

Compulsive Contributors

More is asked and more is delivered

Accenture research and insights into
high performance in procurement


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Introduction: Procurement takes big steps forward

All over the world, the capabilities of procurement organizations are being tested as never before. They are required to help their businesses deal with the impact of globalization, supply market volatility, supply chain disruption, rising costs of raw materials, regulatory overload, talent shortages, and much more. If ever there was a need for procurement to lead the way, it is now.

The good news is that procurement is better equipped and more eager to meet these challenges than it has ever been. Today, procurement executives have a seat at the top management table. Their organizations' activities and results are getting attention—and for all the right reasons. Not only do they successfully and consistently contribute to cost reduction, but in an increasing number of companies, they are regularly seeking to understand how they might drive revenue growth as well.

For perhaps the first time, procurement is starting to acquire what marketers might describe as "brand appeal"—the

perception that procurement is rapidly becoming a power player, well able to augment the fortunes of the business just as finance, sales and marketing are seen to do. In the leading companies, top procurement executives have learned how to sell their "brand" with both internal and external stakeholders. They continually protect and reinforce procurement's brand by acting as what we call "compulsive contributors"—driven to add value to their businesses in every dimension.

To do what they do, those compulsive contributors bring a different perspective to the table. Rather than relying on total cost of ownership (TCO) models—now a well accepted concept in the procurement world—they are striving to achieve total *value* of ownership (TVO). TVO recognizes that value goes beyond cost and working capital improvement to include elements that contribute to social, environmental and innovation agendas. Masters understand that they must manage the demand, work with suppliers to drive innovation, and work

with business functions to rationalize design specifications. In essence, masters push for long-term value in combination with competitive cost advantages.

With their TVO perspectives, these leading procurement organizations and their stakeholders within the business enjoy much greater certainty over everything from lead times and demand management to landed costs to the resource commitments required for successful sourcing.

These characteristics are plain to see in our findings. Indeed, our 2011 worldwide study of best practices reveals that there really are two kinds of procurement organizations: The compulsive contributors or "masters" that strive constantly to create new ways to improve their organizations' results, and the "contenders"—the procurement groups that continue to make meaningful progress by responding to the changing needs of the enterprise.

Our latest study shows that the contenders have done much to hold down costs; their competencies and efforts passed the tough tests imposed by the 2008-2009 recession. And they are well able to improve their own operational efficiencies—for instance, by making good use of technology.

Yet the contenders lag far behind what constitutes best practice today—arguably further behind than just a few years ago compared to the benchmarks carved out by the masters. The masters stand apart because it is their nature to *strive*. They constantly look for ways to do better tomorrow what they already do well today. The core of this report highlights the achievements of the procurement masters today, showing how they are building procurement's brand.

However, our 2011 findings reveal that even the masters have challenges; this year's study exposes the areas where they too fall short of ideals—by their own admission. For example, there is much more that masters can do to energize their talent and expand the competencies of their own workforces.

The last part of our report blends quantitative survey responses with insights from the most intriguing of Accenture's global client experiences to give a glimpse of where the masters are taking procurement next. In their compulsive efforts to contribute, the masters are keen to realize their full potential. We expect them to continue harnessing new technology tools, adapting their business processes, refining their operating models and HR processes, and collaborating with suppliers to advance their overall performance.

For the contenders, the lessons are clear. The compulsive contributors are setting the bar high—and making it very visible—just as they make procurement's brand visible. The contenders have plenty to focus on just to catch up to the masters today. Now they must double their efforts if they are to get close to where the masters will be tomorrow.



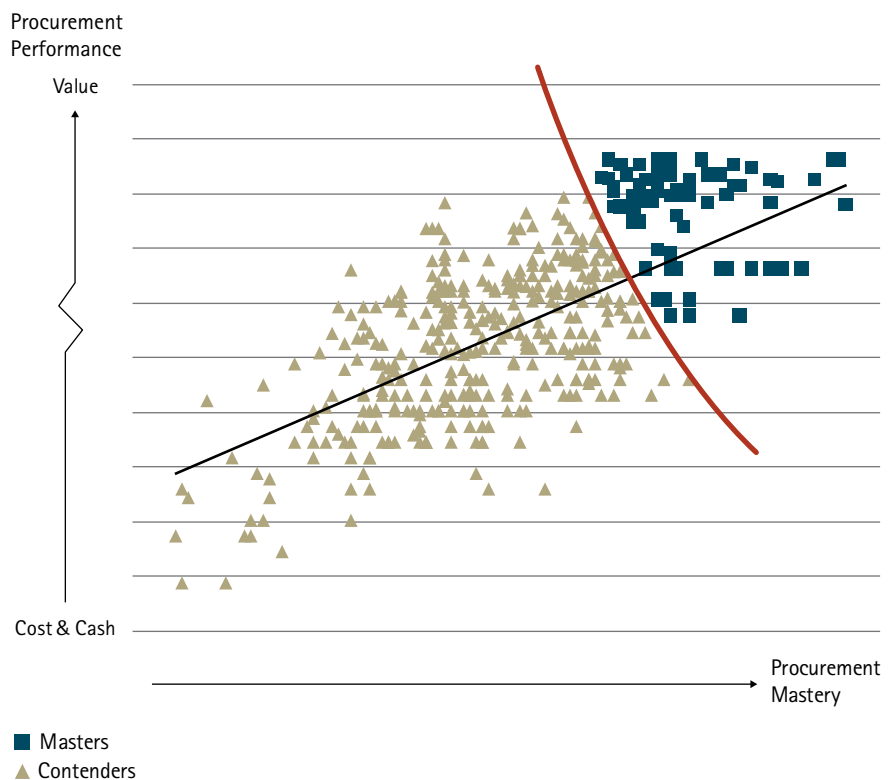
Executive summary

According to Accenture's 2011 research into procurement best practices worldwide, procurement organizations have made big advances across the board in the last few years. The responses to our most recent survey suggest that significant progress is being made in most dimensions of procurement.

But there's a more intriguing discovery. It is that a subset of procurement exemplars is stepping up to add value in unprecedented ways—beyond the traditional ways in which procurement's contribution has been measured. In effect, they have a compulsion to contribute value to their companies.

While many procurement organizations remain focused predominantly on improvements to cost and cash, the masters have continued to evolve. (See Figure 1.) They extend total cost of ownership (TCO) principles to embrace the concept of total value of ownership (TVO) with outcomes that:

Figure 1: Masters place overall business value above concerns of cost and cash



- Enhance materials sourcing and labor
- Reduce fixed cost structure
- Optimize/automate processes
- Eliminate activities that add little or no value
- Increase working capital efficiency
- Eliminate excess/unnecessary demand
- Accelerate product design and introduction
- Increase revenues
- Reduce supply risks
- Reduce risks to brand reputation through suppliers
- Reduce the carbon footprint for external and internal stakeholders

Although procurement performance has improved for most companies, there continues to be a marked gap between the procurement masters and the contenders in each of the six dimensions that we measured. (See Figure 2.) The masters stand apart because they outperform the weighted composite score of the respondents. What distinguishes these far-sighted leaders is their strong commitment to excellence in every dimension.

A key learning from our 2007 research study on high performance in procurement was that it pays to be very good at procurement. Its findings validated Accenture's core belief that companies that excel at procurement operate more efficiently and effectively than those that do not.

The hallmarks of procurement mastery

The 2011 study contains findings and insights that expand and deepen our previous research. We analyzed responses from 432 procurement organizations across a broad range of industries worldwide. We supported the quantitative findings with cumulative insights drawn from Accenture's longtime monitoring of best practices and our interactions with some of the world's most thoughtful procurement officers. Here is the snapshot of our findings about the practices of procurement masters.

Masters "get" strategy – and they practice it.

Clear-cut, tightly integrated strategies are the foundation of procurement mastery. According to our findings, 77 percent of masters ensure that they have a formal procurement strategy that is integrated with the corporate strategy, as well as with the strategies of core business

functions such as finance, operations and engineering. Only 29 percent of contenders can claim this integrated strategy. Additionally, 90 percent of masters provide innovative value above cost savings as a key element of those strategies, as compared with 32 percent of contenders.

Masters integrate effectively with their supplier networks.

The masters understand the benefits of collaborating with their suppliers—while holding them to consistently high standards. This is clear in our finding that two-thirds of masters look beyond their first-tier suppliers to collaborate and improve their businesses. By contrast, only 11 percent of contenders have insights beyond their immediate suppliers. In addition, only 18 percent of contenders conduct active monitoring of their suppliers' performance whereas nearly 60 percent of masters do so.

