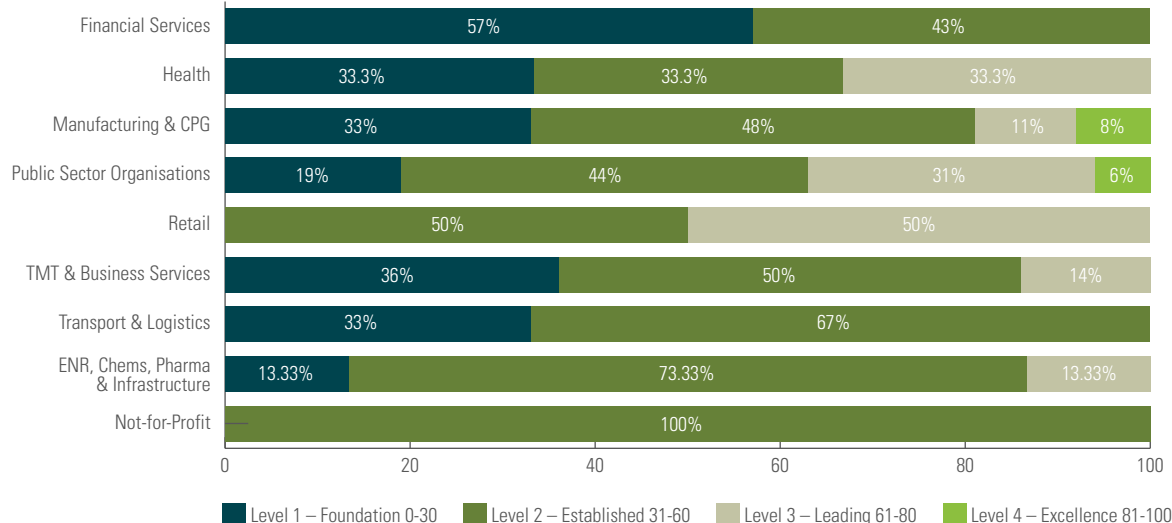
What will it take for Procurement to drive maximum value from their systems and technology investments?

Automation and adoption of technology is critical to enhancing Procurement's value within the organisation. Recently, many Procurement organisations have started to focus on achieving the full scope of benefits in their original business case for systems and technology.

But, according to our research, most Procurement functions still have some way to go before they achieve the full value from their technology (see figure 16). Indeed, 45 percent of respondents categorised themselves as displaying 'established' maturity when it

comes to systems and technologies. This group typically has developed a technology roadmap for Procurement which is aligned with the corporate IT strategy and architecture, and generally offer widely accessible user interfaces to support activities such as on-line catalogue ordering and the raising of purchase requisitions. On the other hand, the use of these systems is not always mandated within this group, thereby impacting the effectiveness of Procurement.

Figure 16: Degree of maturity relating to Systems and Technology (direct spend)



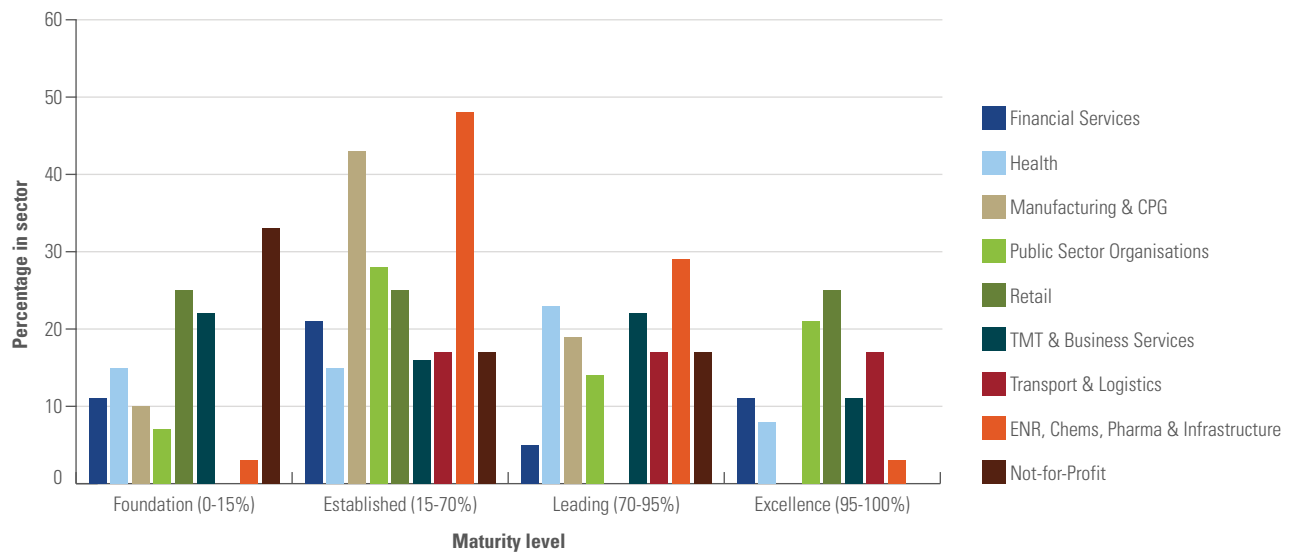
Level 1 – Foundation 0 30	Level 2 – Established 31 60	Level 3 – Leading 61 80	Level 4 – Excellence 81-100
<ul style="list-style-type: none"> The organisation has little system automation in their procurement processes Manual and paper-based transactions prevail with some basic system functionalities in place Procurement systems are not user friendly or intuitive, requiring specialised knowledge to operate and typically used by centralised purchasing staff only 	<ul style="list-style-type: none"> Systems provide more widely accessible user interfaces to support on-line ordering from catalogues Best of breed systems have been adopted with interfaces to the finance system Additional functionality is available, although usage is not mandated in all cases 	<ul style="list-style-type: none"> System functionality and usability allow procurement function to focus more on strategic responsibilities by decentralisation of transitions to user level Broader scope of eProcurement functionalities driven by clear ramp up roadmap for Purchase to Pay 	<ul style="list-style-type: none"> Fully integrated eProcurement solution well adopted and benefits are generated in a continuous, systematic and stable manner Procurement technologies enable established procurement influence to Operations and Finance



45% of organisations have achieved an 'established' level of maturity in their use of systems and technology



Figure 17: Percentage of invoices paid without manual intervention (indirect spend)



One key indicator of the use of systems and technology by Procurement is the level of technology enablement around Purchase-to-Pay (P2P) cycles. In a 'best of breed' system, P2P cycles are efficiently and fluidly integrated into the finance system, with workflow and sourcing decisions fully embedded and supported by e-Procurement tools.

So while figure 17 illustrates that 18 percent of companies still require manual intervention on at least 30 percent of their invoices, 'leading' procurement practices (such as those commonly found in the Retail industry) are achieving less than five percent manual intervention on their direct spend invoices. As a result, they are seeing

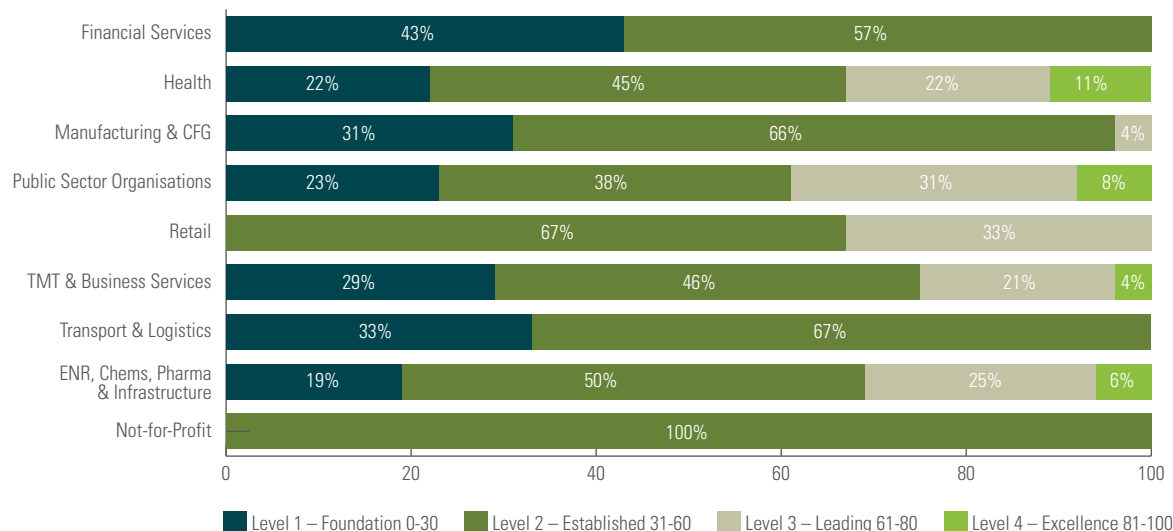
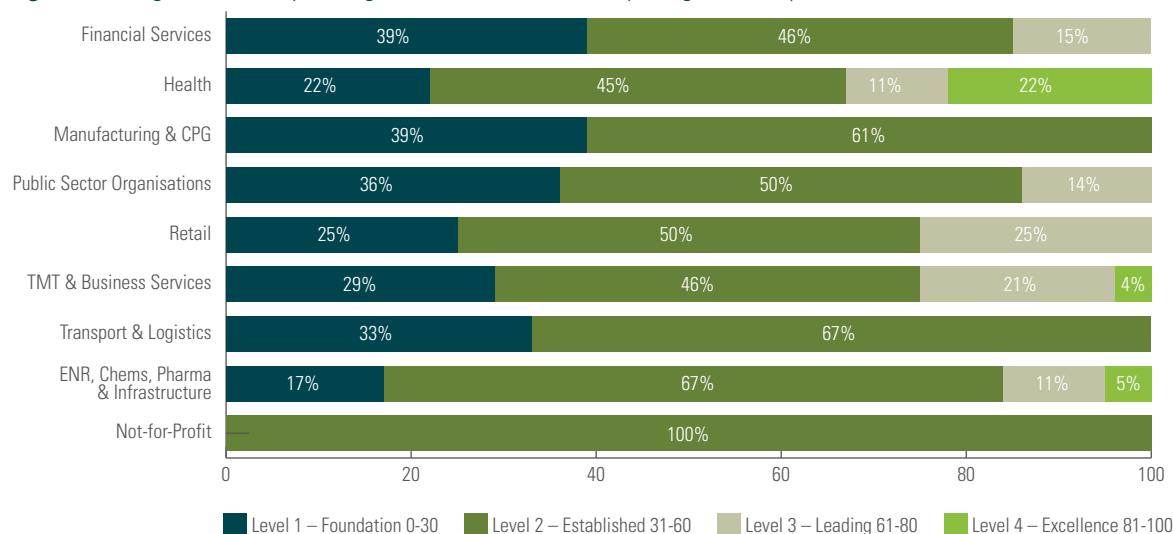
more immediate benefits such as improved working capital, contract compliance, management information and cost reduction, as well as increased efficiencies in headcount.

