

PORTRAIT OF A

**PRO
CUREMENT
MASTER**

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LEADERS ARE PERFECTING **THE ART OF PROCUREMENT**

What chief procurement (CPO) or chief operating officer (COO) hasn't thought: "What are the heavy hitters doing to create value from their supply base? Are we addressing that in our company?"

Accenture Strategy is helping to answer the first question, identifying some of the smart moves companies that are best-in-class in procurement make—to not only propel their company ahead, but to best competitors.

It is well worth a look, as top performing procurement executives (Masters) are delivering a 15:1 Return on Investment (ROI),¹ tangibly impacting the bottom line in a way that makes CEOs take note.

While there is no one-size-fits-all approach, learning from the Masters could spur your company to new heights in the art of strategic procurement.

WHAT IS A PROCUREMENT MASTER?

Masters are the top 10 percent of procurement organizations in terms of performance. They demonstrate leading behaviors, differentiating themselves across 13 key capabilities. To learn more about those 13 capabilities, see "What Drives a 15:1 ROI?"

OWN **BUSINESS OUTCOMES** NOT PROCUREMENT

Masters are expanding into areas previously off-limits, working hand in hand with the business. A whopping 88 percent of Masters sport better Pre-Tax Return on Invested Capital (ROIC) than their peers. More than half (63 percent) also achieve better capital efficiency than their counterparts.²

Mastery level performance today involves:

CO-OWNING

BUDGETS FOR THIRD-PARTY SPEND.

While still a radical notion at many firms, leaders expect procurement to be equally as accountable as the business unit budget holders, embedding experts across the organization, understanding demand drivers, influencing specifications and ensuring strategic procurement principles are followed.

REBASING

THE COST STRUCTURE OF THE BUSINESS.

Understanding spending patterns at a granular level allows master practitioners to develop a forward-looking target of what costs “should be.” Digital technologies help with this task because they can be applied to structurally change cost, consumption and/or specifications, creating radically different cost bases than in years past. For example, organizations can use telematics to better understand and manage mileage reimbursement—unlocking a wealth of usage information to enable better data-driven decision making.

DRIVING

MARGIN THROUGH THE INTRODUCTION OF NEW PRODUCTS.

Take note—nowhere in that sentence are “unit price” or “Total Cost of Ownership” mentioned. Procurement Masters are in lockstep with their budget holder counterparts, speaking the same language and driving toward the same global outcomes. As a result, Masters are 50 percent more likely to be embedded in the product design process,³ rather than relegated to the sidelines. A dedicated new product design sourcing function—a unified effort with product engineering and sales—can protect new future revenue, reduce engineering time by 20 percent, and increase new business win rates by 10 percent.⁴

Through owning, rebasing and driving, Masters become a core member of the C-suite because they link their team’s activity to direct impact on the firm’s financial performance. For instance, a CPO who can, at any time, quote real-time prices suppliers are charging, as well as the level of draw-down against contracts and the cost base of the business, has a real handle on financial impact. That CPO can articulate the Profit & Loss (P&L) impacts on spending departments and the enterprise. As a result, Masters are 53 percent more likely to be integrated into the executive committee,⁵ providing greater influence over buying behavior.

WHAT DRIVES A 15:1 ROI?

The Masters showed an excellent grasp of essential capabilities—those more traditional areas necessary for procurement to operate as a well-oiled machine—but also had moved purposefully into differentiating capabilities, those that really help move procurement from merely transactional status to adding true strategic value.



ESSENTIAL CAPABILITIES

- Procurement strategy
- Sourcing management
- Requisition to pay
- Supplier relationship management
- Contract management
- Procurement workforce
- Category management



DIFFERENTIATING CAPABILITIES

- Insight management
- Risk and regulation
- Demand management
- Finance and control
- Ecosystem management
- Advanced digital technologies

Demand management, finance and control, and ecosystem management help to maximize ROI by allowing tighter control over key levers. Advanced digital technologies such as robotic process automation, analytics and the Industrial Internet of Things help to automate tactical activities, trigger automatic reordering and predict supplier risk.

STOP DOING EVERYTHING IN HOUSE

The Masters abandoned the do-it-yourself model to focus on high-value decisions, moving to a model that frees them up for more strategic in-house activities. They outsource non-core work. Robotic process automation (RPA) significantly reduces their transactional operations duties, boosting Return on Investment (ROI).