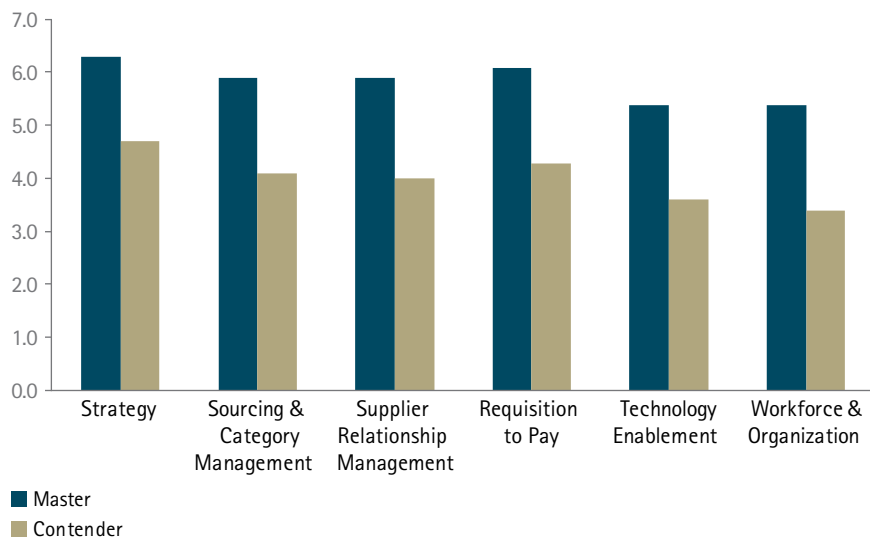
Masters excel at sourcing and category management.

Masters are better able to leverage spend both within and outside of their companies in order to maximize the outcomes for stakeholders. They don't stop at volume discounts, but push for better demand management, with long-term category strategies that drive continual cost improvement and apply contract controls and compliance. All of this is tied together with a clear definition of procurement value across the company.

Masters manage more of their spend.

Masters excel at managing spend throughout the lifecycle of the source-to-pay process. They meld process and technology integration to gain visibility into spend, while ensuring their users have well defined buying channels. Our findings show that 81 percent of masters have been able to integrate the end-to-end source-to-pay process with technology, compared with only 34 percent of contenders.

Figure 2: The gap between masters and contenders is significant in every dimension



Even the masters can (and must) do more to retain and attract the best talent.

Masters are out in front of the contenders in terms of managing their best employees and attracting new hires, but only about 40 percent have formal talent development programs in place. The primary shortfall is in the area of competency-building at all levels, spanning the traditional procurement skills applied in a more complex marketplace and the new skills necessary to lead the charge into sustainability, risk management, and product innovation.

Outlook for 2015: Areas of emerging excellence

The 2011 Procurement Mastery research, combined with Accenture's additional research and experience on specific topics, enables us to highlight areas where we consider the compulsive contributors may drive performance excellence over the next five years. We anticipate that there is potential for masters to make substantial advances in the following four areas.

Excelling in risk management.

The masters are developing risk management programs to better anticipate and plan for disruptions in the supply chain. The initial focus is the need to anticipate changes affecting key suppliers, supply markets, and commodity price volatility. In addition, there is a recognized need to respond to natural disasters that create disruptions—factors that can be anticipated but clearly not forecasted. The masters can be expected to further manage risks on every front.

Applying advanced analytics.

The procurement community acknowledges the need for more sophisticated analytical capability to address the increasing complexity in the business environment. The masters acknowledge that this will be a key focus for investment and for adoption of the best available technology in the coming years. One of the areas where they will put more weight: predictive analytics.

Closing the loop on spend management.

A few top procurement organizations are combining leading practices on the entire lifecycle of spend throughout the company. They are ensuring that procurement and finance work together to manage both supply and demand—that is, they "close the loop" on spend over time.

Transforming workforce capabilities.

Even though talent management continues to be a challenge for all procurement organizations—the masters included—a few organizations are showing what the activity can look like. There are examples of procurement organizations whose talent acquisition and development programs have become the prototypes for their entire companies.

Procurement is a vital contributor to growth

All of these examples help to describe the extent to which procurement organizations are evolving. The best practices illuminated in Accenture's past mastery studies are now the standard for many organizations; it is clear that business leaders have both recognized and embraced the contributions from more capable procurement groups.

But what is even more impressive is that the procurement masters are by no means standing still. As such, the findings of this report send a clear signal to senior executives, to current and potential employees, and to investors that procurement can be a vital, innovative contributor to corporate growth far into the future. It is well positioned to become "the brand" that is envisioned and pursued by the masters.



Survey insights: Hallmarks of the compulsive contributors

The compulsive contributors take procurement excellence to entirely new levels. They ensure that procurement is part of their organizations' growth agendas. Our survey questionnaire addressed Accenture's six dimensions of procurement mastery: strategy; sourcing and category management; supplier relationship management; requisition to pay; technology; and workforce and organization. Analyzing responses from 432 participants, we discovered five key themes that can be termed core characteristics of the procurement masters:

1. Connected view: Masters "get" strategy – and *practice it*

The development of a thoughtful strategic plan, tightly tied to the corporate strategy and business function strategies, is the foundation for procurement mastery. Three very clear leadership practices are built on this foundation, and are supported by our 2011 Procurement Mastery findings:

- The alignment of strategies leads to clear and common accountabilities and metrics across the organization.
- Procurement is involved in critical decisions that pertain to a greater portion of third-party spend, and as a result there is a more holistic, consistent and analytics-driven approach to spend management.
- There is an innovation agenda that goes well beyond cost and working capital to address the needs of both internal and external stakeholders.

Clear alignment of strategies allows procurement organizations to stay in sync with corporate and business functions' accountabilities and metrics. An impressive 88 percent of masters have procurement governance and processes in place to ensure that decisions are made in the best interests of the company and in full alignment with other functions. (See Figure 3.) Not even half of the contenders have this same capability in place. The supporting element of integrated metrics—standardizing the way in which success is measured and communicated to top management—ensures that the company will recognize procurement's accomplishments and contributions.

As a result, the masters are able to manage 15 percent more of their indirect spend than contenders do, and 12 percent more of their direct spend. (See Figure 4.) The advantages go beyond controlling spend, however, leading into broader value-based solutions. Procurement can apply its strengths in spend control to move into innovation, supplier development, and more complex areas of procurement practice. Again, this raises the value of procurement to the company as a whole. Along with having clear metrics and governance, integrated strategies mandate that procurement is involved in critical decisions pertaining to third party spend. In fact, 79 percent of Masters have this C-suite mandate. This allows masters to *start* by controlling more spend, and *continue* by adding value-based solutions.

A clear and concise strategy, aligned with stakeholders' objectives, enables procurement to proactively develop an innovation agenda. Ninety percent of masters provide innovative value over and above cost advantage, as opposed to 32 percent of contenders.

The development of a coherent strategy is a nuanced, complex exercise that involves rich and prolonged interaction with many stakeholders. That may account in part for why the contenders fall short in having workable, clearly communicated procurement strategies. But it is something to which they must commit if they are to uncover new ways to add value beyond cost reduction.