Around three-quarters of respondents also identified themselves as achieving an 'established' level of maturity in terms of their use of master data, MI and reporting (figure 18). This is good news in that it indicates that the majority regularly update the information used to inform decision-making, it also means that – for a vast majority – the process used to gather and present data is not as efficient as it could be, leading to unnecessary waste and inefficiency in producing reports.



On average, 18% of companies require manual intervention on at least 30% of their invoices



Figure 18a: Degree of maturity relating to Master Data, MI and Reporting (direct spend)**Figure 18b:** Degree of maturity relating to Master Data, MI and Reporting (indirect spend)

Level 1 – Foundation 0 30	Level 2 – Established 31 60	Level 3 – Leading 61 80	Level 4 – Excellence 81-100
<ul style="list-style-type: none"> MI is available and used to generate procurement reports MI is not used proactively with its primary use being to inform retrospectively, non value-adding analysis and reporting Spend data is regularly refreshed Master data management processes are not embedded 	<ul style="list-style-type: none"> MI and reporting support both the procurement and wider organisation strategy MI systems support decision-making across the category management, strategic sourcing and SRM processes Common coding structure (taxonomy) in place and used at item level Master data management takes place on a country/ regional basis 	<ul style="list-style-type: none"> MI used to drive procurement strategy development, resourcing and planning decisions for procurement MI auto generated by the ERP/Procurement system is easily accessible, reliable, standardised and proactively shared with organisation stakeholders Master data management is undertaken on an enterprise wide basis 	<ul style="list-style-type: none"> Procurement MI is used to drive wider organisation strategy and planning decisions A broad range of performance indicators are consistently applied to measure performance of procurement in achieving its strategic and operational objectives Data is made available to external organisations for benchmarking and results demonstrate top 10% performance

KPMG VIEWPOINT

Our research indicates

that Procurement functions still have some way to go before they are fully utilising the complete capabilities of their systems and technology investments. Indeed, given the rapid pace of technology advancement, Procurement functions are now able to operate at increasingly high levels of automation and accuracy.

The focus on data feeds is welcome in minimising the cost of each transaction (to both the buyer and supplier). However we believe Procurement must do more to promote the use of technology in the creation, capture and management of contracts throughout their life. Improved visibility and reporting of supplier terms and conditions improves the ability of Procurement to drive cost savings, improve cash flow, manage supplier relationships at a strategic level and mitigate risk.

The opportunity for CPOs is significant. When utilised properly, technology can provide data and insight to inform strategic decision-making and can help with the accurate tracking and reporting of benefits. In addition, some of the more transactional tasks can be automated, thereby allowing the function to focus on more strategic responsibilities and thereby deliver a greater contribution to business performance.



“
Around three-quarters of respondents indicated they are at an ‘established’ level of maturity in terms of MI, master data and reporting
”

regional comparators

TWO



2.1 THE VIEW FROM ASIA PACIFIC

Procurement functions in Asia Pacific seem to echo closely the overall findings. Overwhelmingly, the focus in the region continues to be placed on driving cost savings from a small number of strategic suppliers with few organisations excelling in those attributes that deliver broader strategic value to the organisation.

That being said, the region differed in a number of critical areas. For example, while most indicated that their organisation subscribed to a centralised or centre-led operating model, respondents from Asia reported a wider spread between centralised and non-centralised models in both the direct and indirect spend categories (figure 19).

Figure 19a: Percentage of direct spend managed by different procurement models, by region

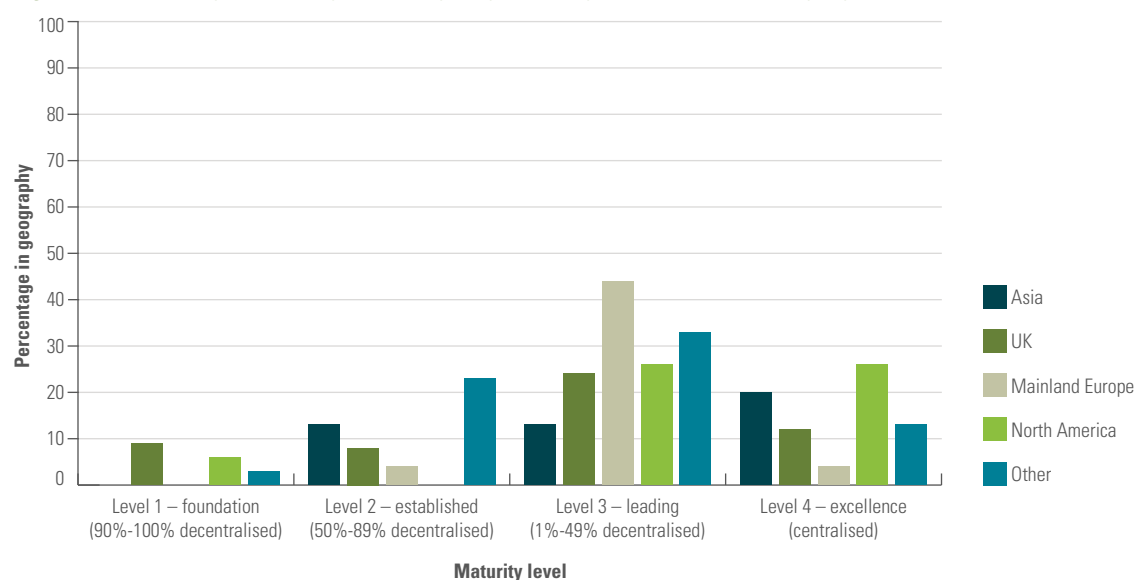


Figure 19b: Percentage of indirect spend managed by different procurement models, by region

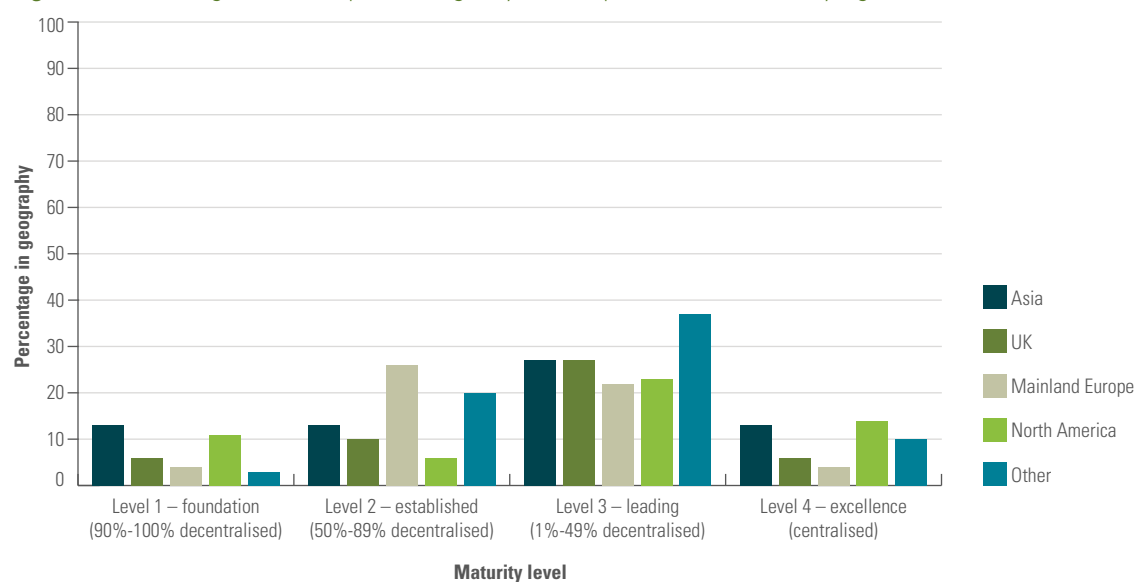
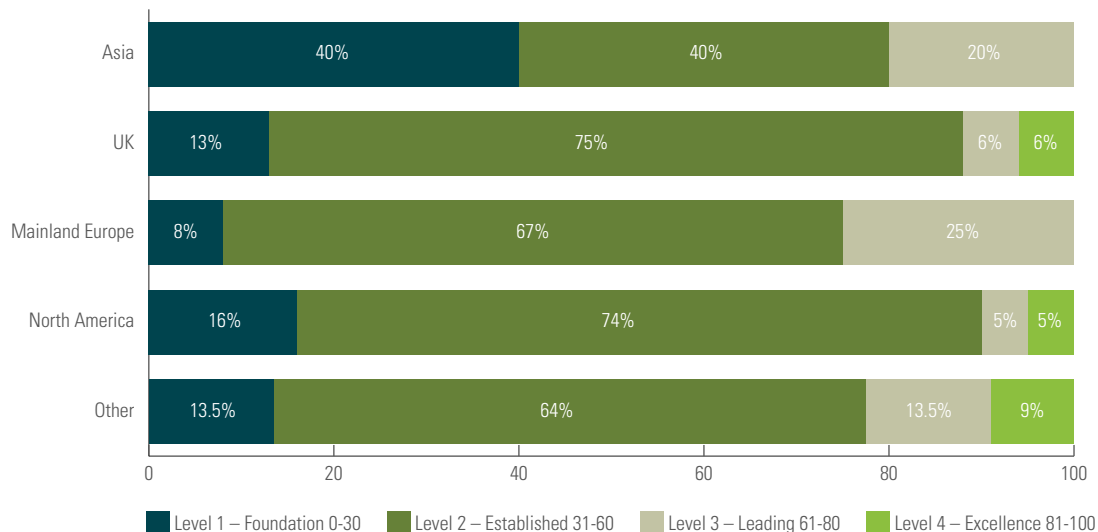
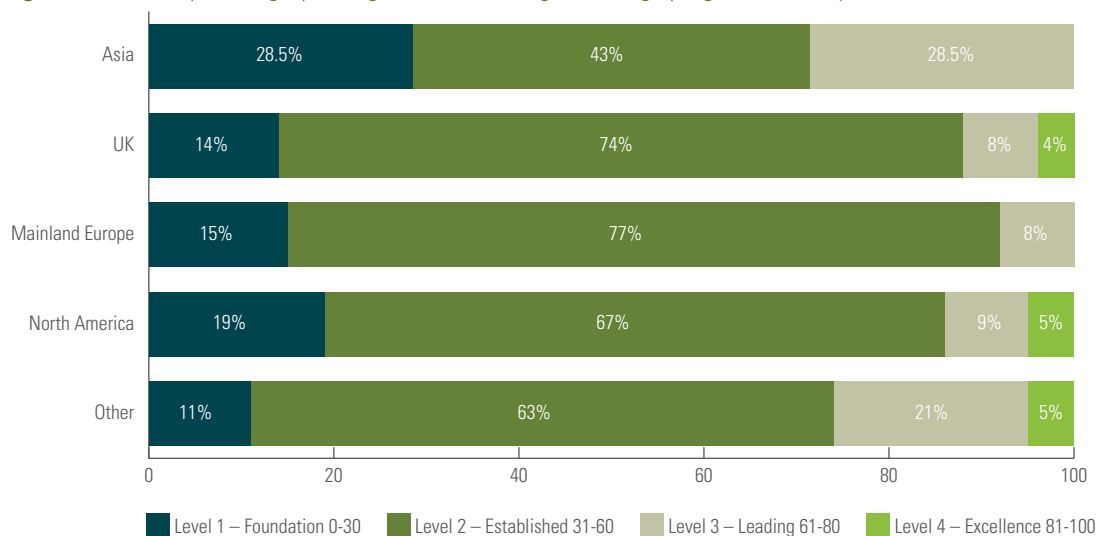