For instance, a global energy company recently banked \$2.5 million annually by automating more than 100 procurement, finance and accounting processes, resulting in a 67 percent decrease in manual average handling time.⁶ Through seamlessly integrating automation, the client could dramatically speed up activities such as invoice processing, with increasing data accuracy as an added bonus. Automating rote processes frees employees to focus on more strategic activities, as well as freeing funds to reinvest in growth opportunities.

Tasks such as catalog management, invoicing and spend analytics convert quite well to digital or As-a-Service models. Removing these kinds of tasks from a procurement team's plate frees up over 40 percent capacity enabling the team to ratchet up impact—driving radical efficiencies and growth.⁷ Freed from more mundane tasks, procurement experts become part of budget holders' core teams, allowing them to better deliver a zero-based cost.

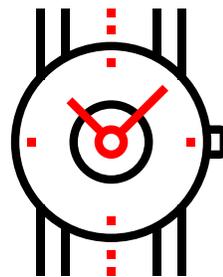
The results speak for themselves. Sixty-three percent of Masters outperform their peers by showing both lower SG&A expense ratio (as percent of revenue) and better margins.⁸

ALTER **PROCUREMENT DNA**

A select few Masters (just 5 percent) are leveraging digital disruptors to alter procurement fundamentals.⁹ They are changing the nature of specifications, service level agreements (SLAs) and performance management through digital technologies such as analytics, social media and sensors.

Accenture worked with a global shipping company to employ a virtual robot that manages procurement processes across systems. It creates full Robotic Process Automation (RPA) process descriptions and has reduced manual workload by at least 160 hours per month. Processing time has gone from 4.5 hours to 12-30 minutes, depending on the process.¹⁰ The robot learns and takes on new tasks, so further future value is in the wings.

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A financial institution created a single integrated source for its spend, projects, contracts, supplier management, risk and savings records, with help from Accenture Strategy. The bank now has greater end-to-end visibility into more than 2,400 supplier portfolios, as well as the ability to sort data by department, country, contract, risk driver and reason code. It has hired two data scientists to track trending information, as well as to embed third-party feeds and create net-new algorithms for predictive forecasting.¹¹

While projects such as these are just the beginning of what forward-thinking Masters are doing, they are a good example of the value that is possible today, even with just incremental steps toward true digital procurement.

CREATING A **PROCUREMENT MASTERPIECE**

Procurement mastery, up until today, has meant changing the way procurement teams operate within the current model—tweaks and adjustments to deal with changes in the business. But winning tomorrow is about expanding procurement’s purview to the enterprise cost base—marrying procurement with corporate growth goals. Success will require new analytical, strategy and finance skills with a distinct digital vision: skills that chief procurement officers embed with budget holders throughout the company. CPOs should consider the following in their pursuit of procurement mastery:

PROCUREMENT IS NOT ABOUT PROCESSES. IT IS ABOUT MEETING LARGER BUSINESS GOALS.

CPOs must win the case for relevance with their fellow chief executives. They need to expand spend under management through focus on “should cost” and become co-owners of total spend. They should be wholly accountable to the board for all third-party spend.

OUTSOURCE AND AUTOMATE.

Masters free up resources to pursue strategic priorities. Those seeking mastery are leap-frogging peers by leveraging a partner ecosystem to execute non-core activities and automating less strategic activities with the help of digital technologies.

PHONE A FRIEND.

As a CPO, you must foster competitive advantage through third-party relationships. No company can go it alone anymore. Crucial skills not in your wheelhouse need to come from a dynamic ecosystem of partners that specialize in what you do not.

KEEP UP WITH THE PIONEERING MASTERS.

The bar continues to rise. Pioneering Masters are already running tomorrow's race. Know where you need to compete with these pioneers to safeguard your continuing position. Benchmarking is the quickest route to clearly seeing where your company ranks on the scale of fit for tomorrow.

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NOTES

- ¹ Accenture Strategy 2017 Procurement Mastery research.
- ² Ibid.
- ³ Ibid.
- ⁴ “Technology companies cannot buy their way to competitive advantage—or can they?”, Accenture Strategy point of view, 2016.
- ⁵ Accenture Strategy 2017 Procurement Mastery research.
- ⁶ “When bots do the buying: Procurement at half the cost,” Accenture Strategy point of view, 2016.
- ⁷ Ibid.
- ⁸ Accenture Strategy 2017 Procurement Mastery research.
- ⁹ Ibid.
- ¹⁰ Accenture Strategy project experience.
- ¹¹ Ibid.

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