Figure 3: Procurement masters are sticklers for thoughtful strategic plans

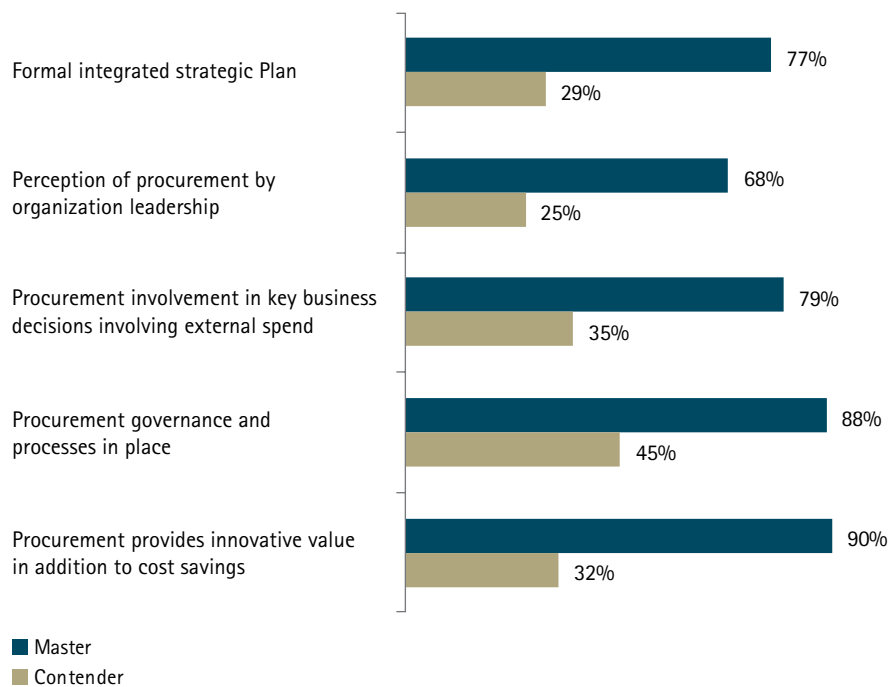
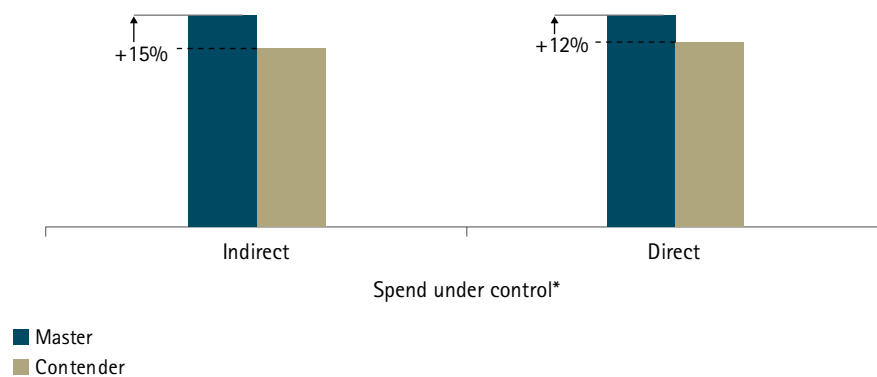


Figure 4: Procurement masters manage more of their spend



*On US\$ 1 billion of normalized spend

Vehicle manufacturer: An insightful approach to procurement strategy

A leading European vehicle manufacturer recently reworked its procurement strategy in ways designed to significantly reduce its long-term materials costs and help drive innovation.

Eager to ensure that the company could keep pace with industry best practice in procurement, the management team first commissioned a gap analysis to see where the company might need to improve. The exercise revealed the importance of tying procurement more closely to the overall business strategy.

Putting in place a “transformation” team alongside the line procurement group, the manufacturer redefined procurement’s role by deriving it from the business strategy – mapping procurement activities and capabilities against six stages of the product lifecycle and also charting the necessary capabilities, related processes, and IT systems support.

The biggest benefit of this approach is that it enables procurement to have much earlier influence on the decisions that affect product costs. (The overall approach is set to yield substantial savings. More than half of automotive manufacturing’s total costs come from purchased material.) Conventionally, when purchasing gets involved late in product development, parts and subassemblies that have been bought as prototypes often continue to be bought at the same price levels in series production. Those production parts can be up to four times more expensive than they should be. It is then much tougher for procurement to bring down those costs than if it had been involved from the start.

The auto maker’s new approach has many practical benefits. For instance, when viewed in context of the product planning and strategy stage, procurement can now help to define revenue/cost assumptions, set total target costs per model, decide the optimal manufacturing footprint, and test value chain assumptions. In the basic research/ technology development

stage, the procurement organization is perfectly placed to develop solutions that minimize the costs of non-differentiating components and systems.

The approach also makes it easier to enlist suppliers to drive innovation in components, subsystems, and services. The auto maker’s procurement organization has been restructured to continuously search for new ideas not only by working with existing suppliers but by systematically scouting for innovations throughout the broader supply market. Procurement can also select and contract with development suppliers—the subset of suppliers that can become true innovation partners. And it is set up so it can more easily create supplier clusters/alliances that help unearth new technology developments.

The auto maker’s realignment of procurement has also focused attention on what’s needed to support the organization. For instance, procurement can work with human resources to make sure it has the skills and competencies needed to develop an early lifecycle view of sourcing by key commodity. The new approach also helps clarify which IT systems will support which stages; for example, spend analysis tools are critical during the concept-through-prototype phases of product development. And web-based supplier performance tracking systems are invaluable during launch and production.

The auto maker’s approach stays up to date because it is linked to the overall product development strategy. And to ensure relevance to the market, it is formally refreshed once a year as part of the corporate business plan.

2. Broader team: Integrating effectively with supplier networks

When working with their best suppliers, procurement masters don't tend to think in terms of "them" and "us." Masters view suppliers as part of a network that drives value. This year's survey shows that the masters are very clear about what constitutes value. They now expect far more from their suppliers: increasingly, they want them to contribute to the procurement agenda substantially beyond optimizing cost and cash.

Specifically, our survey reveals that two out of three masters view suppliers as part of an integrated supply network; they can determine where it will be beneficial to engage much more deeply with certain suppliers. They start by formally distinguishing their transactional, opportunistic suppliers—those that are essentially interchangeable—from the suppliers that are truly key to their procurement strategies. Strategic suppliers are often defined by a mix of how critical they are to the company's products, their impact on the customer base, their position in the marketplace, and the strategic agenda of the procurement organization. Once the strategic categories have been determined and the most relevant suppliers identified, the masters ensure that their collaboration with those suppliers is highly focused and tightly managed.

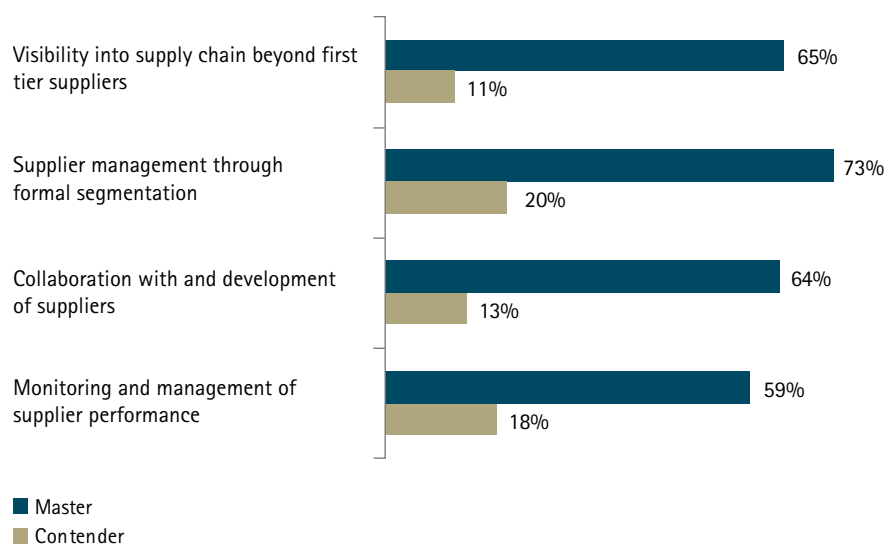
The collaborative efforts are also much broader than in the past. As described in the "Outlook 2015" section of this report, procurement organizations have big plans for the near future. They expect to affect outcomes in sustainability, product innovation, social responsibility, risk management, and other areas. It is apparent that they expect their suppliers to contribute to product design, technology enablement, productivity, and process improvement initiatives. For example, collaboration with suppliers can open the door to

new product innovation. Additionally, the masters keep their fingers on the pulse of outside markets, using crowd-sourcing practices to feel for innovation. As collaboration technology matures, organizations have access to global innovation as never before. For example, Danish toy maker Lego uses crowd sourcing for innovative ideas with their DesignByME site. They give their customers the opportunity to upload their own personal designs, which are subsequently distributed by Lego.¹ Applying crowd sourcing for innovative ideas with suppliers allows companies to quickly and continuously understand and capitalize on new opportunities across supply markets. In effect, strategic suppliers help to bring outside innovation inside; they give the procurement masters an early edge with innovations that they are working on now.

Additionally, the masters see far beyond just a first tier of suppliers. (See Figure 5.) They demonstrate real interest in the performance of suppliers further up the supply chain; many actively reach into the second tier and sometimes farther. We believe that such granular outreach is only the beginning; integrating deep into supplier networks will be a theme that we'll hear more about in the next few years.

The masters also do a superb job of holding their suppliers to high standards—standards that the suppliers can more easily understand and accept. While only 18 percent of contenders say they actively monitor and manage their suppliers' performance, nearly 60 percent of the masters do.