Figure 20a: Maturity of category management and strategic sourcing by region (direct spend)**Figure 20b:** Maturity of category management and strategic sourcing by region (indirect spend)

Level 1 – Foundation 0 30	Level 2 – Established 31 60	Level 3 – Leading 61 80	Level 4 – Excellence 81-100
<ul style="list-style-type: none"> The organisation has basic category management and strategic sourcing processes documented Discipline around process adherence is poor with the processes not fully engrained within the organisation leading to sporadic use 	<ul style="list-style-type: none"> Developed category management and strategic sourcing processes exist and are engrained within the procurement department and the wider organisation Category leadership and team members from the wider organisation have clear roles and responsibilities assigned 	<ul style="list-style-type: none"> All spend is managed through category management and strategic sourcing processes with a competitive sourcing process mandated, (exceptions are subject to executive level approval) Extensive collaboration on global categories/strategies 	<ul style="list-style-type: none"> Category management has a strategic place within the organisation as a generator of value with total buy-in from executive level Procurement are seen as market makers with target suppliers identified and engaged where necessary

Asian respondents also reported somewhat less maturity than their global peers in key disciplines such as category management and strategic sourcing (figure 20), as well as strategy and business partnering. And while respondents from this region were the most likely to suggest that they were not involved in SRM, more than a third still said that they led in this activity. Asian respondents were also fairly consistent in the level of cost savings delivered to their

organisation, with all respondents citing savings of less than five percent for direct spend (figure 21).

However, more than a quarter (27 percent) of respondents in the region reported that they lead the demand management process within their organisation, demonstrated in figure 22. This represents the highest level of leadership across all regions.

Figure 21a: Cost reduction savings as a % of spend, by region (direct spend)



Figure 21b: Cost reduction savings as a % of spend, by region (indirect spend)

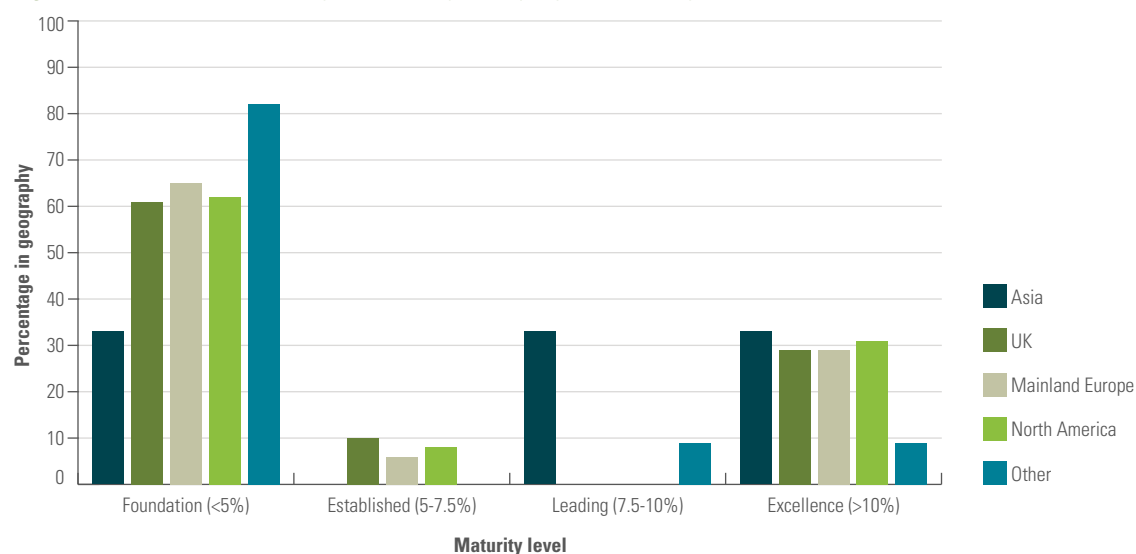
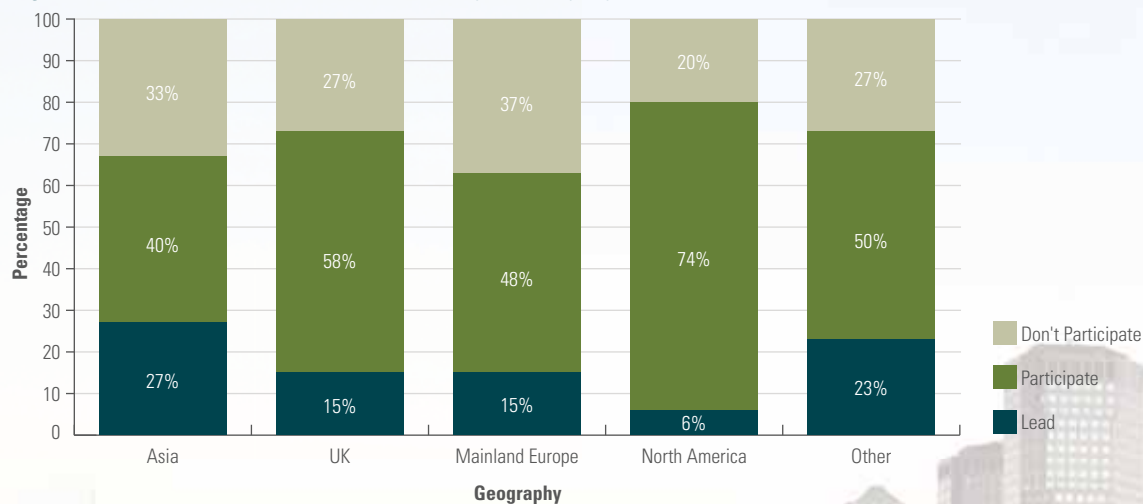


Figure 22: Level of involvement in Demand Management, by region

KPMG VIEWPOINT

Asia Pacific organisations

place a higher value on building strong relationships with suppliers rather than focusing on process-led supplier management. As a result, many Procurement organisations in the region tend to find themselves relegated to driving costs out of existing supplier relationships rather than driving the business strategy through value-added Procurement services.

To change this paradigm, Procurement leaders may need to place a larger focus on developing their people to reflect some of the 'softer skills' that are often required to fundamentally change Procurement's value proposition to the business. In particular, Procurement professionals will need to enhance their skills around stakeholder

management and engaging the business to help them work in partnership to drive greater value from the supplier network.

But this will require Procurement to move up the value chain through earlier involvement in the planning cycle and more developed capabilities in contract management, risk management and strategic sourcing. To achieve this, CPOs will not only need to become much more adept at communicating the value of Procurement in these strategic areas, but also work harder to partner with the business to develop a more holistic view of the needs of the business.

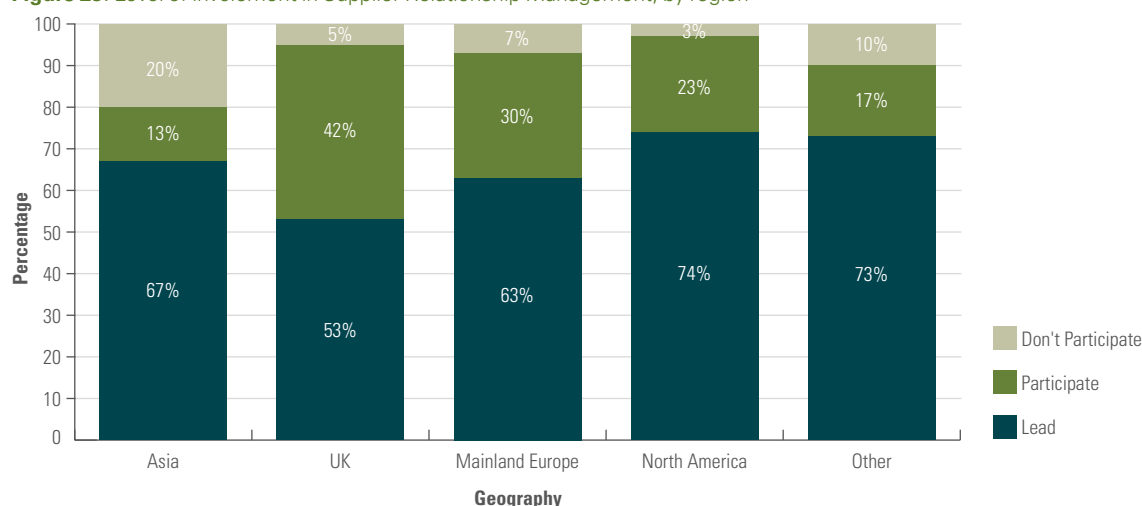
In particular, Procurement functions in Asia will benefit from creating greater alignment between risk, cost, technology and demand management which, ultimately, will help them achieve a more strategic role within the organisation.

