

Ardent | Partners

SUPPLY MANAGEMENT EXPERTS



CPO Rising The Agility Agenda

Underwritten by:



ARIBA®

An SAP Company



REPORT SPONSORSHIP

The views and opinions in this report represent those of Ardent Partners at the time of publication. Sponsoring companies have had no measurable influence on the content and research in this report. The contents of this research report are the exclusive property of Ardent Partners. Please direct any comments or questions regarding our research sponsorship policy to Ardent's Chief Research Officer, Andrew Bartolini, at abartolini@ardentpartners.com and/or 617.752.1620.

Sponsor:



An SAP Company

Ariba is the world's business commerce network. Ariba combines industry-leading cloud-based applications with the world's largest web-based trading community to help companies discover and collaborate with a global network of partners. Using the Ariba® Network, businesses of all sizes can connect to their trading partners anywhere, at any time, from any application or device to buy, sell, and manage their cash more efficiently and effectively than ever before. Companies around the world use the Ariba Network to simplify inter-enterprise commerce and enhance the results that they deliver. Join them at: www.ariba.com

Contact:

Lynnette Kimmel
Audience Marketing Director, Procurement Line of Business
Ariba / SAP
+1 (678) 336-2773
lynnette.kimmel@sap.com

CPO Rising 2015: The Agility Agenda

In 2015, no business enterprise can afford to go it alone - the stakes are too high. The level of competition and innovation that exists in today's market mandates that enterprises leverage their relationships to maximum effect.

The decisions, operations, and performance of an enterprise's suppliers can have a direct and, frequently, immediate and significant impact on its own results. Likewise, within the enterprise, no business function can afford to go it alone. Business leaders must harness the collective strength and ability of their organizations to optimize performance. All of this places procurement and its leader, the Chief Procurement Officer ("CPO"), in the crucible of business operations, relationships, and results. And, as the speed and complexity of business continue to accelerate, executives must adapt to new market conditions as they fight to retain market share and market relevance. Procurement departments, their operations, culture, and systems, the way in which they

transform knowledge into strategies and those strategies into performance, must all keep pace. To do so, the CPO needs a new agenda.

This report presents a comprehensive, industry-wide view into what is happening in the world of procurement, and captures the experience, performance, perspective, and intentions of 318 Chief Procurement Officers and other procurement executives. The report also includes benchmarks, analysis, and recommendations that procurement leaders can use to better understand the state of procurement today, gain insight into best practices, benchmark their performance against the Best-in-Class, and ultimately improve their operations and performance.

Report Overview

This annual research report presents a comprehensive, industry-wide view into what is happening in the world of procurement today by drawing on the experience, performance, and perspective of 318 Chief Procurement Officers (“CPOs”) and other procurement executives. This report is also designed to help readers understand industry best practices and the best ways to improve their current operations and performance. The report is organized into the following four chapters:

Chapter One – The State of the CPO looks at the role of the Chief Procurement Officer and the level of engagement and alignment this leader has within the enterprise today as well as the key drivers and challenges that have shaped and will shape CPOs’ priorities and plans in 2015 and beyond. This chapter also introduces a new Agility Agenda for CPOs to incorporate into the operations, systems, and culture of their departments.

Chapter Two – The State of Procurement presents a detailed view and analysis of the typical procurement operation today by analyzing procurement’s current capabilities in the areas of people, process, and technology. The chapter also looks at the key strategies, processes, and technologies that will enable procurement to become more strategic and agile in the years ahead.

Chapter Three – Procurement Performance provides procurement performance and operational statistics for readers to use as benchmarks for their own organizations. This chapter also defines Best-in-Class procurement performance and highlights the strategies, processes, and technologies that enable Best-in-Class performers to maintain their competitive advantage.

Chapter Four – Strategies for Success presents a series of recommended strategies and approaches for CPOs and procurement departments that want to improve their operations and results.

Contents

CHAPTER ONE: THE STATE OF THE CPO	6
What's Past is Prologue	6
What Got You Here, Won't Get You There	8
No CPO is an Island	8
CPO Priorities 2015 – 2018: Savings, Process, Compliance, and Innovation	9
Being There	11
CHAPTER TWO: THE STATE OF PROCUREMENT	13
A New Agenda	13
The Agile Procurement Organization	15
CHAPTER THREE: PROCUREMENT PERFORMANCE	21
A Dynamic Duo	21
The 2015 Procurement Benchmarks	22
Best-in-Class Performance	24
CHAPTER FOUR: STRATEGIES FOR SUCCESS	29
General Recommendations	29
Recommendation: Develop The CPO's Agility Agenda	31
Conclusion	33
APPENDIX	34
ABOUT ARDENT PARTNERS	34
ABOUT THE AUTHOR	34
RESEARCH METHODOLOGY	35
REPORT DEMOGRAPHICS	35

CHAPTER ONE: THE STATE OF THE CPO

“To rely on rustics and not prepare is the greatest of crimes; to be prepared beforehand for any contingency is the greatest of virtues.” ~ Sun Tzu, The Art of War

What’s Past is Prologue

It should come as no surprise that the procurement function was formally established during the second industrial revolution, a period of unrivaled innovation which rang in the close of the 19th century and proceeded until the start of World War I. The skills and need to procure (and/or trade) for goods and services is as old as business itself. But, it was not until the primary method of manufacturing began to evolve from handmade output to machine-driven, mass production (and with it, the production line) that the importance of having the right materials in the right place at the right time became critical on a large scale.