Figure 5: Procurement masters view suppliers as part of an integrated network



¹ New Waves of Growth - Unlocking Opportunity in the Multi-Polar World, Accenture, 2011.

Apparel company: Getting results by investing in suppliers

The supplier development initiatives of a popular global "main street" apparel brand have helped to boost production efficiency at suppliers' plants by as much as 30 percent and lift first-pass yields by up to 20 percent. The benefits are flowing through quickly to the apparel company's results.

The company targeted four areas in particular: performance measurement; corporate social responsibility (CSR); production efficiency; and quality system. The outcomes included analysis of suppliers' current performance in order to set the baseline, the establishment of standard key performance indicator (KPI) metrics, and a tailored data collection approach to ensure that the company could sustain its KPI systems.

Furthermore, the apparel maker elevated CSR awareness at its suppliers' factories and helped them develop CSR-compliant improvement and training plans.



By collaborating so closely with their suppliers, the masters are able to improve their companies' existing products and processes. They get to share the burden of development costs, gain extra resources and skills through joint project planning, and help themselves by helping suppliers to improve *their* business operations (e.g., improving cost controls, manufacturing processes, and time to market). Nearly two-thirds of masters indicate they actively work to develop certain of their strategic suppliers—almost five times the proportion of contenders.

The contenders have a long way to go to catch up when it comes to supplier relationship management. When only 13 percent of contenders say they collaborate with and work to develop their suppliers, and a mere 11 percent claim visibility of their supply chains beyond first-tier vendors, the room for improvement is evident.

Working more effectively with suppliers continues to be one of the most significant value levers for the masters. Not only does it help to ensure better performance from suppliers but it reduces supply chain risks and makes costs more predictable.

3) Sourcing discipline: Superior sourcing and category management

It pays to be good in sourcing and category management (S&CM.) Overall, the procurement masters continue to maintain a significant advantage over the contenders in S&CM. They are more than willing to go farther beyond cost and cash to get incremental value.

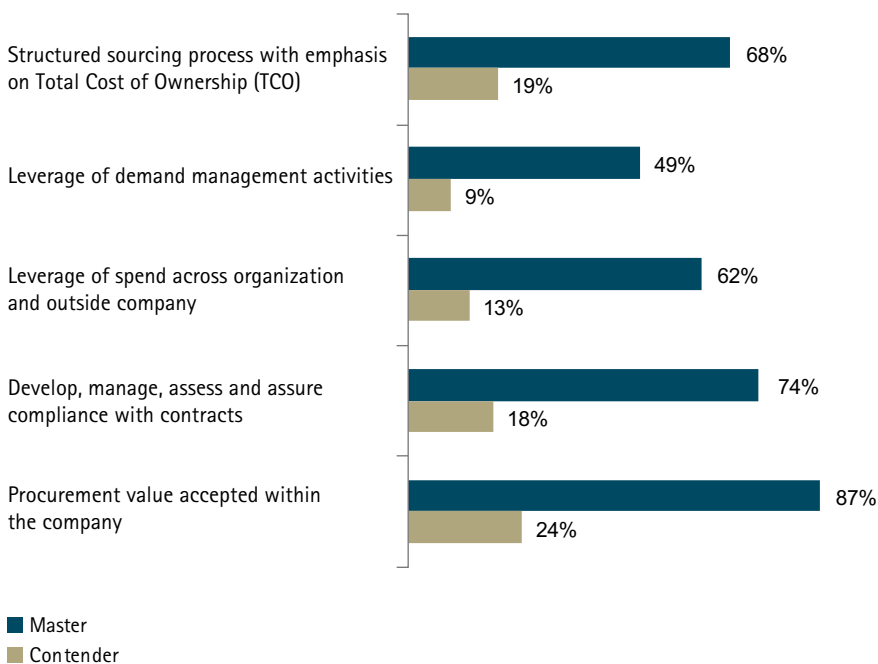
The masters' S&CM strengths rest on firm foundations. At the outset, "value" is clearly defined and agreed upon throughout the organization, so procurement is not burdened by trying to regularly prove itself—let alone trying to prove what "value" is. Nearly 90 percent of the masters indicate that they have no debate concerning value added. When their contributions

are so clearly accepted throughout the enterprise, they have a mandate to make a difference.

At the same time, the masters can rely on sound contract compliance. Nearly three-quarters declare that they have the resources and the processes in place to ensure contract compliance. As a result, they can be much more certain about everything from lead times to landed costs. They can also leverage their spend better: Close to two-thirds of masters are managing and leveraging the spend across the enterprise, and sometimes outside the enterprise as well. At the same time, they can more easily move toward a "total value of ownership" concept.

Another aspect of the masters' superiority in S&CM is that they have built a structured sourcing process. Just under 70 percent of the masters have structured sourcing processes that emphasize total cost of ownership—more than three times the proportion of contenders that do. (See Figure 6.) They are leveraging those processes to compulsively look for and get more benefit. After sourcing, masters are circling back on categories, extracting value by improving spend visibility and ownership in the business, following category-level budgeting guidelines, and, in partnership with the finance group, continually monitoring and controlling spend.

Figure 6: Masters have both the access and the accountability to drive value



With these foundations in place, the masters are able to tackle more complicated procurement strategies. For instance, they are pushing hard on complexity reduction, product analysis with engineering and marketing, and new low-cost country sourcing options. The masters certainly leverage spend across their own companies to successfully obtain volume discounts, using regular reviews of category strategies and tactics based on multi-year strategic plans. They are also now evaluating the pluses and minuses of consortia buying—aggregating volume across several companies. Fully 62 percent of the masters are successful at aggregation within their companies, and are looking at inter-company aggregation.

However, even the procurement masters have work to do to excel at demand management. Fifty percent state that they are making headway in this area, but their progress is confined largely to direct materials and services. They continue to struggle with management of demand for indirect materials and services. The key will be to improve policies and controls, which comes from tighter processes, clear ownership, and visibility into volume and spend.

4) Requisition-to-pay and technology: Controlling spend throughout the lifecycle

The procurement masters are working hard to ensure that their spend is monitored from start to finish in the requisition-to-pay (req-to-pay) process. Underpinning the monitoring of spend is a savvy use of technology that supports the process every step of the way.

According to our findings, the masters have many of the building blocks they need to keep track of spend throughout the entire process and to ensure that spend is accounted for in the financial processes. This control over spend (and savings) allows the masters to realize the benefits of the entire lifecycle of supplier relationship management and sourcing & category

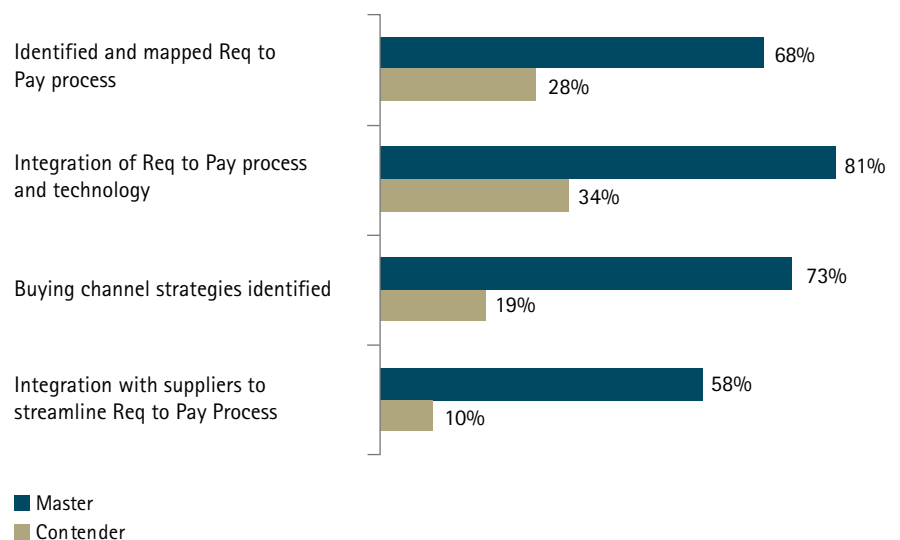
management. Three of the most important aspects of managing this spend are a controlled, managed process aided by technology, clear buying channel strategies, and data visibility.