2.2 THE VIEW FROM NORTH AMERICA

Whilst North American respondents scored highly in a number of key procurement disciplines, there is evidence that the region lags behind their peers in Europe and Asia in some strategic areas.

For example, North American organisations were the most likely of all the regions to lead the SRM process and only three percent not participating at all (figure 23).

Figure 23: Level of involvement in Supplier Relationship Management, by region



Respondents from this region also report being the most involved in demand management with only one in five suggesting a lack of involvement in the process. North American Procurement functions also tended to score highly in their ability to drive value and growth in conjunction with the organisation's strategy, and – according to respondents – were the least likely to require manual intervention in processing invoices.

But the North American Procurement functions also rated poorly in a number of key disciplines. More than 40 percent admitted to having less than 60 percent of direct spend under management and more than half said the same for indirect spend. Likely as a result, North

American respondents indicated a low level of maturity in cost reduction savings as a percentage of spend; with more than 60 percent falling into the 'foundation' category for both direct and indirect spend. The region was also the least likely to achieve either 'leading' or 'excellence' in their strategic sourcing and category management maturity.

And while the results for demand management seem rather cheerful at first glance, respondents from this region were also the least likely to suggest that they take a leadership role in this activity overall.

KPMG VIEWPOINT

Across the region,

most Procurement functions have now adopted a more centre-led operating model in an effort to create an optimal balance between maintaining proximity to their internal customers and ensuring the required standardisation of processes. This has been particularly successful in the indirect space where spend is often conducted outside of the purview of Procurement and, as a result, the centre-led model tends to provide a higher degree of responsiveness to the business while allowing Procurement to monitor compliance and – if necessary – take action to drive greater adherence to Procurement policy.

However, in the direct spend area, our member firms continue to see resistance from the business to the standardisation of specifications. In some industries such as Utilities or Hi-Tech, there are obvious challenges in driving standardisation but in others, it diminishes Procurement's ability to lead many of the more strategic activities such as demand management and strategic sourcing.

So while the findings suggest North American respondents have made commendable inroads in strategic areas like SRM, KPMG member firms' experience suggests we are seeing a 'tale of two cities'; in many cases we continue to see organisations struggle to achieve basic foundational capabilities such as automating their Purchase to Pay activities or sustaining cost savings.

In part, this reflects a relative lack of capabilities, tools and investment within Procurement to drive contract compliance past the initial negotiation phase. More often, approaches to cost savings and strategic sourcing are conducted in silos without formalising the tools and processes to support them and – as a result – the organisation is largely unable to maintain a high level of maturity in their approach to supply and contracting and quickly find that savings erode over time without materialising on the bottom line.

The strategic value of Procurement in this market may also be impacted by the overall market and regulatory environment. Europe, for example, continues to see regulatory pressure in areas such as Sustainable or Green Sourcing which – in North America – largely dropped off the political agenda as the financial crisis took hold.

One of the key challenges for North American Procurement functions relates to their being perceived as a largely tactical discipline that is only involved once the supplier has been selected by the business and the contract has been determined. To address this issue, Procurement functions must focus on enhancing their credibility within the organisation by providing professionals with a keen understanding of the needs of the business. Where Procurement functions are seen as value-added and strategic within the organisation, we often find individuals with academic backgrounds in what the company does rather than simply delivering individuals with strong experience in contract negotiation.

Success here will require Procurement to take a much more targeted approach to supporting the business. North American CPOs should continue to 'think big' but may want to 'start small' by achieving some early wins within a few select categories where they can achieve demonstrable success. Those that achieve this will soon find that their services are being demanded by the business rather than being forced onto the business.

Procurement functions will also need to focus on articulating the value that they are providing by tying their activities to the business agenda within a language that resonates with the particular business unit. So, for example, when working with Finance, Procurement professionals would be well served by translating their value into metrics such as impact on Earnings per Share (EPS) and quarterly impact rather than category savings.

key findings by sector

THREE





3.1 FINANCIAL SERVICES

Overall, Financial Services Procurement functions performed well in many key indicators but future regulatory changes pose a significant challenge.

The majority of Financial Services respondents considered their spend under contract capabilities to be 'leading', meaning that 60-84 percent of spend has been placed under contract. And while this shows that financial organisations are quite good at getting contracts signed, there is a significant gap when it comes to spend under management. In this regard, the majority of financial organisations categorised themselves as 'foundation', indicating that there is still work to be done in actively managing those services or contracts within Procurement. However, 48 percent of respondents from financial organisations indicated that they lead the contract management and audit process; a good sign for future active management of contracts.

Almost unanimously (93 percent), Financial Services respondents indicated that they adhered to a centralised model for direct spend, representing the most centralised sector in our research. However, regulatory changes proposed by the Independent Commission on Banking (ICB) for the UK banking sector are presenting challenges to this model as the legislation will likely force banks to separate their investment and retail operations.

Financial Services organisations also compared favourably to other sectors in their risk management and procurement policy maturity. The sector was one of the few that achieved 'excellence' ratings in risk management (likely a result of regulation related to disaster recovery, information security, money laundering and the like), and a third of respondents from this sector rated their procurement policy maturity as 'excellent' (likely reflecting the risk of non-compliance in this particular industry).

Interestingly, more than a third of respondents in this sector said that they do not participate in demand management activities and just under a third said they were not involved in the Purchase to Pay process. The sector also rated poorly in their maturity around MI and master data, thereby missing out on opportunities to better spot trends, manage suppliers and improve sourcing.



93% of Financial Services Procurement organisations follow a centralised model



36% do not participate in demand management and 30% do not participate in Purchase to Pay processes





Financial Services were one of the few sectors to report a ranking of 'excellence' in risk management



KPMG VIEWPOINT

Whilst it is certainly a

positive sign that Financial Services organisations are getting a significant part of their spend under contract, there is clearly plenty of opportunity for Procurement to evolve and engage in a more strategic role in this sector.

The survey also indicates a growing maturity across the Financial Services sector with many of the larger global banks and insurers investing in centralisation and capacity building within Procurement. At the same time, however, the experience of our member firms indicates that many Investment Management organisations are still rather entrepreneurial or consensus-based in their management. A number of functions including Procurement are not managed globally; responsibility sits within teams or stakeholders in individual business units or countries. As the size of the organisation increases, the level of centralisation typically increases too, and therefore the level of Procurement maturity tends to be higher in the Banking and Insurance sectors.

But whereas the Retail and Manufacturing sectors tend to see Procurement as core to business performance, there has been less of an imperative within Financial Services to truly maximise the value that can be delivered through more strategic use of the Procurement function. We are now seeing this view starting to change, and the cost base within Financial Services is higher up the board agenda, and is more scrutinised by the public eye.

But typically Financial Services Procurement teams tend to operate on a more reactive and tactical level that sees them involved in activities such as contract negotiations, pricing and specifications, rather than more strategic functions such as demand management. Indeed, more than a third of respondents in this sector indicated that they are not involved in demand management activities at all, suggesting significant room for growth in the maturity level of the sector overall. So while Procurement may take the lead in negotiating terms for spend in areas such as temporary staffing, they do not necessarily extend that work to examine how the organisation might reduce the long-term need for temporary staff in the first place.

The same should be said for the relatively poor responses around the use of MI, master data and reporting. More engagement in the P2P process and greater exploitation of available MI will deliver significant benefits such as the better management of suppliers, the ability to spot trends and improved decision making overall.

And while Financial Services scored relatively highly in SRM, maturity in supplier performance management was rather poor, reflecting a tendency towards relationship-oriented activities rather than process-oriented ones. This is reflected in many of the larger organisations by 'vendor management' functions that focus on building strong relationships with their top 20 suppliers, yet generally lack the discipline to ensure that those contracts are managed on an ongoing basis.

The sector also scored highly in risk management, likely as a result of being a highly regulated industry with formal rules around information security, disaster recovery and anti-money laundering. In fact, the sector is somewhat unique in that many of the larger global banks have created a 'Head of Risk Management' or 'Head of Supplier Risk' role that sits within the Procurement function.

Financial Services also stood out in the area of supply chain sustainability, however – relative to other sectors such as Retail or Manufacturing that have extensive and complex supply chains – this area is significantly easier for Financial Services organisations to manage.

It will remain to be seen how new regulation impacts the Procurement functions at Financial Services organisations. The separation of retail and investment operations will almost certainly create new complexities and – more than likely – force procurement functions to decentralise to a degree. In response, banks will need to consider how to split existing contracts, divide shared systems and data, and determine the optimal future state operating model if they hope to deliver maximum value to independent business units. This will certainly represent the most significant challenge facing Procurement functions in this sector going forward.

3.2 TRANSPORTATION AND LOGISTICS

While Transport and Logistics Procurement functions may seem to fare relatively poorly in most key indicators, the very nature of the business may preclude Procurement from leading in core areas.

With hundreds of suppliers integrated into a network of largely mobile assets, the Procurement function within the Transportation and Logistics sector is often left in a secondary role in many of the decision processes. Just 45 percent lead the category management activities and an equal number lead the SRM process. This likely indicates the fact that much of the direct spend in Transportation and Logistics organisations (such as buses and trains) are of such scale and strategic importance that they are taken at a board level, leaving Procurement to draw up the contracts.

This is reinforced by the fact that more than a third of respondents said that they do not participate in the demand management process, a quarter do not participate in SRM activities and 45 percent do not participate in the 'make versus buy' decision process.

There are, however, a number of strong areas in the data for this sector. Respondents unanimously said that they participate in the P2P process, with more than half (55 percent) currently leading this activity. A significant number of respondents also achieved a rating of 'excellence' in the maturity of both their cost reduction activities and their control of spend under management for direct costs.

Transportation and Logistics Procurement functions also indicated low maturity in their use of systems and technology; a third categorised their capabilities here as 'foundation' and two thirds rated themselves as 'established'. This clearly has a direct impact on Procurement's ability to add significant value to the MI, reporting and Business Intelligence activities of the organisation.



Transportation and Logistics organisations reported low participation in key areas such as demand management and SRM activities



The sector also rated poorly in their maturity in their use of systems and technology and data analysis capabilities





More than half of sector respondents lead the P2P activities and all respondents at least participate in the process



KPMG VIEWPOINT

Procurement functions

in the Transportation and Logistics sector face a hard road ahead. Few – if any – seem to have achieved a strategic role within their organisations and most report being relegated to a more participatory role in many of the normal procurement activities such as SRM, category management and contract management.