After the world wars, it took several decades for procurement to shed its largely clerical identity and gain stature as a proper business function, with specialization beginning to supersede vertical integration as a supply chain strategy. Then, it was realized that the procurement function required managerial expertise; and soon, best-practice processes were standardized across the profession.

Over the last quarter of the 20th century, procurement began to move away from a tactical, task-driven focus when a number of business visionaries began pushing the idea that a procurement strategy should integrate with that of the larger enterprise. The “radical” idea that procurement could do more than manage the order and delivery of certain goods and services and deliver strategic value to its internal customers and to the enterprise at large was finally acknowledged in a number of industries, but remained a minority view.

On the cusp of a new millennium, procurement teams found a new professional catalyst in the form of the “B2B/internet” boom or revolution. With it came billions of dollars invested in the development of solutions that advanced the procurement function and millions, if not billions more, invested in educating business executives about the value that a high-performing procurement department could bring to the enterprise.

The procurement teams that adeptly connect their tools, resources, and expertise to support the evolving needs of the business will succeed above all others. Agility will define the next wave of procurement success.

An immediate by-product of these investments was the establishment of the role of **Chief Procurement Officer (“CPO”)** within many organizations. The creation of this procurement leadership role with C-level stature and C-level access has been a validation of the impact that procurement departments can have on the enterprise and an indication of the increasing importance now placed on the function. But, the role of the CPO and the strategic nature of the procurement department remain relatively new phenomena; for it was a mere decade ago that the “CPO’s Agenda” literally and figuratively emerged. Touting the top strategies for procurement transformation at a time when very few procurement executives even had a strategic plan, these new, annual research reports (and their ideas) focused on establishing and advancing a

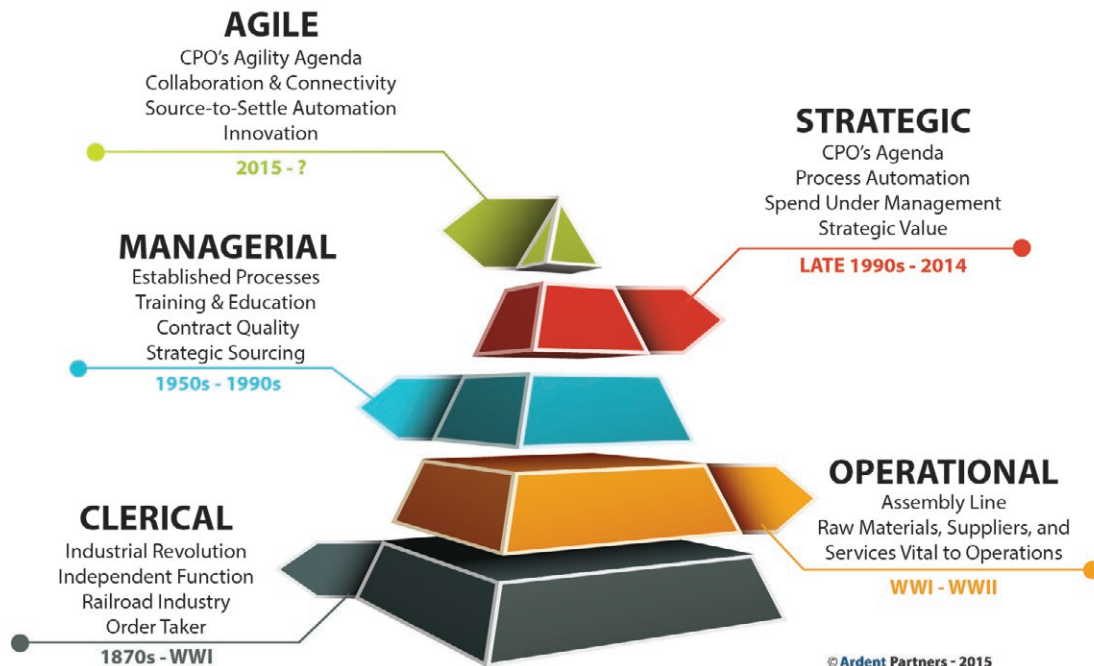
procurement agenda within the enterprise. The goal of these research efforts was to help the CPO garner credibility and influence while making a more visible and lasting impact on business.

The CPO's Agility Agenda (see Figure 17) is designed to help procurement organizations operate predictably in the face of uncertainty, complexity, and constant change by expanding the level of agility that exists across the critical areas that drive procurement operations and performance.

The strategies, ideas, and approaches that have come to codify procurement best practices over the last decade remain as relevant and important as when they were first established. In fact, a majority of procurement organizations have not fully adopted them. Nonetheless, the context of what procurement can do for the enterprise has changed. Globalization and the ongoing advances in technology and communication have created extraordinary opportunities beyond the four walls of the enterprise... The procurement department is best positioned to access them. Executives need more from procurement today than they did yesterday, and they will need even more from procurement tomorrow. The procurement teams that adeptly connect their tools, resources, and expertise to support the evolving needs of the business will succeed above all others. Agility will define the next wave of procurement success.