First and foremost, 81 percent of masters are using technology to streamline and automate their req-to-pay processes, minimizing manual handoffs as much as possible. (See Figure 7.) In the process of implementing technology tools, interdependencies between purchasing and finance are identified, with a budgeting overlay that allows for true spend tracking and visibility. Generally, this process/technology combination makes it easier to purchase goods and services while keeping the long-term interests of the company very much in mind. The combination makes it more likely that employees will buy on contract, achieving the best rates identified through the sourcing process. It also helps to identify users who require additional purchasing support, such as spot buys. And it improves traceability and approval flows throughout the process so that

problems are flagged promptly and the company is better protected against unfounded or fraudulent purchases.

The “buying channel” element of the process/technology combination also merits mention; it is, in effect, a key building block of monitoring spend from start to finish, focusing on channeling employees’ purchases by category through a specific route (for example, online versus in-store.) Seventy-three percent of masters have identified these buying channel strategies. Providing employees with clear and easy-to-use buying channels as well as guidelines is a critical element of being certain that a company can control spend. Buying channels encourage employees to make the right choices for a purchase by making the channel easier to use than more expensive methods of purchasing. Online purchasing tools, p-cards, category-specific purchasing tools, and other valuable methods of purchasing seek to provide employees with positive experiences, orchestrated to meet their needs in addition to the company’s goals.

Figure 7: The masters monitor their spend from start to finish



Industrial communications materials maker: A solid basis from which to make long-term moves

Positioning itself for significant growth, a leading producer of industrial communications materials was able to significantly accelerate its progress and minimize complexity because its procurement organization had mastered the basics of direct-materials sourcing and category management.

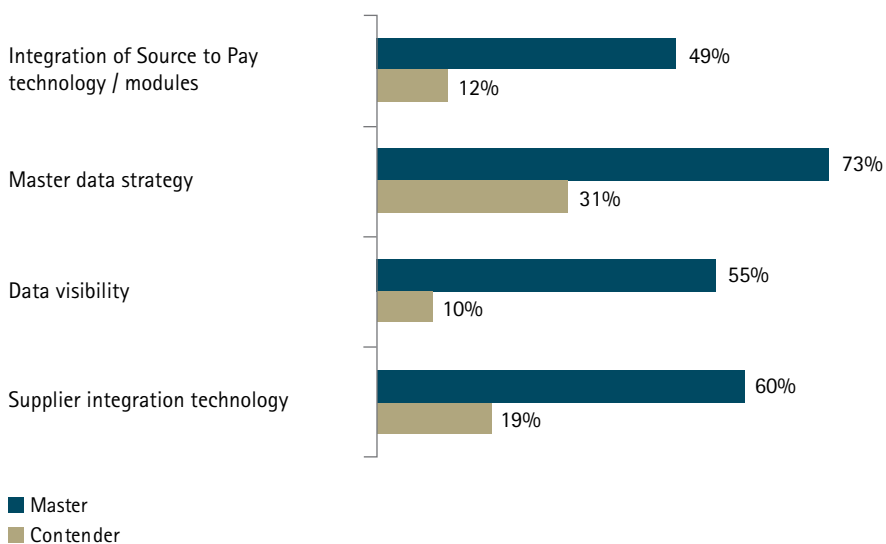
Essentially, the procurement group's competence with fundamental sourcing practices gave it the latitude to look at more strategic ways to add value over the long term. Specifically, the procurement group had high credibility with the company's R&D and product marketing groups because of its prowess in knowing its supply markets, managing suppliers, negotiating effectively, and in understanding the company's products at detailed component levels.

As a result, it was a straightforward step to extend the dialog between product development, R&D, and sourcing with the intent to reduce complexity and spur growth. The dialog goes far beyond purchasing costs: Collectively, the procurement group and its business partners trimmed the number of product SKUs by more than 50 percent, and the number of underlying components by almost 40 percent. They are positioned to launch new products months earlier than would have been possible had procurement not been able to lead the rationalization effort. In addition, the efforts to standardize on fewer components are reducing error rates and raising product quality levels. And the company has been able to move away from risky single-sourcing arrangements.

The masters are also well equipped to use this strong process/technology link and buying channel control to ensure that their data can be understood and used to make better decisions. For 73 percent of masters, there is a master data strategy that enables them to appropriately mine and interpret standardized data gathered through the process. (See Figure 8.) Additionally, 55 percent of masters ensure that they have full spend visibility by category and vendor. Approaching data management in this methodical manner, with the technology tools to provide superior visibility, means that the organization as a whole can improve simulation and forecasting, and executives are able to make informed decisions in real time.

For their part, the contenders appear to place some importance on the integration of the req-to-pay process, but they are still far behind the masters in applying it as a core procurement capability. The result is that the masters are better poised than contenders to minimize waste—and to purposefully reinvest savings back into the company to generate additional shareholder value.

Figure 8: There are still plenty of unused tools in the technology toolkit



Leading telecommunications services provider: Linking R2P to vendor-managed replenishment

To combat growing complexity caused by multiple acquisitions and rapid new-market growth, a leading global provider of telecommunications services opted to rationalize its global supply chain and move to a more efficient operating model. One significant outcome: With the benefit of integrated vendor-managed replenishment (VMR) technology, the company saved nearly \$30 million across three operating units in the first year, helping reduce their inventory costs, freeing up working capital, and cutting the high costs of obsolescence by discontinuing less popular product models. This would not have been possible without the increased focus on seamless process and technology both within procurement and across the supply chain.

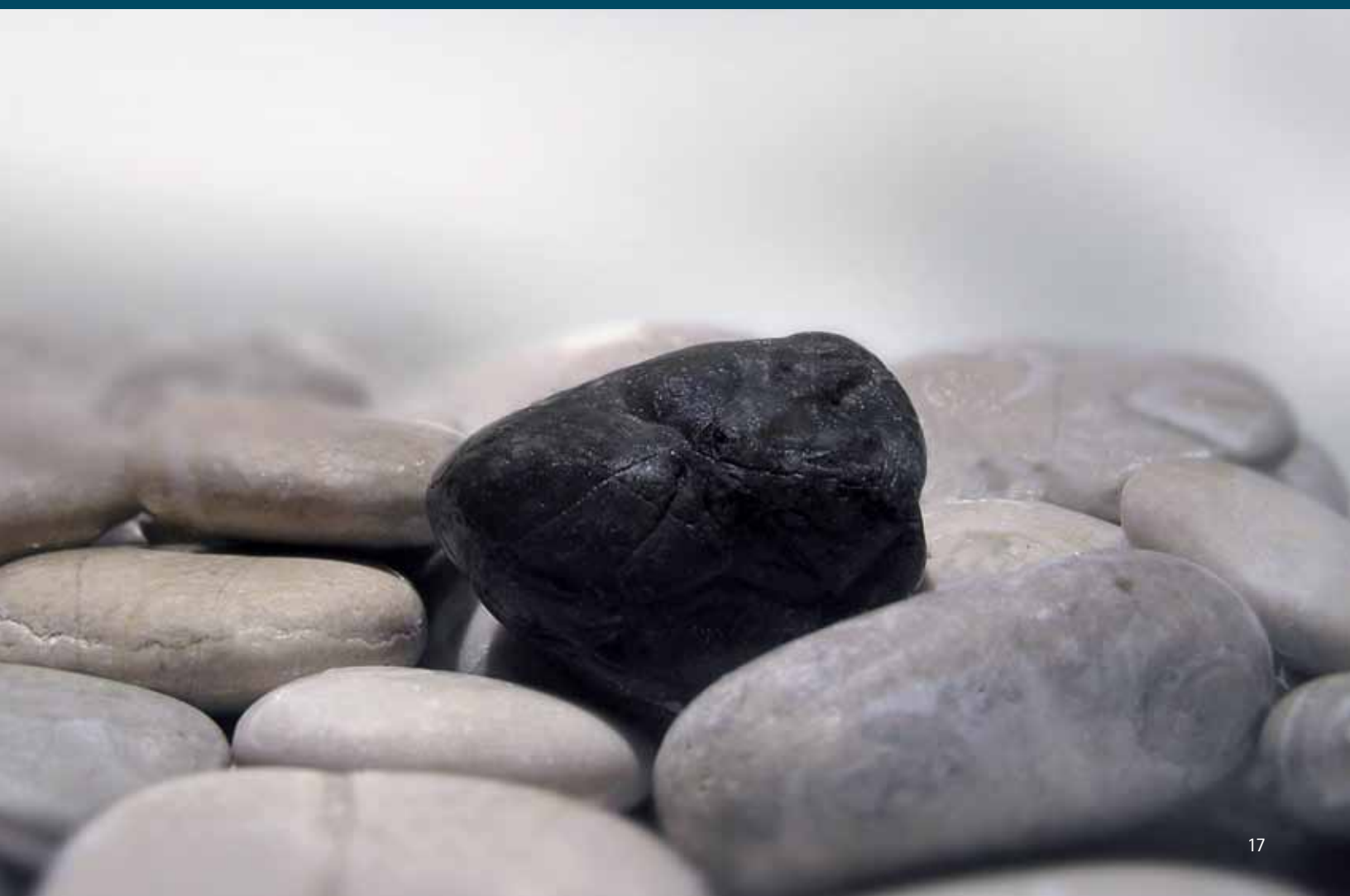
The company's goal was to increase efficiency across the business and reduce costs by leveraging spend through electronic sourcing and collaboration with suppliers. Its strategic decision to

change its operating model led to the formation of a standalone procurement unit through which all of the provider's operating companies were mandated to work. Creating the new organization and transitioning all of the operating companies to a centralized approach was a huge undertaking, involving the relocation of category managers, implementation of an enterprise resource planning system, and establishment of new processes and new contracts.