In part, this is because organisations in this sector tend to be geographically diverse making spend difficult to control across the network. What's more, continuity of service is often priority number one, meaning that other commercial drivers are often only a secondary concern.

When one considers that a large portion of these organisations' direct spend is managed by either the board (in the case of rolling stock) or the maintenance and operations functions (in day-to-day operations), it seems clear that Procurement will need to elevate its game if it hopes to take a more strategic role within the organisation.

Particularly in this sector, Procurement functions will need to take a more holistic view of the difference between the CapEx and OpEx spends. For example, Transportation and Logistics organisations should be challenging the business when purchasing new lines of business so that – when acquiring an existing contract – expenses such as legacy vehicles are not automatically folded into the contract but rather engage the business in a debate about the value that those assets provide.

However, maintenance operations generally have significant influence in the operating expenditure in this sector and often lead the contract management process, making it difficult for Procurement to exert influence or add value post-award. Indeed, the Procurement function in this sector can be reluctant to bring commercial challenges forward to maintenance (particularly when Board support is not forthcoming) and therefore do not tend to become involved in many of the more strategic activities such as demand management.

But to take on a more strategic role within their organisations, Procurement will need to be able to clearly articulate how their activities either impact the customer, or increase profitability. Indeed, a strong focus on the customer is key to identifying the most important suppliers in this sector as they are often the ones that deliver the most value to the end customer (such as cleaners on a bus).

There also seems to be ample room for Procurement to add value to the organisation through earlier and greater involvement in contract management, particularly when it pertains to a broader SRM approach.

But while the sector tends to always maintain strict contracts with their customers, this focus does not seem to carry over to their supplier base, though this is likely to be a symptom of smaller companies that have been absorbed into a larger group or recently privatised Public Sector organisations.

Growth through acquisition also seems to have compounded some of the challenges these organisations face in their use of systems and technology; in many cases, the integration of legacy systems has led to additional complexity. Moreover, there is a general agreement that ERP systems are poorly suited to organisations that manage large and disparate fleets which may, in part, explain the sector's poor results in their use of technology.

The sector also seems to suffer from extremes in their maturity in the 'make versus buy' decision process with logistics companies faring rather well, while transport companies seem to lack the maturity to innovate their business model. These organisations will likely benefit from looking at the experiences of other aligned industries where alternative structures (such as franchise models) are often found to be more efficient.

Cost savings also tended to extremes, with respondents indicating either a very good, or a very weak focus on cost reductions. In part, this reflects the single-minded focus on continuity of service. But it also demonstrates the cyclical nature of cost reductions in this sector which usually fall by the wayside when new contracts are on the table. That said, organisations that face significant competitive pressure are more likely to focus on this area as a way to extend competitive advantage.

CPOs in this sector will also want to place particular focus on delivering greater Management Information and Business Intelligence through greater use of systems and technology. The ability to provide accurate data and insightful analysis on key aspects of the supplier network and supplier performance is central to carving out a more strategic role for Procurement.



3.3 PUBLIC SECTOR, HEALTH AND NOT-FOR-PROFIT

The Age of Austerity has raised the bar for success in delivering budget cuts and in achieving strategic value.

The Public Sector scores relatively well in a number of areas of this survey: the responses show a strong trend toward centralisation and toward higher levels of investment in technology, both of which generally correlate with higher performance. It also scored highest across all sectors in its leadership of demand management activities and highly in category management; a quarter (mainly from the Health sector) said that they took leading roles in their organisation's demand management activities, and more than seven in ten said they lead indirect category management for their organisations. But responses in other areas are mixed or low, suggesting that the value of this IT investment and this control over budgets has not, or not yet, been fully realised.

For example, levels of cost savings were not high in any sub-sector. Health Procurement functions suggest that they are struggling to achieve significant cost reductions in core areas of spend, with the majority reporting only 'foundation' maturity, meaning that less than two percent had been shaved from their direct spend. More appears to have been achieved in indirect spend, for example in Local Government organisations, who generally reported 'established' levels of performance in indirect spend.

Public Sector respondents recorded the second highest rankings in their investment in systems and technology, with an emphasis on Management Information, Master Data and Reporting. However organisations in other sectors with equivalent investment levels rated themselves higher in areas of best practice and reported higher levels of cost reduction achievement. This suggests that the benefits of these investments are yet to be fully realised. More fundamentally, with less than 60 percent of spend under management on average, the potential benefits of the investment may be limited.

The high reported levels of centralisation require assessment in light of the structure of this sector. Governments can realise savings across multiple organisations and whole sub-sectors in common areas of indirect spend such as property and IT. In this sense maturity in centralisation is relative; the opportunities go well beyond what can be captured through this survey.

Finally, only 23 percent of respondents play a leading role in the 'make versus buy' decision; 31 percent do not participate at all. Together with the low level of spend under management and the narrow interpretation of cost reduction, the survey results suggest that Procurement may still generally be seen as a back office function managing the rigorous procurement processes of the Public Sector, rather than building strategic value.

25% of Public Sector respondents take leading roles in demand management activities, representing the highest of all sectors



Only 23% of Public Sector respondents lead the 'make versus buy' decision; 31% do not participate in the process



KPMG VIEWPOINT

This sector, which covers the largest and most diverse

procurement spend of all, is facing unprecedented challenges. Two broad themes stand out: firstly, pressure to reduce budget deficits in many countries has put Procurement functions firmly in the spotlight, driving austerity measures throughout the Public Sector. At the same time the public and healthcare sectors are undergoing widespread reform in many countries, generally extending the role of government as a strategic commissioner and complicating the associated commercial and operational relationships. Here Procurement skills are critical to a government's success in achieving its core policy objectives.

If the Procurement function were well placed to play strategic roles in both deficit reduction and in commissioning we should see evidence in this survey. For example, we would expect substantial cost savings and maturity in partnering, risk and management information across a large proportion of direct as well as indirect spend. And indeed we have seen substantial progress in Public Sector Procurement in recent years with increased centralisation, and renewed investment in skills and enabling technologies. This has been matched in the past two to three years with advances in the reduction (or complete elimination) of discretionary spend.

But the increasing challenges may be outstripping the ability of most Procurement functions to close the gap since there is significant opportunity to go further. For example, the sector scored well in demand management but in many cases evidence suggests this is more a result of policy and budget cuts rather than any specific demand management efforts on the part of Procurement. The point is reinforced by relatively poor

levels of spend under management within the sector, indicating that any demand management activity would likely only impact that proportion of spend under the influence of Procurement.

For its part, the Health sector reported lower cost reduction activity which may reflect the fact that the sector has often avoided the level of budget cuts experienced by other parts of the Public Sector. It also reflects the fragmented nature of Health procurement, and the impact of local clinical preference in determining which supplies are to be bought. It is absolutely imperative that any medical procurement is clinically led, but this survey suggests that the variation in practice may be having a detrimental effect on value for money. For example, government reviews in the UK have repeatedly highlighted that the variation in practice between organisations is costing the UK economy several hundreds of millions of pounds each year. Our experience in parts of North America is similar. The Health sector in Canada has been protected with above-inflation budget increases for many years, which means supplies are often purchased based on clinical preference rather than commercial benefit.

For Procurement to be successful in both the roles described above, its focus needs to shift further toward direct spend at the heart of the business. The low level of cost reduction savings and of spend under management suggests that Procurement's ability to influence business spending needs to be improved. An increased focus on developing 'soft' procurement skills and relationships with business customers would allow Procurement to move up the value chain. Technical training and IT investments are unlikely to deliver the value without proper business engagement.

Looking beyond cost reduction, the rise of the strategic commissioning role of government raises a different set of risks and challenges for Procurement. Many public sectors are (or soon will be) exploring new and



On average, less than 60%
of spend is under management



innovative options for involving the private sector in reducing the cost of public services. For example, the UK's Department for Work and Pensions' (DWP) Work Programme created a welfare-to-work scheme that intends to help the long-term unemployed find and keep suitable work. Designed as a 'payment-by-results' scheme, the programme pays providers using revenues captured through reduced benefits payments as citizens return to work¹. The programme represents a true partnership between government and service providers from across the public, private and third sectors, at both a national and local level, and has been implemented in a speedy and effective manner through a joint effort between the Commissioning and Commercial teams. It is a model that is being reviewed and adopted by other governments, and is being considered for application to other areas of public services, such as re-offender management.

These new arrangements pose risks and challenges. The risk of provider failure, or wider supply chain and market failure, would directly impact on the services delivered to the public, resulting in political fallout, and public dissatisfaction with how their tax money is being spent. A much greater burden of risk is being placed on providers, and the Public Sector needs to develop a new set of commercial and corporate finance skills to ensure these deals are managed effectively. With this in mind, Procurement teams could attain a much greater

level of involvement in the commissioning process, with a through-life view of managing supply chain risks and relationships with providers.

So it is clear is that capability building will continue to be a key priority for Procurement, Commercial and Commissioning teams. Indeed, recent experience shows that Commissioning can often act as a bridge between a dispersed Public Sector and the Procurement function where Commissioning brings coherence to requirements and provides the Procurement teams with a strong party with which to engage.

But it is less clear that Procurement teams will fill this capability gap in the short term, given the focus on budget reduction and on overseeing the day to day public procurement processes. Commercial and Commissioning teams may instead fill the gap from their side, ultimately determining how Procurement will add value to the Public Sector in the long term.

As a final note, it may also be of interest to Public Sector procurement teams that not-for-profit organisations report being somewhat less mature in procurement and supply chain management, with a higher level of transactional focus. With many Governments declaring their intention to make better use of the 'third sector', it remains to be seen whether these organisations will be able to respond effectively to an expected increase in demand.

¹ www.dwp.gov.uk/policy/welfare-reform/the-work-programme



In the Health sector the majority of
respondents (60%) report low maturity
levels ('foundation' level) for Cost Reduction,
reflecting 2% savings for direct spend



3.4 RETAIL

Retailers exhibit some of the most mature procurement capabilities across all sectors, but more could be done in driving value from the Goods Not For Resale (GNFR) spend perspective.

Across most of the key indicators in this research, retailers exhibit a high level of maturity in their procurement activities. Almost all (95 percent) of their Goods For Resale (GFR) spend is under contract and a high proportion of GNFR (84 percent). More than eight in ten report leading the category management process for their organisation and more than half lead the 'make versus buy' decision-making process.

Retailers also seem to be leveraging their systems and technology better than other sectors with 50 percent of Retail respondents indicating 'leading' characteristics in this area and – as a result – they also tend to require less manual intervention to pay invoices than respondents from other sectors.