Figure 1

PROCUREMENT'S EVOLUTION

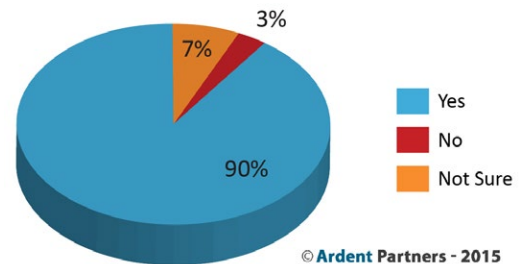


What Got You Here, Won't Get You There

A CPO's ability to drive process standardization and general efficiencies across the entire procurement operation has been a defining characteristic of Best-in-Class performance for the past decade. Another key attribute has been the ability of a procurement group to place a significant percentage of spend under management. In 2015, the average procurement department manages 61.4% of total enterprise spend, while the Best-in-Class manage a full 90%. But, there is a difference between managing spend and *managing it very well* and, this is acknowledged, perhaps implicitly, by the fact that nine out of every 10 CPOs (see Figure 2) believe that their procurement departments *should* be performing better today. In fact, three-quarters of Best-in-Class CPOs believe that their teams are underperforming today.

Certainly, most CPOs view their department's work on a performance continuum, and the procurement transformations they lead are typically multi-year journeys with clearly defined milestones, but generally, no final destination – continuous improvement, after all, is a standard business practice. Nonetheless, most CPOs see room for immediate improvement. What has worked in the past is no longer good enough in 2015; it will be even less so in the future. This means that CPOs must take new steps if they are to maintain their momentum or risk falling back. Ardent Partners believes that what is needed over the next few years is a shift in approach from one that focuses on "command and control" to one that emphasizes collaboration and agility. Most CPOs must still continue to work vigilantly to get their procurement houses in order; but process efficiency and compliance, while still bedrock procurement principles, are fast becoming table stakes in a game with no limit. The keys to the castle will ultimately be given to the procurement teams who can anticipate and adapt to dynamic change within their organizations and within their supply chains.

Figure 2: Should We Be Doing Better?



No CPO is an Island

As outlined in the last version of this report, CPO Rising 2014: Convergence, "successful CPOs are expanding their influence into less traditional areas driven in part, by recognition of their superior performance and in part by the need to fill the void left by other, less successful groups." CPOs will not face this battle alone as they have been increasingly empowered to do more and take on more responsibilities. Whether a CPO's expansion has been by design or necessity, it has been aided by the current enterprise reporting structure that has more than half of all CPOs reporting directly to the top of the enterprise, with 32% and 22% of CPOs reporting to the Chief Financial Officer ("CFO") and the Chief Executive Officer ("CEO") respectively (see Figure 3).

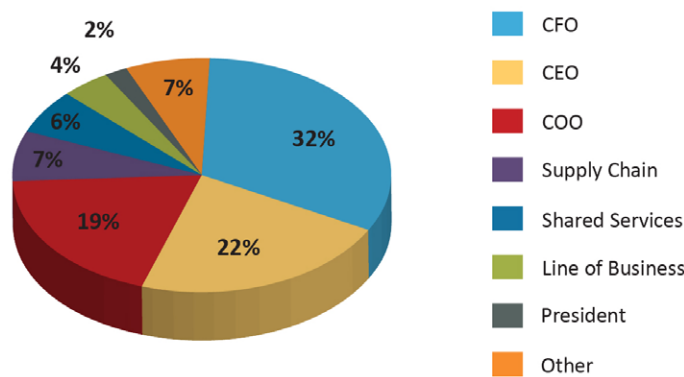
With one in three CPOs reporting to the finance leader, the CFO relationship has long been one of the most important and promising ones for a CPO; it has also been the most challenging. Over the last two decades, the organizational tension between the two factions kept them from becoming true allies, forced instead to peacefully co-exist. Whether it has been a matter of operating in a generally stable economy or the case of technology and collaboration trends pushing these

leaders and their organizations together, the two sides appear to have finally reached détente. This is evidenced by the fact that 71% of all CPOs state that they have a “good” or “strong” level of collaboration with their CFO (see Figure 12, Chapter 2 for an expanded discussion on collaboration).

In the current age of innovation, it is the CPO’s relationship with the CEO that may soon become the most promising. Consider that if a CEO believes that innovation is at the heart of the long-term growth and success of the enterprise, then the CPO should be a most welcome direct report. As **Peter Drucker** said, “An organization’s ability to innovate is a function of management rather than its industry, size, or age.” With procurement serving as the gateway to supplier innovation, having proximity to the CPO is sound management for almost any CEO and helps ensure that valuable innovations emerging in supply markets can be identified, captured, and fostered.

Of course, many enterprises drive the innovation agenda in their industry. Here too, the CPO has value in communicating back out to suppliers. As **Garry Christie, Director of Global Business Services for Advanced Micro Devices**, said, “As a market leader, we’re driving the innovation discussion with our suppliers. Our challenge is to make sure they can keep up on delivering the new products and services on time and at the right price.”

Figure 3: The CPO’s Reporting Structure



© Ardent Partners - 2015

CPO Priorities 2015 – 2018: Savings, Process, Compliance, and Innovation

If procurement’s future points towards innovation and agility, many CPOs (42%) still point towards savings when asked to name their top priorities in the short- and medium-terms (See Figure 4). Savings will always be an integral component of the procurement value proposition, but it is just one part of the larger procurement story, or as **David Natoff, Head of Procure to Pay at Google** said, “While savings are important it’s not the key focus of Google’s procurement organization... Our focus is on accelerating the business, keeping it nimble. Did you get the right supplier, quickly, to enable you to do what you needed to do? That makes you competitive. Cost is just one component to value.” This view is now shared by a majority of CPOs who continue to focus on other priorities, like improving process efficiencies and effectiveness (39%) and increasing compliance (33%).