The effort has paid off. The provider's operating companies and their suppliers now benefit from an efficient electronic procurement process. The procurement unit was soon able to offer purchase-to-pay functionality and now transacts increasingly higher purchase volumes. Importantly, it is also enabling the operating units and suppliers to build capabilities in areas such as VMR and collaborative forecasting.

Implementation of the VMR model is enabling cost savings through more transparent planning and inventory management. VMR also promotes collaboration with suppliers, helping the telecom provider improve customer satisfaction because customers can more easily get the products they want when they want them.

The company has realized many benefits beyond cost savings. With fewer paper-based transactions and data entry points, there are fewer data errors. Procurement now involves robust compliance mechanisms and controls. And the provider has strengthened its supplier relationships through greater transparency and removed geographic barriers from its supply chain operations. Longer term, it plans to deploy VMR to all of its operating companies and suppliers, and ultimately will move toward vendor-managed inventory.



Global resources company: Procurement spearheads a workforce transformation

Intent on becoming the company of choice in its industry, a leading resources-extraction corporation recognized that it needed to work more closely as a single, integrated business. Historically, it had operated as a set of autonomous business units. Based on previous successes, the procurement and supply chain function was selected to spearhead this major change not just within the function, but for the entire corporation.

Key to the initiative was a workforce transformation that covered areas such as organization design, competency management, training, and process alignment. To redesign its organization, the company used top-down analysis and benchmarking, collaborative leadership workshops, and bottom-up validation. The detailed transition planning that followed included specific approaches for recruiting as well as tracking of full-time employees. In addition, skills assessments helped shape recruitment activities and pinpoint training opportunities.

Now with a center-led operating model in place, the company can more easily focus on globally integrated, strategic activities. Team structures are based on principles of TCO and the industry's value chain, emphasizing service delivery to operations at the extraction site. Detailed job descriptions and career paths have been mapped out for the new central function and for procurement operations at several business units. There is also a consistent approach to recruitment and redeployment across all business units and geographies. And there are tools and processes to track and manage headcount in future.

5) Talent factor: There's room to rebalance the human equation

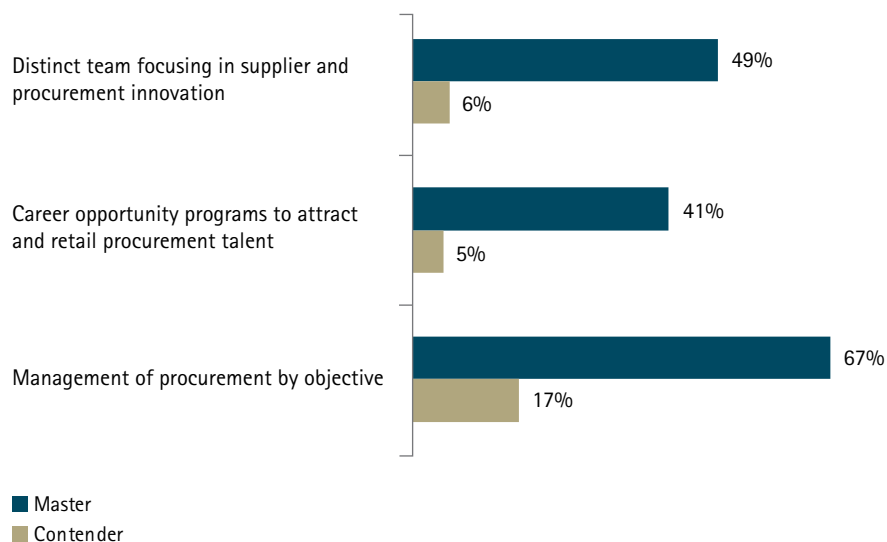
Talent may well be the procurement organization's single most scarce resource in the next decade. Yet it appears to be the one procurement dimension in which organizations, including the masters, still do not excel. If this situation persists, procurement will be hard-pressed to hire and retain the talent needed to support long-term success.

Masters and contenders should start by measuring their success objectively using balanced scorecards that feature key performance indicators. Only 67 percent of masters are managing this well, looking at measurements such as SG&A reduction, COGS reduction, savings, internal stakeholder satisfaction, innovation, and professional development. Contenders trail: Only 17 percent are measuring their impact well. (See Figure 9.)

For the company to succeed as a whole, the success of the procurement organization and that of procurement's employees must be tied directly to the company's strategy and measurements. In attaining clearly measured targets, procurement has to step beyond its tactical daily activities to focus on strategic programs and sourcing efforts that better the company's position as a whole. Not only does this help to focus procurement staff's activities on the success of the entire company, but it also improves procurement's overall value.

Well-defined programs that attract, engage, and retain talented employees are essential to the health of any procurement organization. Unfortunately, masters and contenders fall short here too. Only 41 percent of masters, and 5 percent of contenders, have formal programs to attract and retain procurement professionals. As a baseline, masters and contenders should invest in capability development programs that increase their resources' broad base of knowledge, including job rotation with other business functions (such as sales and engineering), support of external certifications, and collaboration opportunities for broad networking and learning opportunities outside the classroom.

Figure 9: Masters far outrun the rest when it comes to workforce management—but even they do not excel



The most adept procurement organizations, however, already provide options for career planning and training curricula. These options help employees to grasp the basics of procurement and give them ways to attain the breadth of strategy and business acumen required for success in dealing with stakeholders and suppliers of complex, high-value procurement categories.

It is becoming increasingly important to have a well-rounded, dynamic skills set. As one top chief procurement officer states, "I have too many people in the 'leverage' box." This CPO is referring to the fact that most buyers are comfortable only with competitive bidding competencies. In a world of permanent volatility, high supply risk, and supply market consolidation, the ability to conduct more advanced strategic thinking, develop deep relationships, and create strategic alliances and joint ventures becomes far more important. Therefore, procurement organizations should balance strong competence in competitive bidding with advanced strategic skills. Programs that target hiring and retention of more strategic resources, as well as development of existing resources, will promote this balanced approach.

For leading practitioners, talent management does not stop at developing a well-balanced internal procurement model. Those organizations are also reaching outside of their companies and into their supply bases. For example, 49 percent of masters, as opposed to 6

percent of contenders, have invested in dedicated innovation teams that focus on both internal procurement and supplier innovation. Additionally, a select few of the masters recognize that supplier capability is such a significant differentiator that they extend their capability development and certification programs to their strategic suppliers.

Given the advanced capabilities now being developed within sourcing and category management, supplier development, and requisition to pay / technology, procurement employees must be ready to embrace and profit from these new prospects. Right now, however, masters and contenders are not well-placed to take advantage of the new trends in talent.

Looking to the future

Overall, the masters' instinct is to compulsively contribute to total corporate success—and they have the confidence of their colleagues in the C-suite that they can and will do so.

So what are their priorities for the future? Where are these compulsive contributors investing and allocating resources to augment their effectiveness over the next few years? And what will their continued progress imply for the contenders? In the section that follows, we look just over the horizon, blending our quantitative survey responses with insights from Accenture's global client experiences to give a glimpse of where the masters are taking procurement next.



Outlook 2015: The next level of procurement excellence

Our 2011 research reveals a range of initiatives that should enable the compulsive contributors to drive even more innovation and value. In the next three to five years, their plans call for more attention to sustainable business processes, new ways to leverage spend, and a sharper focus on social responsibility. (See Figure 10.)