However, retailers returned somewhat lacklustre responses when it came to activities that elevate Procurement above simple cost-cutting measures. Less than half (45 percent) of Retail respondents claimed to lead the supplier performance management activities, SRM activities, or the contract management activities for

their organisations. Fewer still lead the P2P process or the demand management process (36 percent and 18 percent respectively).

Interestingly, the research also found that retailers were delivering lower annualised savings across both GFR and GNFR spends than peers in other sectors. In part, this is likely to be a result of the rising price of most commodities that continuously drive prices up. But it also stems from the level of maturity within the Retail sector's Procurement function, indicating that most of the low-hanging fruit may have already been harvested.

Whilst retailers may have reported a bias towards more centralised operating models, it seems that only six in ten follow a centralised model for their GFR spend, and eight in ten follow a similar model for GNFR. However, these findings are likely highly influenced by the geographic scope of the organisation involved where – in our firms' experience – centralisation seems to decrease proportionate to the geographic footprint of the organisation.

Less than half of Retail Procurement functions claim to lead their organisation's supplier performance management, SRM or contract management activities



95% of GFR spend and 84% of GNFR spend is currently under contract within Retail Procurement functions



KPMG VIEWPOINT

This is a tough time to be a retailer

, and a tougher time for Retail sector Procurement leaders. Suppliers are forcing up input costs, consumer sentiment is pushing down retail prices and everyone is looking to shore up margins.

For example, many retailers have begun to push out their payment terms in order to improve liquidity. But, recognising that there is only so far that you can squeeze a supplier, a growing number of retailers are now starting to consider reducing the payment terms through supply chain finance.

A particularly surprising finding from this research is that Retail Procurement functions rated somewhat poorly in demand management and involvement in the P2P process. But given that retail buyers spend a significant amount of time tracking and reacting to market trends, one would expect these results to be higher, particularly for GFR. It is likely that poor results in P2P reflect a historical underinvestment in technology during the 'boom years' when few focused on aligning processes or the underlying systems. However, in our firms' experience, there has been a notable increase in investment in technology in the sector as retailers look to gain greater control over their massive volumes of inventory through greater use of technology.

As a result, retailers seem to have excelled at maturing their procurement capabilities, particularly around GFR spend. This should not be surprising as the procurement of GFR directly impacts margin control and therefore has a significant impact on business performance. This is reflected in the high results reported by this sector in category management and other core areas of procurement.

The sector's comparatively low score in policy and compliance which likely reflects a strong focus on speed to market rather than driving behavioural change through policy. Low risk management scores are also somewhat expected as retailers have increasingly pushed risk back onto their suppliers who often take the 'blame' for product recalls or stock-outs.

Whilst cost reduction scores seem somewhat low, this is likely a result of high commodity and input prices that have squeezed margins at a time when consumer purchasing power is being depressed. As a result, many retailers are finding that their cost-cutting measures are barely helping them to stand still in terms of pricing.

That being said, sourcing agencies (e.g. Li & Fung) still tend to dominate in some of the off-shore markets for retailers, meaning that many of these core Procurement functions are often outsourced to regional players. Today, however, many of the larger global retailers are actively considering their options with regards to selecting the most appropriate sourcing model (e.g. Walmart's change to a direct sourcing model). Particularly in Asia Pacific, where most off-shore Procurement functions tend to use purchasing agents that charge commissions in the region of 10 percent, companies with significant purchasing budgets are now considering developing their own sourcing facility to cut out the middle-man.

More recently, we have noted that a growing number of retailers have started to focus on carrying some of their leading practices from GFR over into the GNFR side. In particular, retailers are increasingly starting to implement big, transformational programmes aimed at driving costs out of their GNFR spend. And while some progress has clearly been made, momentum will need to be increased for real value to be driven out of this area.



Retailers show strong maturity in category management and 'make versus buy' decision processes



3.5 MANUFACTURING AND CONSUMER PACKAGED GOODS (CPG)

Manufacturing and CPG companies display high levels of maturity in strategic procurement services, but significant opportunity still remains in core areas such as risk management and Management Information.

There should be little surprise that the Manufacturing and CPG sectors displayed high levels of maturity in supplier performance management (76 percent lead this process), category management (where 69 percent lead) and SRM (with 82 percent leading). Respondents also indicated exceptionally high levels of involvement in the 'make versus buy' decision process (where only six percent said that they did not participate at all). Given that Manufacturing and CPG are often considered to be the birthplace of strategic sourcing, one would expect high maturity in those areas that add the most value.

However, there were a number of surprises in the data as well. Manufacturing and CPG respondents rated rather poorly in risk management activities with the majority falling into the 'established' category. So whilst this indicates that most have categorised and prioritised suppliers to ensure deeper risk assessments have been undertaken across the 'critical' supply base, it falls short of assessing the risk situation for the total value chain.

Manufacturing and CPG also reported only average activity in demand management, though this is likely because in these sectors demand is driven by production which is outside of Procurement's scope of influence.

It is concerning, however, that the sectors returned some of the lowest results in their maturity around Master Data, Management Information and Reporting. Indeed, with relatively high systems and technology maturity and extensive experience with ERP systems, one would expect significantly higher maturity in this regard.

It is also interesting to note that Manufacturing and CPG organisations reported only average maturity in their sustainability activities, particularly given their reliance on raw materials and natural resources.

Manufacturing and CPG organisations rank highly in SRM, supplier performance management and contract management



The majority of Manufacturing and CPG Procurement organisations report only 'established' risk management capabilities



KPMG VIEWPOINT

With much of their spend

devoted to raw materials, many Manufacturing and CPG organisations tend to report a perplexingly low level of spend under contract. However, when one considers that raw materials play a massive role in the quality of the final product, it becomes clear that ownership of this spend is often concentrated under specialist buyers within the business rather than Procurement itself.

Manufacturing and CPG respondents reported high success in cost reductions with almost four in ten saying they had achieved greater than 10 percent costs savings. This is hardly surprising however, as each percentage point savings from suppliers results in immediate benefits to the bottom line.

But whilst Manufacturing and CPG organisations are to be applauded for their activity and maturity in a number of key areas, they must start to place a renewed focus on driving greater value out of their existing capabilities.

In particular, Procurement functions should be looking at how they can better use the data available to them to provide management with greater insight with which to drive strategy development or planning decisions. And with many organisations in this sector spending into the tens or hundreds of millions of pounds through Procurement, it should be relatively straight forward to develop a strong business case for new technology that

focuses on reducing spend, gaining greater control of inventory and finding new ways to innovate within their cost reduction efforts.

Payment cycles also seem to be an ongoing challenge for manufacturers and CPG organisations who – in times of low cash flow – tend to hold payment to suppliers to shore up quarterly balance sheets and reinforce liquidity. As a result, the sector reports some of the longest payment times to suppliers. Instead, Procurement functions should be exploring opportunities to use supply chain finance approaches to both reduce their overall cost and ensure that suppliers remain liquid.

This research shows that CPOs will need to place additional emphasis on risk management, making efforts to drive the discipline across both direct and indirect categories to ensure the organisation is protected from supplier failures and other disruptions. This is particularly true of commodities, which generally play a commanding role in the sector and can often be a major source of risk for Procurement function.

Manufacturing and CPG Procurement organisations may also consider exploring how they might advance their maturity level in controlling spend, both under contract and under management. In part, this may require Procurement professionals to spend more time actively managing and auditing contracts to ensure that the organisation is gaining the maximum value from its suppliers.



Whilst only 13% lead demand management, 69% participate in the activity in some way



3.6 ENERGY AND NATURAL RESOURCES (ENR), CHEMICALS & PHARMACEUTICALS AND INFRASTRUCTURE

Whilst this group contains a variety of sectors, some good progress has been made, particularly by the ENR and Chemicals & Pharmaceuticals sectors.

Respondents within these sectors displayed a high level of maturity across many of the key Procurement areas. The majority indicated that they had between 60 and 84 percent of their spend under contract and almost a third ranked in the 'excellence' category for spend under management for indirects.

However, looking deeper at the numbers, it is clear that the Procurement function within these sectors have – for the large part – successfully moved into a strategic role within their organisations. More than 70 percent lead the category management process, 64 percent lead the supplier management process and only slightly fewer (63 percent) lead the SRM process.

The research also indicates that around a third of organisations in this group have a centralised or centre-led operating model for Procurement. And while this is likely a result of specialised Procurement functions operating in foreign markets to secure scarce resources, it may also reflect a greater use of decentralised models

within individual assets and project sites. This may also influence the rather low results for Procurement's participation in the demand management process, where only seven percent of respondents reporting leading the activity for the business.

Respondents in this group also recorded low maturity in their systems and technology capability with almost three-quarters (73 percent) falling into the 'established' category. However, given the level of merger and acquisition activity in many of these sectors over the past few years, it is not unexpected that many Procurement organisations are still struggling to integrate disparate legacy systems.

Likely the most surprising finding for this group, however, is the low level of maturity in risk management activities, with the majority of respondents classified as 'established' and none ranking as either the 'leading' or 'excellence' categories.

71% of respondents in this group
lead the category management activities
and 63% lead SRM activities



Almost three-quarters of respondents fall within the 'established' category for use of systems and technologies



KPMG VIEWPOINT

Overall, Procurement has done rather well

at achieving a strategic place within many of the organisations represented in this group. Many are taking a long-term view on procurement activities and are therefore operating within the longer-term value-add areas of SRM, supplier performance management and category management.

Indeed, due to the size and nature of the Chemicals and Pharmaceuticals sector in particular, this sector tends to be more mature in the way they manage cost and deliver procurement services within the business. And with a high premium placed on security of supply within these organisations, Procurement tends to enjoy a somewhat higher profile within their respective businesses.

However, size and scope may also reduce the efficiency of the Procurement function in these sectors with many yet to fully embrace a management and measurement platform for their supplier performance management activities. But whereas organisations in this sector have historically used their leverage to motivate key suppliers, there is every indication that – in times of reduced spend – these organisations will need to place more focus on maturing their performance management capabilities.

Size and scope also impacts the sector's results in demand management which – with just seven percent saying that they lead the process within

their organisations – is no doubt symptomatic of a highly diverse supplier network. For example, a global buyer based in London with key suppliers in the Americas, Asia and Africa, will likely find significant challenges in extending their influence into each of their supplier markets to drive the right behaviours and activities required for successful demand management. Indeed, a growing number of observers have suggested that this may be a counter-argument to the centralisation of Procurement where the function is essentially disassociated from the point of customer and stakeholder demand.