2015 Priorities: The CPO's View

Each year, Ardent Partners interviews different CPOs and other procurement executives from around the globe to gain their insight and perspective on the market, their profession, and their organization's focus, performance, and intentions for the upcoming year. What follows here and throughout the report is a sampling of their views and ideas on specific topics.

"I want to triple the amount of spend under management. So we need the right people, processes, and technologies to get us there." – Director, Procurement, Real Estate Industry

We have three outcomes on our 2015 strategy map: optimizing vendor value - which is not just cost savings, managing risk, and delivering expert guidance. – VP, Procurement, CPG Industry

"The number one goal of any procurement organization is to save the company money." – Alicia Ralston, Director, Global Sourcing and Procurement, Archer Daniels Midland Company

"We have a big corporate focus on improving customer service. As such, we working to improve OTD (on-time delivery) and supplier performance." – Heidi Landry, CPO, Global Procurement, Dow Corning Corporation

"One significant area that we'll focus on in 2015 is our ability to hold the line against inflation, especially in regions like Latin America where there is high inflation." - VP, Strategic Sourcing Global COE and Operations, Global Conglomerate

"So the pressure we have is that our agency is given a budget with a responsibility to execute certain high risk missions. My job is to figure out how I can get more buying power for our organization." – Bill McNally, Assistant Administrator for Procurement and Deputy Chief Acquisition Officer, NASA

"This year, we're going to look really hard at our whole source-to-pay process. We want to identify where the bottlenecks are and establish the right metrics." – CPO, Fortune 500 Company

"Our top priority for 2015 is business-partner relationship management, building trust and credibility, and showing value." – Diana Zawada, Director, Enterprise Vendor Management, Northwestern Mutual

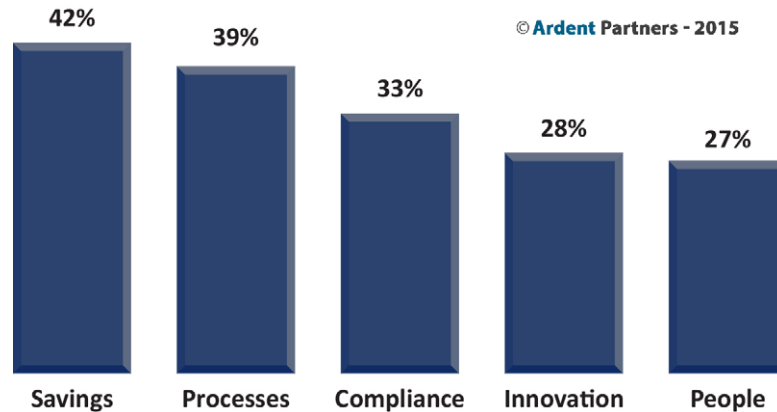
Procurement has always been a process-driven function, and because of that, many CPOs have significant experience with either a process-driven company or in a process-driven role before ascending to lead a procurement operation. CPOs may still start with the definition and standardization of their key processes.

But, as their organizations mature, they need to build in a level of flexibility and/or pragmatism that acknowledges that there can be instances of process overkill as well as a need for exceptions, while also pushing decision-making "lower" into the organization. This can only happen through deliberate efforts put forth by CPOs who should begin to develop an Agility Agenda (see Figure 17, Chapter 4), a forward-looking plan to start building a procurement function that is aligned to the future needs of the enterprise.

Likewise, innovation is generally created by organizations focused on it; innovation is rarely the result of a lone genius inventor who finds opportunity overnight where none previously existed. The reality is that most innovations are incremental in nature and extend from earlier work. If enterprises believe that innovation can occur beyond their four walls, suppliers should be viewed

as a source of knowledge and expertise that can be leveraged for competitive advantage and mutual gain. In that context, procurement has the opportunity to become a lightning rod of supplier innovation. But first, the CPO must make innovation a habit.

Figure 4: The Top CPO Priorities (Next 3 Yrs.)



Being There

Being there... in the boardroom, in the C-Suite with other business executives, and in the planning stages; at the end of the day, that is really all that procurement executives want. “Being there” presents an opportunity for procurement professionals to make their case, to say their piece, and to execute their plan. Ultimately, “being there” enables the procurement team to influence decisions and impact results. When it comes to the top strategies to help procurement ascend to the next level of performance, CPOs believe that being there and engaging sooner on sourcing opportunities is their single largest opportunity (see Figure 5).