But Accenture's continual conversations with leading procurement professionals tell us there are other initiatives under way that quantitative surveys do not necessarily reveal. Drawing from our long-time observations of procurement best practice, we identified four key areas to which a handful of pioneers are committing resources and time. Specifically, those trailblazing leaders are sharpening their risk-management competencies. They are harnessing analytics to drive new insights. They are dedicating more effort to closed-loop spend management practices. And they are overhauling their approaches to talent management. Let's look at each factor in turn.

Figure 10: Where procurement masters are going next

Which of the following is your procurement organization formally including in their 3 - 5 year plan:	Total (Masters only)
Sustainability	74%
New ways to leverage spend (aggregation, etc)	63%
Social responsibility	41%
Managing large scale outsourcing contracts	41%
Shared services geographic location and scope (categories could be offshored, etc.)	38%
Integration with Sales and Marketing	36%
Tax efficiency and locations of sourcing hubs	21%
Crowd sourcing	13%
Other	5%

Excelling at risk management.

In the near future, we expect many more of the procurement masters to strengthen their risk management capabilities. Our studies have determined that the most common and potentially dangerous procurement risk areas relate to supplier reliability and price volatility. They also show that risk issues have a greater cost impact—and take up far more time—than most buyers' efforts to capture savings through negotiation. Knowing this, the cutting-edge practitioners can be expected to further manage risks on every front.

There already are clear signs that excelling at risk management contributes significantly to a company's achievement of procurement mastery. The masters tend to be particularly proficient at using specially developed risk-focused tools and services; for example, they are more than twice as likely as lower performers to be using risk-sharing contract clauses. Our studies show they typically address supplier and price volatility risks early on when developing their procurement strategies.²

Additionally, we see that procurement masters suffer from fewer "risk incidents" than contenders. Specifically, companies that invest in supplier risk management capabilities often experience fewer incidents. Accenture's experience is that one of the masters' most important attributes is their use of a "risk management framework"—a comprehensive, end-to-end approach to anticipating, monitoring and mitigating risk.

Cisco hints at how we believe the risk-management trend may unfold. With almost all of its manufacturing activities outsourced, the company potentially faces substantial risks, for example from supply chain disruptions to man-made and natural disasters.³ Its risk management

framework includes risk anticipation, risk monitoring and risk mitigation. Its resiliency scorecard comprises four categories: manufacturing resiliency, supplier resiliency, component resiliency, and equipment resiliency. Cisco updates the resiliency scorecard each quarter, using it to identify where alternative sites, dual sourcing approaches or inventory adjustments are required. The company's supplier risk assessment web portal combines information from supplier meetings with public information about at-risk suppliers.

Applying advanced analytics.

Many of the procurement masters are already using descriptive analytics regularly in areas such as spend analysis, supplier performance analytics, and cost modeling. Their next big move is in predictive analytics. Some far-sighted procurement teams are already making significant investments to better understand how predictive tools can be used to evaluate commodity price volatility, to develop models for price forecasting, and to better manage risks as a result.

The masters recognize that forecasting prices requires expertise in commodities markets as well as mastery of complex analytical techniques for financial time-series modeling—techniques such as advanced time series modeling or stochastic differential equations and processes. Additionally, forecasting prices requires expertise and tools to translate mathematical approaches into effective solutions, such as scenario planning or mitigation strategies for anticipated risks. These sharpened forecasting capabilities should enable procurement professionals to reduce their reliance on historic trend-line data. At the same time, concepts such as value-at-risk are also integrated into daily operations. The organizations that employ these tools should be better equipped to foresee the effect of a

particular risk on their cost structure and the relative profitability associated with a specific component, system or end product.

Moreover, predictive analytics turns out to be a competitive advantage for more effective supplier relationship management. Price forecasting capabilities along with the knowledge of product breakdowns into semi-finished products and into raw materials provides opportunities for improved supplier negotiations and rebates. Additionally, it allows for quantitative estimates of risk exposure and helps show how each supplier affects the overall risk profile. These advanced analytics allow a company to balance risk exposure with reducing costs, helping them answer questions about when to buy, how much to buy, and at what price to buy.

To improve the chances that their practices bring quick benefits, the analytics pioneers place a premium on implementation. So they make sure the data they analyze is as error-free, up-to-date, and non-duplicative as possible. They pay attention to the skills and competencies needed to make analytics work—not just the raw number-crunching skills, but the business savvy to discern meaningful insights from "noisy" information. And they make sure they build the processes that enable senior executives to review the resulting insights—and act promptly on them.

Accelerating closed-loop spend management.

A few leading procurement organizations are providing a glimpse of the future of cost control. Their self-directed mandate has been to watch the money from start to finish – driving accountability not only for the savings but also for visibility into spend, clear ownership of category spend within the business, bottom-up category budgeting, clear direction for buyers and users on how to appropriately procure goods and services, and tight control and monitoring of spend.

² High Performance in Procurement Risk Management: Research and insights developed in collaboration with Massachusetts Institute of Technology, Accenture, 2010.

In essence, these organizations are ensuring that key process elements are in place so they can circle back—"close the loop"—on spend over time.

An interesting example of closed-loop principles exists in the management of general and administrative (G&A) expenses—traditionally a tough area to control. One of the world's largest consumer goods companies operates at a ratio of G&A costs/revenue of only 6.5 percent, which is 40 percent below the average of the company's peer group. The management team has made a best practice of implementing the closed loop of spend management. The control and monitoring routine drives company-wide, bottom-up corrective actions where necessary, with control and responsibility rolling up to the executive owners of each cost category. This routine closes the loop and powers a "flywheel" of continuous improvement.

Rolling out new controls regionally, the company gradually changed employee behavior to contain indirect spend in the first place. When G&A spending does occur, the new controls provide excellent sourcing, category management and operations support so the company can optimize the value from the spend.

The starting point is real transparency and information exchange between the procurement and finance organizations, with category definitions and cost definitions aligned and linked to a revised set of general ledger accounts. Executive owners are appointed for each category, with mandates across a range of budgeted areas. The executives work closely with category managers in procurement to drive smart consumption policies, develop consumption guidelines, create budgeting guidelines, and disseminate the procurement sourcing strategy and the operational consequences that apply to employees' day-to-day spending behaviors. And the budget holders are asked to develop bottom-up or priority-based budgets that serve as a baseline for internal and external benchmarking under the

leadership of the executive category cost owners. These principles are applied every time the company makes an acquisition, enabling a drop in overhead expenses that is twice as fast as that of competitors—and quickly changing spending behaviors. The concerted application of closed-loop policies, procedures, routines, tools and skills has become a differentiating capability for the corporation.

Filling the gaps in workforce capabilities.

Even though workforce management is not something that the masters en masse can point to with pride, a few organizations are showing what the activity can look like. At one global industrial conglomerate, the supply chain organization runs a powerful training program that not only improves the skills of its employees but helps make the function—with procurement at its core—an attractive area to work and a breeding ground for talent for the company as a whole.

The function's "capability development" initiative continually improves the on-the-jobs skills of its workforce on every level. It also imbues all supply chain employees with the skill of "learning how to learn" and how to work competently with their counterparts in a wide range of other functions.

In particular, the organization runs an activity that is designed to rapidly enhance the skills of the company's middle and senior supply chain managers in financial skills, leadership coaching, and skills in everything from employee engagement to influence and negotiation. The activity uses "action learning," where real business problems are solved in small groups. Participants say it is helping them quickly broaden their skills. Now the organization aims to implement the approach in other areas of the company's business and even with its partners and suppliers.

Another organization has created high-potential programs that span several functions. At this consumer-goods company, individuals targeted as high performers within procurement, finance, HR, operations, etc., are eligible for additional training, special projects, and networking opportunities. The special projects are focused on broader company endeavors; they enable the participants to grow their networks, expand their capabilities, and see where the company is going at higher levels than is possible during their day-to-day activities. The company engages the selected participants in roundtable networking events, pushing them to expand their knowledge while enlarging their networks. Not only do these programs benefit the individuals targeted, but they give other employees reasons to succeed and stay with the company.

Examples like these illuminate the path to success in talent management. That path is being taken by only a few organizations, but now it's time for others to ensure that procurement becomes not just a good place to work, but a firm foundation for an interesting and rewarding career.

³ "Operations Rules: Delivering Customer Value through Flexible Operations" by David Simchi-Levi, MIT Press, September 2010.



Call to action

There is no question that business pressures will continue to demand more of procurement. Yet the procurement masters will continue to set the pace. They already have a long lead over contenders in many practical dimensions. And masters have the discipline, the metrics, the competencies, and the brand to be able to extend their lead in the future.