What's more, in our firms' experience, the seemingly low results for the sector in regards to cost savings may – in this case – be indicative of a more mature Procurement function that, having already achieved many of the more valuable cost reductions, is now struggling to achieve new levels of savings in an already tight supplier market.

The sector does enjoy high levels of maturity in category management. In fact, with strong adherence to either centralised or centre-led operating models, an overwhelming majority of respondents in this sector tend to look to category management techniques to maximise the scope of their activities.

Another area where this sector stands out is in Supply Chain Sustainability. And rightfully so: not only is it their corporate responsibility, but many of these organisations also operate in a variety of exotic locations that require a strong adherence to sustainability within the local markets.

That being said, there is still much opportunity in advancing capabilities in SRM, particularly in planning and executing detailed supplier and relationship management programmes. However, CPOs should note that gaining management buy-in for these types of 'qualitative' activities will almost certainly require stronger business cases that demonstrate value over the three to five year horizon.

This research also shows that there is still much work to be done in the critical area of risk management, which – given the high level of public scrutiny generated by mining disasters and pharma recalls – should be a key area of focus for Procurement functions in these high-risk areas. However, another argument suggests that these organisations are actually quite sophisticated in their risk management capabilities, but having been caught unprepared for many of the market risks that have occurred over the past few years, are now rethinking their approach to risk management overall.

And while the sector returned somewhat low results in their maturity in P2P, this could be indicative of a growing tendency towards outsourcing this function in order to focus on their core business. With a supplier network that often numbers in the tens of thousands, there is every reason to believe that outsourcing this function may provide greater value to the organisation by reducing the level of complexity within the core business.

Having recently experienced a high level of consolidation within the supplier market, CPOs in this group may want to consider re-examining their organisational structure, processes and capabilities to ensure that their activities continue to add value to the organisation.

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Similarly, the vast majority of respondents ranked as 'established' in their risk management capabilities

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3.7 TECHNOLOGY, MEDIA, TELECOMMUNICATIONS AND BUSINESS SERVICES

Whilst the sector tends to perform relatively well in areas such as SRM, contract management and risk management, there are significant opportunities for Procurement to bring more spend under management and rationalise the supplier base.

For the TMT and Business Services sectors, responses indicate that the Procurement function has placed a strong focus on driving cost savings out of existing supplier contracts, particularly in areas of indirect spend. More than half (51 percent) of respondents report achieving more than ten percent cost savings in indirect spend and 41 percent said that they had reduced their organisation's direct spend by more than eight percent.

In part, this is a result of a high level of maturity in SRM (where 64 percent indicated that Procurement had taken a leadership role) and category management (with 72 percent leading this process).

The sector also demonstrated a relatively high capability in the area of risk management with 12 percent falling into the 'leading' category and four percent claiming that Procurement risk management is integrated into their organisation's overall risk process, placing them in the 'excellence' category.

And whilst the sector reported relatively high leadership and participation in demand management, there is some evidence to show that Procurement may not be as mature in these sectors as they could be.

For example, only 22 percent lead the 'make versus buy' decision process and a third of respondents admitted that they do not participate in this function at all. The findings also indicate that Procurement may not have as much control over suppliers as anticipated with less than 60 percent of their spend under management and less than three-quarters of spend under contract. The sector also demonstrated average maturity in contract management and audit capabilities with less than half (46 percent) indicating that they lead this process.

Somewhat surprisingly, the sector reported only average maturity in their use of Systems and Technology where more than a third of respondents reported only 'foundation' and half reported 'established' maturity levels, falling far short of demonstrating a fully integrated eProcurement solution.



More than half of TMT and Business Services Procurement functions claim to have achieved greater than 10% cost savings in their indirect spend while 41 % achieved greater than 8% in direct spend costs savings





Most TMT and Business Services respondents have less than 60% of their spend under management and less than 75% of spend under contract



KPMG VIEWPOINT

Whilst the results across the sector reflect

fairly strong maturity in many of the key Procurement disciplines, the reality is that the sector is best characterised by pockets of excellence and areas of notable weakness.

In part, this likely reflects Procurement's focus on reducing cost savings in an all-out effort to combat pressures on profit margins. Some of the more capable Procurement functions have used this wider focus on business costs to raise their profile and demonstrate the value that they can bring to the business in order to extend their scope and modernise the Procurement function. But others have largely been dragged along the cost savings journey by the business itself and – as a result – have somewhat damaged their credibility and lost some of their control over third party spend.

Particularly in the telecommunications and managed services sectors where third-party spend is often conducted on a pass-through basis, Procurement may make the conscious decision to take a hands-off approach as cost savings here generally have little impact on the business' bottom line. But in reality, this area of spend actually provides significant opportunity for Procurement to add strategic value by enhancing customer satisfaction and driving competitive advantage by creating cost savings that can be passed on to the business' customers.

Many of the businesses within these sectors also tend to operate through client account teams which – for the large part – means that Procurement is driven by the commercial teams that work on the individual accounts

rather than the Procurement function itself who generally focus their efforts on areas of expenditure that bridge multiple accounts.

In many cases, the account management structure and the presence of technically-skilled commercial teams has led to the belief – rightly or wrongly – that Procurement may be too far removed from the requirements of the business to add value in areas such as specifications rationalisation, demand management and category management. It is critical, therefore, that Procurement work to build greater capacity within the individual categories to demonstrate their value in order to convince the organisation to revise their commercial structure to embed the Procurement function within their various accounts.

It is somewhat surprising therefore, that 22 percent of respondents suggest that they lead the demand management process within their organisation and that 64 percent claim to lead their organisation's SRM activities. However, this may reflect either nominal ownership over these areas or leadership in the annual reviews and activities rather than the existence of a proactive process by which Procurement actively monitors, responds to and works with these stakeholders to drive these activities.

So whilst more than 40 percent of respondents in this sector indicate a centralised or centre-led operating model, this has traditionally been more fragmented and focused on a country-by-country basis rather than on a business unit approach. For example, many of the global agreements that are in place in these sectors tend to be framework agreements where multiple suppliers provide pricing against estimated volumes in order to join a preferred supplier list.

The lack of any clear volume commitment for the suppliers combined with the prospect of having to participate in a further 'mini-selection' process often discourages suppliers from offering the best commercial pricing. This can seriously damage the credibility of both the Procurement function and their centre-led model if local country teams are subsequently able to secure better commercial terms by committing to volumes locally.

And whilst it may seem surprising that Procurement functions within this sector rated poorly in their use of Systems and Technology, the reality is that many are continuing to struggle with integrating a

variety of legacy systems and may not be receiving the level of investment needed to transform Procurement's use of existing IT capabilities.

As a result, areas of this sector that suffer from a high degree of fragmentation tend to return mixed results in their maturity in Management Information, Data and Business Intelligence with some reporting leading practices and strong P2P systems that are capable of providing the fine granularity of reporting and Management Information that are required to drive advanced procurement decision-making while others remain in the 'foundation' category.

“

More than a third of TMT and Business Services respondents admitted to falling within the 'foundation' category for their use of Systems and Technology, indicating little automation in their procurement processes

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conclusion



CONCLUSION

Based on this research, it is clear that there is ample opportunity for most Procurement functions to drive additional value into their organisations.

But this means changing the status quo and actively working to enhance the value, capabilities and reputation of the Procurement function throughout the business.

In part, this will require CPOs and Supply Chain Directors to clearly articulate the tangible benefits of embedding Procurement into the business planning and decision-making processes. But it also means getting the basics right: bringing spend under contract, auditing and monitoring progress, reducing costs and making better use of systems and technology.

The results could be amazing. Organisations with mature Procurement functions enjoy lower cost growth, greater business flexibility, increased market certainty and – as a result – significant competitive advantage over their peers. Those that fail to mature will find themselves relegated to simply reviewing and negotiating contracts, forever to remain as tactical ‘order takers’ rather than the strategic leaders that they could – and should – aspire to be.

We believe that this research provides a clear and actionable roadmap to help Procurement leaders plot their journey to maturity and, with it, a more strategic and valued role within their organisations.

Now it is up to the CPOs and Supply Chain Directors to change the status quo and claim their rightful place at the table.

“ We believe that this research provides a clear and actionable roadmap to help Procurement leaders plot their journey to maturity and, with it, a more strategic and valued role within their organisations ”

Our five key recommendations

- 1 Earn a place at the table:** Work more closely with key stakeholders, understand the business strategy and priorities and identify how Procurement can add value in order to truly become a strategic business partner. A proactive approach to elevating the profile of Procurement internally should be adopted, drawing on real examples of how the function has delivered tangible value to the organisation.
- 2 Stretch beyond cost savings:** Ensure there is a sound capability in category management, strategic sourcing and SRM within the Procurement team. Provide the Procurement team with a licence to get involved in more strategic business considerations such as demand management initiatives and 'make versus buy'. Think about how Procurement can improve the corporate cash position.
- 3 Assess the optimal Procurement operating model:** Invest time in understanding if the current Procurement operating model meets the business' objectives, and be open-minded to other options. Assess the alternatives based on potential return on investment, and be bold in making changes to drive business value.
- 4 Take a more active role in risk management:** Engage the Board in a mature conversation around the organisation's appetite for supply chain risk. Proactively encourage Procurement professionals to take charge of the supplier risk agenda, drawing on relevant expertise from other areas of the business as needed.
- 5 Maximise the use of technology and Management Information:** Leverage technology to automate transactional tasks and realise enhanced value. Utilise MI to inform not only Procurement, but also the business' wider strategy development, resourcing and planning decisions.