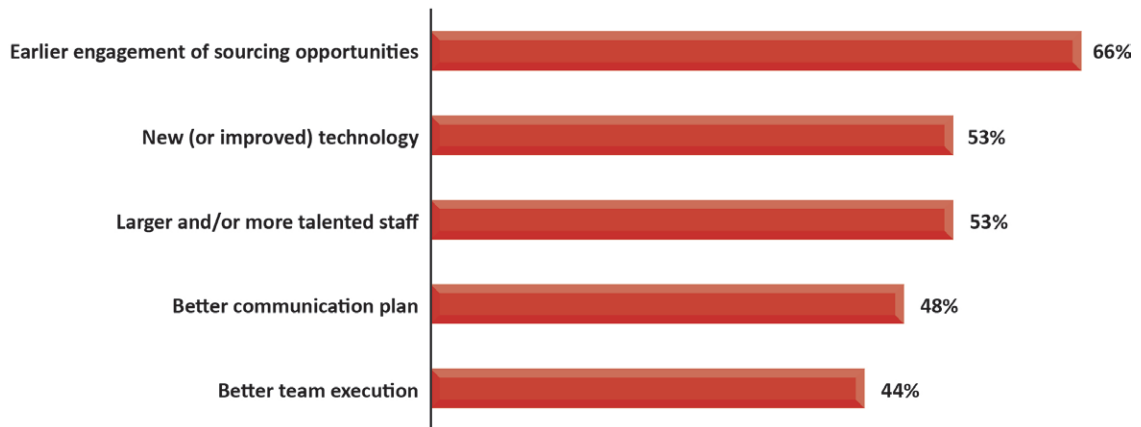
Getting involved sooner on a sourcing project can make the difference between acting as an active project leader or as a simple order-taker. “It is vitally important to get involved early in the design process. We can solve so many problems before they start.” said the **Sourcing and Procurement Project Manager, Construction Industry, EMEA**. Ardent Partners research confirms this view and has shown that getting the sourcing team involved earlier on a project can also drive savings, improve quality, and reduce risk. Consider the impact that a simple redirection to a lower-cost component or to a current, preferred vendor can have during the design phase of a new product’s development.

In 2015, procurement leaders are still focused on savings, delivering value, and automating and linking their processes, but they are also focused on new innovation, collaboration, visibility, and agility initiatives.

The ability to capture and use innovative ideas and other value-added input from suppliers is far more likely to occur when the sourcing runway is long and project requirements, goals, and objectives can be shared and discussed in an iterative manner with leading suppliers. A majority of CPOs also feel that major opportunities for team advancement exist if an investment in new technology or an upgrade of current systems can be made (53%) and if the current staff can be

enhanced (53%). Having a better communication plan (48%) and better overall execution (44%) were also seen as large opportunities to accelerate their performance. The good news in all of this is that all of these drivers are straightforward and achievable. It now falls to each CPO to pursue them.

Figure 5: The CPO’s Top Drivers for Future Success



© Ardent Partners - 2015

CPO Case Study: Profiting from Procurement

A little more than three years ago, this procurement professional joined a U.S.-based retailer as the first Vice President of Procurement (CPO) to transform the procurement operation from a decentralized function into a front-of-the-house value driver. This new CPO began by rolling up her sleeves and using spend visibility and strategic sourcing to drive savings and value. The early successes also helped build relationships and credibility with other enterprise stakeholders, which came in handy when she made the case to increase her department’s headcount. Now, with a new team of category managers, the CPO has focused her sights on P2P and supplier relationship management. She’s also looking to place more spend under management in traditional retail spend categories, like transportation, IT, planning and construction, facilities, as well as services. But this CPO’s duties don’t end with sourcing and procurement, they also include “profit improvement” which means that the procurement team is involved in looking at opportunities to drive efficiencies and impact revenues at the store level, including areas like labor, and packaging/supplies, among others. As the CPO said, “Our organization was called Procurement and Profit Improvement from the beginning, so it was always intended as a Center of Excellence to reduce costs for the organization.” True to form, this CPO delivers on her department’s name - profiting as one of the growing breed of CPOs whose responsibilities extend beyond traditional procurement.

CHAPTER TWO: THE STATE OF PROCUREMENT

“It is a great time to be in procurement.” ~ Robert Gleason, Director, Div. Purchases & Supply (“CPO”), Commonwealth of Virginia

It really is a great time to be working in procurement. The profession has established itself in most industries with a clearly defined value proposition, a standard approach to engagement, and a playbook of best practices. The resources available to CPOs and the tools they can employ are more robust and more accessible than they have ever been. It is true that many procurement departments still struggle to accomplish basic things and there are still enterprises where the concept of a strategic procurement operation has never been considered.

But, the leading practitioners in 2015 are driving their organizations along a maturity continuum that has begun to resemble many of the other ‘leading’ business functions within the enterprise. In 2015, procurement leaders are still focused on savings, delivering value, and automating and linking their processes, but they are also focused on new innovation, collaboration, visibility, and agility initiatives as they continue to prepare themselves and their teams for the next phase of procurement’s evolution. The state of procurement in 2015 is strong.

A New Agenda

The level of competition and innovation that exists in today’s market mandates that enterprises leverage their supplier relationships for maximum effect. This means that the decisions, operations, and performance of an enterprise’s suppliers can have a direct and, frequently, immediate and significant impact on its own results. All of this places procurement in the crucible of business operations, relationships, and results. And, as the speed and complexity of business continue to accelerate, executives must adapt to new market conditions as they fight to retain market share and market relevance.