So where does this leave the contenders? While it's laudable that procurement in general has served the bottom line well—and has more than held its own through a harsh global downturn—this is no time for complacency. The contenders clearly have work to do to catch up to the levels demonstrated by the masters—let alone to aim for where the masters are aiming. By showing where the masters excel, this report highlights opportunity areas for the contenders that are eager to change.

And what about the masters? What stands between them and the next levels of procurement excellence? As this report shows, their DNA already

gives them an advantage: They have motivation and momentum, evident in their compulsion to continually do more for their organizations. Their onward motion includes plugging the gaps in their capabilities. So we expect them to rededicate themselves to becoming "best places to work." They can do more to raise their demand management capabilities. And we would expect them to get even better at identifying and harnessing the technology tools and techniques that will help them further elevate their effectiveness and efficiency.

This is not the place to develop an exhaustive list of actions for procurement groups; consider this just a sampling of the initiatives that Accenture believes may make a difference. The necessary steps often call for sharp changes in operating practices; to go where the masters are going, you can't always just extend everyday activities. The good news is that such moves are entirely practical; the masters have already proved that. The other good news: there are

abundant resources to catalyze those moves in affordable, accelerated ways.

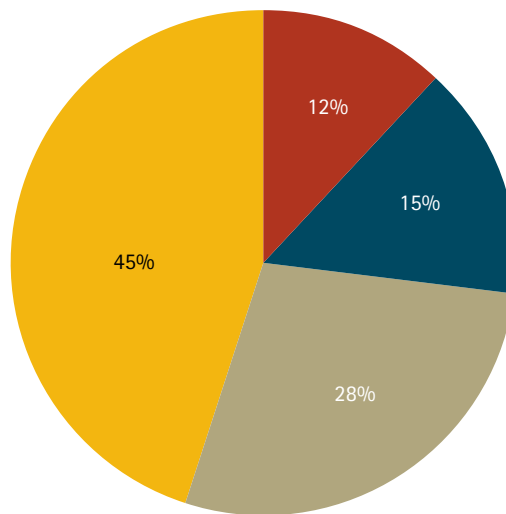
But this is the place to point out that there is no time to lose. As the global economy regains velocity, new competitors are waiting. Yes, procurement has made huge strides in adding value, but the masters show how much further and faster it is possible to go. The opportunity is there for so many more procurement groups to extend their capabilities—and to help put the function firmly center-stage in every company.

Survey demographics

To create an authentic picture of best practices in procurement, Accenture polled the function's leaders worldwide.

The respondents are senior practitioners: More than half are director level and above, with 26 percent being vice presidents, senior vice presidents, chief procurement officers, or chief operating officers. (See Figure 11.)

Figure 11: Job Titles



- CPO, CFO, COO
- SVP, EVP or VP of Procurement
- Director of Procurement
- Procurement Manager

Figure 12: Geography

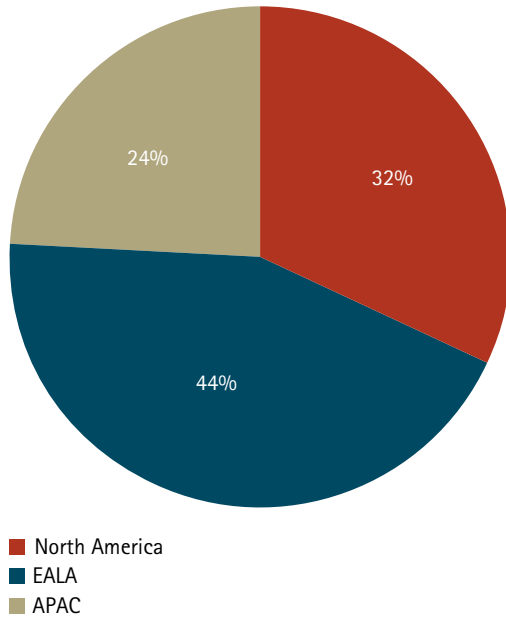
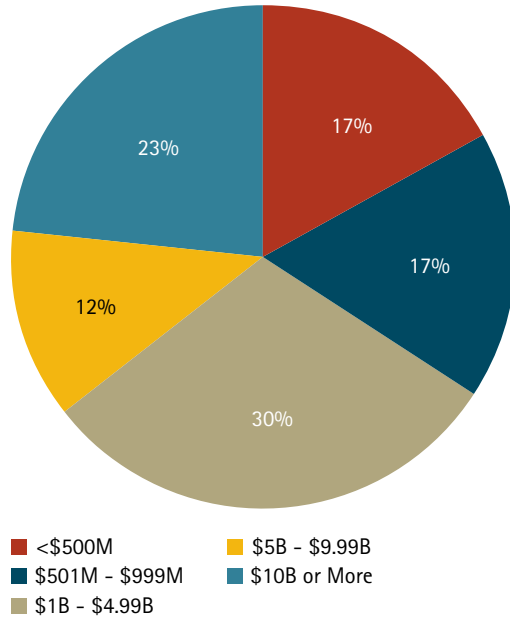


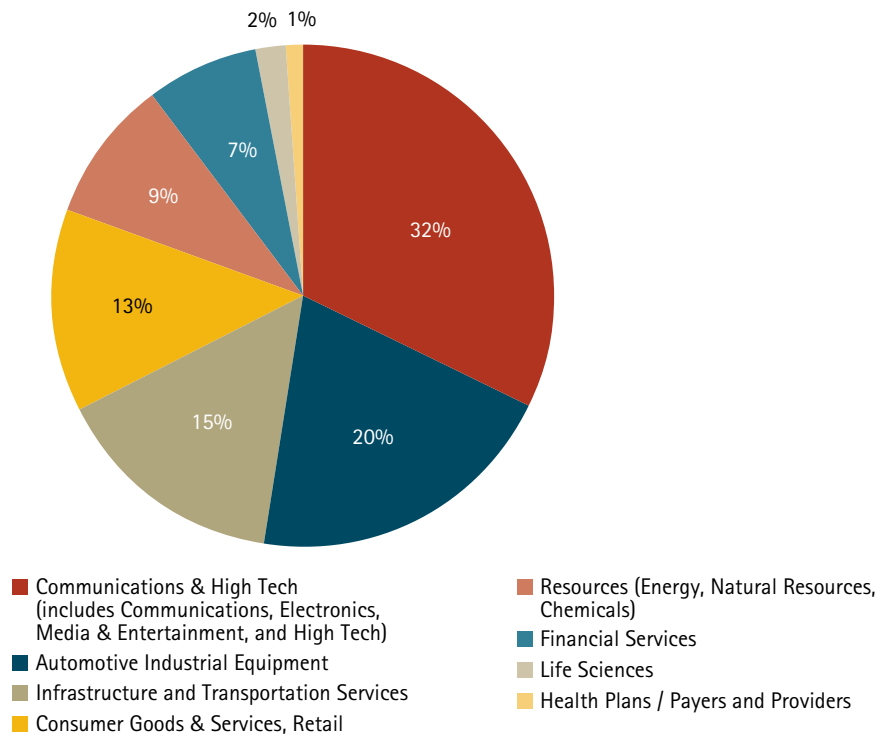
Figure 13: Annual Revenues



We were careful to ensure representation from many geographies, industries and sizes of organizations. More than 22 countries are represented in the survey. Respondents work at major companies across North America, Europe, Asia, and South America, and represent a broad swath of industries—from communications equipment manufacturing and office-supply retail to automotive parts production and water utilities. (See Figures 12, 14.)

Responses came from companies with substantial purchasing power—for the most part corporations with long histories of sourcing from suppliers of every type. Nearly two-thirds of respondents belong to organizations with more than \$1 billion in annual sales. More than a fifth are employed by corporations with yearly sales topping \$10 billion. (See Figure 13.)

Figure 14: Industries



About the research

The survey was conducted in late 2010 among 432 procurement executives across a wide variety of industries. The research focused on defining "procurement mastery" and highlighting the actions and behaviors that procurement masters exhibit. The survey was fielded using both telephone and online methodologies. This is the second time that Accenture has conducted the procurement mastery survey. The first survey was conducted in 2007.

To determine the master grouping, Accenture chose a combination of qualitative and quantitative outcomes asked in the survey. A composite score was created per respondent, allowing Accenture to clearly identify those companies that fell into the master category. Specifically, each master had to show leading practices in terms of providing value to the company in both cost savings and innovation in procurement and supply management. Additionally, cost savings and value had to be well-defined and accepted throughout the company at senior management levels as well as throughout the business functions.

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