10 Questions to ask yourself to assess your Procurement maturity

- 1 Is the Procurement function organised to deliver optimal value to the organisation by focusing on outcomes rather than cost?
- 2 Are key organisational stakeholders fully engaged in the development of Procurement's strategy, and does this reflect the wider organisational strategy?
- 3 Is all spend managed through category management and strategic sourcing processes, with a competitive sourcing process mandated?
- 4 Does Procurement actively lead SRM and supplier performance including the identification of strategic suppliers, the setting of metrics and the measurement and follow-up of non-performance?
- 5 Does the Procurement function influence in excess of 80 percent of spend?
- 6 Does the Procurement function lead or get actively involved in demand management initiatives in your organisation?
- 7 Is risk management an integrated part of Procurement's day-to-day operations, and contract management process? Are contract audits performed on a regular and rigorous basis?
- 8 Are Procurement processes automated? Is there a fully integrated e-Procurement solution?
- 9 Is there a consistent benefits tracking framework? Are benefits captured, realised and reported to relevant stakeholders?
- 10 Is Procurement policy used as a mechanism for driving behavioural change throughout the organisation, with non-compliance being exceptional?

appendices

How to participate in the survey

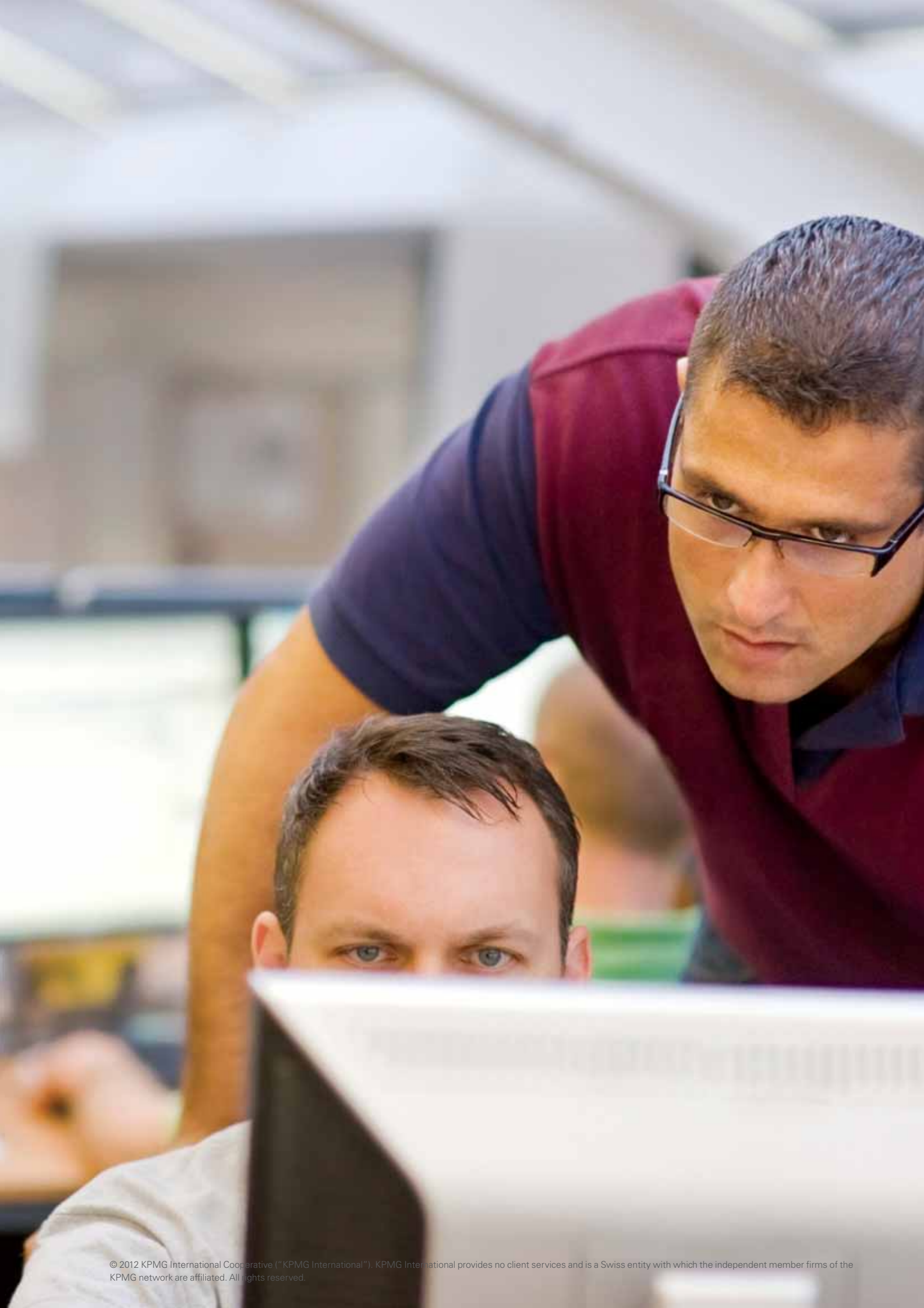
Each participant in our Procurement benchmarking survey receives an individual report showing how their responses compare to their sector peer group. If you are interested in participating, then please e mail **procurementbenchmarking@kpmg.co.uk** and we will get back to you with further details.

Glossary of Terms

Third-party Capital Expenditure	All third-party expenditure on goods and services which are classified as capital by the financial policy of a business.
Third-party Expenditure	The total spend on goods and services calculated based upon the total value of expenditure accrued per annum (excluding VAT) to all suppliers for the purchase of goods and services.
Annual Cost of Procurement Function	The cost of running a Procurement function, including salary, employment costs, training, and systems.
CAPEX/ Capital Spend	An amount spent to acquire or upgrade productive assets (such as buildings, machinery and equipment, vehicles) in order to increase the capacity or efficiency of a company for more than one accounting period.
Cashable/Profit and Loss	Savings which directly reduce revenue expenditure by impacting directly on budgets/ profit and loss accounts.
Centralised Model	A Procurement operating model where all purchasing is conducted through a single central organisation that fully leverages the organisation's total spend, formalises standardised processes and shares best practices.
Centre-led Model	A Procurement operating model that forms a centre of excellence focused on corporate purchasing strategy, strategic commodities, best practices and knowledge sharing while leaving individual purchases and tactical execution to the business units. The model leverages cross-functional teams that represent all key business units.
Contracted Payment Terms	Payment terms (in days) that is contractually agreed upon between the business and its supplier for the purchase of goods and services.
Cost Avoidance	A specific action taken to decrease costs in the future, such as replacing parts before they fail and cause damage to other parts. It is calculated as difference between prices for goods and services and the probable increase in prices during the reporting year if actions had not been taken to obtain reduced costs for the same goods and services.
Cost Management "savings"	A systematic and structured approach that provides a holistic framework to control, reduce and eliminate costs throughout the value chain that have a direct impact on the financial performance of the organisation such as P&L, Opex reduction, cash flow, budget reduction, etc.
Decentralised Model	A Procurement operating model where each business, function or geographic unit within a corporation is responsible for its own purchases.
DIO (Days Inventory Outstanding)	A financial measure of a company's performance that determines how long it takes a company to turn its inventory (including goods that are work in progress, if applicable) into sales. It is generally calculated as Days of inventory outstanding (average inventory/cost of goods sold) multiplied by 365.

Direct Spend/goods and services	Purchases of goods and services that are directly incorporated into a product being manufactured or a service provided to the end customer (or public). Examples include raw materials, sub-contracted manufacturing services, components, hardware and – in the case of the public sector – may include waste management, road maintenance, adult social care etc.
DPO (Days Payable Outstanding)	An indicator of how long a company is taking to pay its trade creditors. It can be calculated as the total accounts payable divided by the cost of sales over the number of days.
DSO (Days Sales Outstanding)	A measure of the average number of days that a company takes to collect revenue after a sale has been made, usually calculated as the Days Sales Outstanding (or the number of days multiplied by the total of Accounts Receivable over Total Credit Sales.
FTE	Any full time, part time, temporary and contract employees employed during the year, prorated by the number of employees and the hours spent performing each process or activity and reported as the average number of full-time equivalents employed during the year.
Gross Profit Margin	Net sales minus the cost of goods and services sold.
Hybrid Model	A Procurement operating model which incorporates principles or aspects of more than one other operating model.
Indirect Spend / goods and services	The purchases of goods and services that are not directly incorporated into a product being manufactured. Examples include computers, safety goggles, printed forms, office supplies, janitorial services, equipment, furniture, etc.
Internal Stakeholders	It refers to the people who are involved in, impacted by or have influence on the procurement process and typically includes users, specifiers, budget holders and buyers.
Invoice	A formal commercial notification of payment required by a supplier stated as a request for payment for specified goods or services with quantities and prices, defining payment date and terms.
MI	Management Information.
OPEX/ Operating spend	The ongoing cost of running a product, business, or system which includes day-to-day expense such as sales and administration or research and development (excluding cost of goods sold – or COGS, taxes, depreciation and interest).
Outsourced Model	A Procurement operating models where specified key procurement activities relating to sourcing and supplier management are transferred to a third party.
Procurement Department	The division of a business that is responsible for the purchasing of goods or services to accomplish the goals of the enterprise.

Procurement Function	The function within an organisation that is recognised as having formal responsibility for procurement and sourcing both at strategic and operational levels. The scope of activity will typically include commercial strategy, managing the tender process, contracting, negotiation and supplier management. Additional activities associated with the supply of third-party goods and services may also be included (estimating, scheduling, supplier quality).
Procurement Model	The rationale of how a Procurement function creates, delivers, and captures value.
Purchase Order	A commercial document used to request the supply goods and services from a supplier in return for payment that generally provides specifications and quantities.
Purchase order raiser	The person responsible for creating a purchase order from the information provided by the requisitioner.
Purchase-to-Pay Cycle Time	The time required to complete one procurement cycle (enabled by technology) from point of order to payment.
Purchase-to-Pay Locations	Locations where staff involved in the P2P process are based (requisition, order, receipt, invoice, payment).
Requisitioner	An end user or the person who creates the requirement for procurement of products or services in the system.
Right First Time	Invoices paid to the supplier on time without any corrections or manual interventions.
Risk Management	The identification, assessment, and prioritisation of risks including supply chain internal process and third-party expenditure.
Spend under contract	The purchasing spend for the goods and services which are covered by active contracts.
Spend under Management	<p>The spend carried out in compliance with company policies and procedures that meet any of the following conditions:</p> <ul style="list-style-type: none"> • Purchases made by the Procurement department • Purchases made directly by end users following policies, procedures, and commercial frameworks set up by the Procurement department • Purchases made by the wider organisation where Procurement have been engaged early in order to challenge and support the development of the specification through to contract implementation.
Standard Payment Terms	Payment terms (in Days) agreed by the business in return for the purchase of goods and services.
Transactional Efficiency	The overall efficiency of the Purchase-to-Pay cycle (requisition through invoice receipt and payment).
Value & Performance	The benefits delivered by the Procurement function, typically including savings, innovation, cost reduction, service improvement, speed to market, risk mitigation, revenue enhancement and sustainability.



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