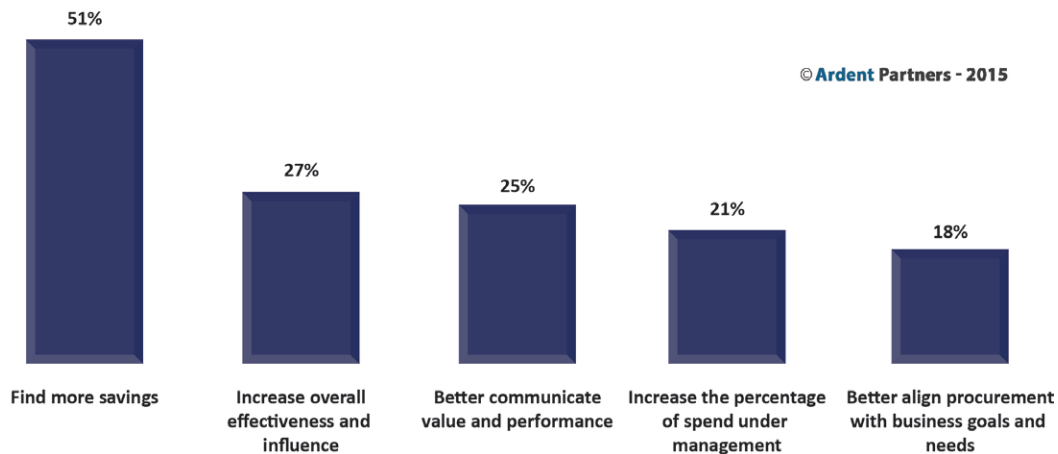
The winners in procurement will be the agile organizations that can leverage their strategic prowess and fluid resources to anticipate and support dynamic business requirements amidst the more rapid changes in industry, supply markets, and customer behaviors.

Procurement departments, their operations, culture, and systems, the way in which they transform knowledge into strategies and those strategies into performance, must all keep pace. But, the need to develop systemic agility within the procurement function does not mean that activities like spend analysis, sourcing, and procure-to-pay become any less important. To the contrary, executing efficiently and executing effectively are critical to procurement’s success now and will be in the future, particularly as CPOs continue to gain additional responsibilities and attempt to place more spend under management. Agility should not be pursued at the expense of core capabilities; all areas must be sharp and competitive. Leading enterprises and functions can multi-task and layer in new elements on their strong foundations – that is what makes them leading – procurement departments must do the same.

Procurement Pressures

It may be a great time to be in procurement, but much work still remains and, in an outcome-driven marketplace, procurement performance expectations are high. The pressure on procurement teams to deliver savings (51%) persists at the top of the list of all business pressures (see Figure 6), even as the pressure continues to recede in recent years. Nonetheless, it remains procurement’s top pressure, by significant margin, in 2015 and an area that remains squarely in focus. “Our top priority in 2015? Savings, savings, savings.” said **Heidi Landry, CPO, Dow Corning**. Landry is not alone. Roughly a quarter of all procurement departments feel pressure to improve their effectiveness and influence (27%), while another quarter feel pressure to do a better job of communicating the value (and performance) of procurement to stakeholders and executives (25%). These last two pressures are in contrast and indicate that levels of procurement department maturity in 2015 remain diverse.

Figure 6: The Top Procurement Pressures in 2015



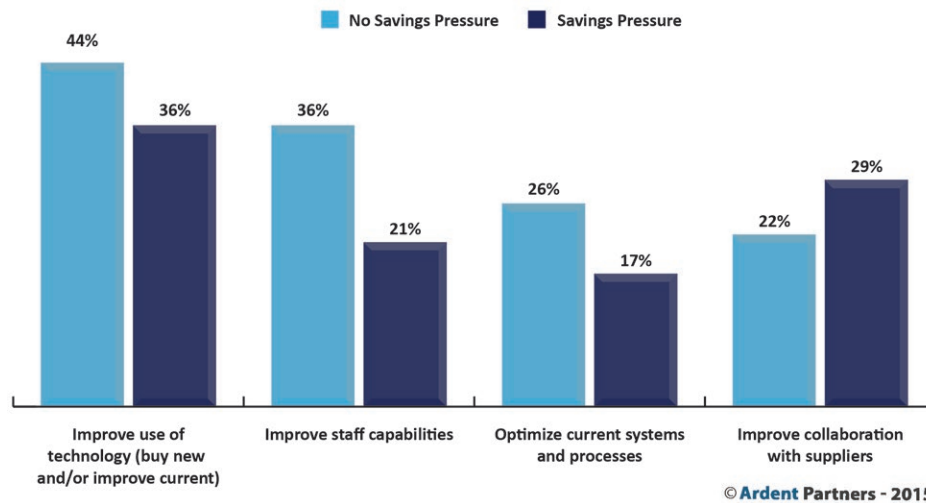
Procurement Strategies

In 2015, the need to extract more value from existing resources and relationships remains a strategy of the first order for all procurement departments. This is true whether or not they face pressure to find more savings. In fact, the top strategies for all procurement departments in 2015 are to **(1)** Improve collaboration with the line-of-business leaders (42%), **(2)** Improve the use of technology (buy new and/or improve current) (40%), and **(3)** Implement stronger policies and processes (39%). Sourcing more, long the most popular procurement strategy, has yielded its title in dramatic fashion and is now a top strategy among only 15% of CPOs and their teams. When examining the strategic emphasis between the half of procurement departments not pressured for savings (49%) with the half that are (51%), some interesting contrasts emerge in the areas of technology and people investment. The largest differences, on a percentage basis, between the two groups are shown in Figure 7 below.

With its linkage to so many different stakeholders, procurement has more opportunities than most functions to broadly impact operations and results.

It appears that procurement teams less focused on savings in the short-term are more focused on technology optimization and improving staff while the group more focused on savings looks to suppliers as well as sourcing and cash management to achieve its goals. The two groups also have some similarities; among them, their focus on engagement and collaboration with internal stakeholders and the establishment of stronger policies and processes. Given the unique nature of each procurement team’s situation, this discussion is not intended to place more or less value on any strategy, but rather to highlight the manifold nuances that exist within the procurement profession.

**Figure 7: The Top Strategies for Procurement in 2015
(Savings Pressure vs. No Savings Pressure)**



The Agile Procurement Organization

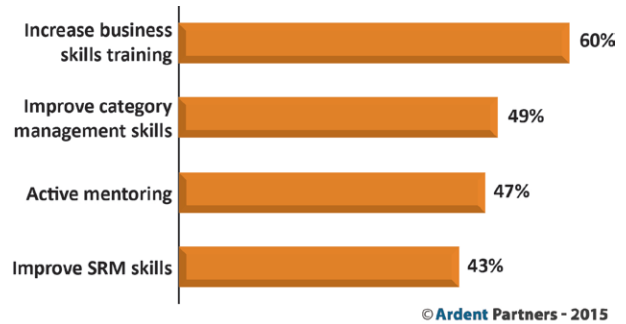
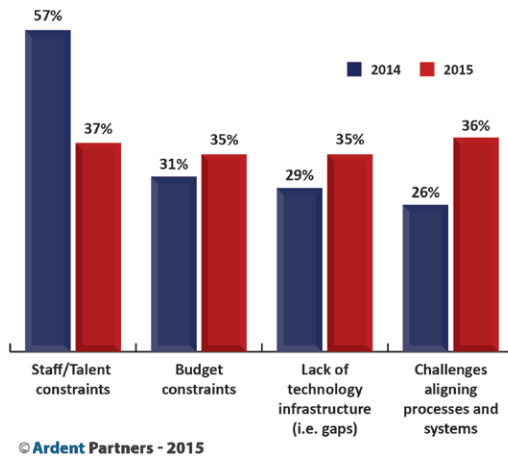
In the context of business functions, agility is a theme that appears most frequently with software development. Agile software development is a highly iterative process where the direction of the product is continually scrutinized throughout the development lifecycle. Agility, in the context of procurement, requires enterprise sourcing and procurement teams to be highly responsive to any changes in stakeholder needs, supplier capabilities, and market conditions. The team must be “light on its feet” with sourcing opportunities and category management.

Procurement agility translates into the ability to quickly leverage alternative suppliers for a given commodity, part, or service in the event of a supply disruption or new business requirement. It could also mean adjusting service-level agreements (SLAs) with suppliers in the event of sudden business changes. Where it was once acceptable to revisit most supply markets once every three to five years with a new bid, agile sourcing may require shorter contracts and more iterative sourcing. Like a world-class athlete, the CPO can develop an agile organization by blending together the collection of key resources, activities, and capabilities to create better coordination and responsiveness. Agility takes training and discipline. Agility is also a habit.

Procurement People

Over the last decade, CPOs have consistently decried the talent challenge as the primary hurdle to achieving departmental objectives. The challenge has been equal parts “staff is not big enough” and “staff is not talented enough” to support the current scope of operations, much less expand them. In 2015, however, we see a fairly remarkable shift away from people as the single largest hurdle to one of many (see Figure 8). This data appears to be a positive sign. There are many possible causes for a shift of this magnitude. But, rather than list all of the possible drivers now, it makes sense to determine if this result is mere happenstance or an emerging trend and drill down into the topic in next year’s study. That said, the CPOs who understand the history of the procurement talent gap and the value that can be generated by closing it, have taken action in recent years (see Figure 9) by increasing training in general business skills and also driving initiatives to improve category management and supplier relationship management (“SRM”).

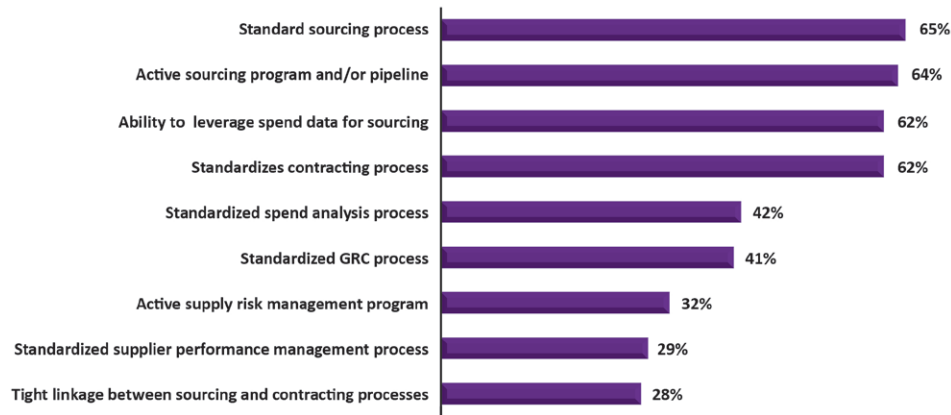
Figure 8: Procurement’s Top Challenges **Figure 9: Procurement’s Top People Strategies**



Procurement Operations

If CPOs have seen an improvement in their staffs’ talent and general capabilities in recent times, their process capabilities in 2015 seem remarkably similar to the results in Ardent’s earlier studies. It remains the case in 2015, far too many procurement departments do not possess core process capabilities (see Figure 10). As the maturation of procurement departments around the globe continues, it becomes clear that many procurement organizations will first need to standardize, streamline, and automate their processes before becoming truly agile from a process standpoint, able to tailor processes and solutions to meet new or changing needs while also quickly shifting strategies and approaches.

Figure 10: Procurement’s Top Process Capabilities

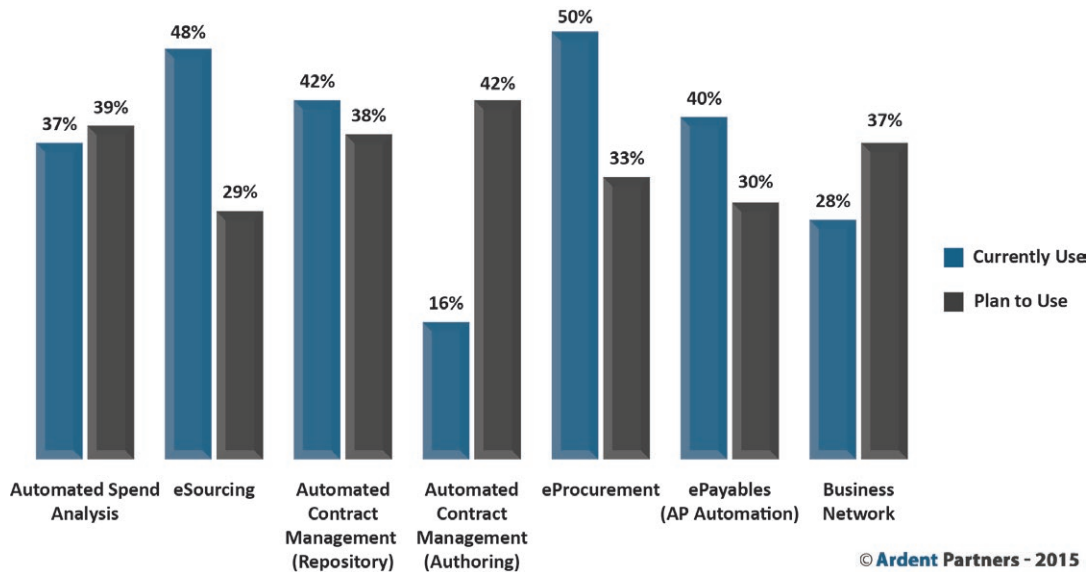


© Ardent Partners - 2015

Procurement Systems

After a long and at times, frustratingly slow period of gestation, supply management technology will one day become universal in the business enterprise. That day, will not, unfortunately, be in 2015 (see Figure 11). Nonetheless, the successful users of business process automation across the source-to-settle process prove year-in and year-out the value that technology can play in helping scale a procurement operation and maximize its impact.

Figure 11: Technology Adoption and Plans



© Ardent Partners - 2015

In some respects, the industry needs a catalyst or two (or several) to reignite a supply management technology fever, something not seen since the late nineties. The usual suspects like cloud-based solution delivery, improved usability, and price compression have each contributed in their own way to the industry’s advancement. Likewise, executive mandates and policies like “No PO, No Pay”

or the Ardent Partners' long-held vision of "eSourcing 2.0," which argues *that every negotiation that results in an executed contract should use an eSourcing solution*, have also contributed to the market adoption numbers.

Among the options, two catalyst "candidates" lead the field:

(1) **Business networks**, the web-based platforms that enable interconnected buyers and sellers to trade, communicate, and collaborate with each other. For many users, business networks have risen as a powerful means for businesses to connect with core partners, foster business relationships, automate key procurement and financial activities like P2P, and provide key stakeholders with the necessary visibility to help forecast and plan for the future. For some, these networks now serve as the primary point of convergence between different procurement, finance, and supply chain-related initiatives. And if a true "network effect" starts to take form within them, an acceleration of opportunities may arise within the different networks, driving greater adoption of the technology solutions that enterprises must use to access them.

(2) **Mobile supply management solutions**. In last year's study, **CPO Rising 2014: Convergence**, Ardent Partners predicted that enterprise IT departments would begin to shift their users away from desktop computers toward mobile devices and platforms, causing mobile applications to become more available. This shift has started and there are some impressive supply management mobile solutions available in the market today. When enterprise mobile computing reaches a tipping point, procurement pros will begin to utilize supply management "apps" to drive their operations. This shift will force solution providers to brutally simplify their solutions, causing an acceleration in adoption and general usage. Every supply management solution provider talks about ease of use. A procurement department using smart devices and procurement apps guarantees it. Mobile solutions will also contribute to a procurement department's agility by enabling a more mobile and more automated workforce.

Most CPOs must still continue to work vigilantly to get their procurement houses in order; but process efficiency and compliance, while still bedrock procurement principles, are fast-becoming table stakes in a game with no limit... The keys to the castle will ultimately be given to the procurement teams who can anticipate and adapt to dynamic change within their organizations and within their supply chains.

Collaboration: The CPO's View

"Collaboration has been at the forefront of our strategy for a long time. We've been working with and rewarding suppliers to bring their best ideas to us." – Garry Christie, Director, Procurement, Advanced Micro Devices

"We've actually been very successful with human resources (HR) and I think the success of it, like all things, was that we started small. We did a really large managed services provider project for contingent labor in North America." – Derek Batchlor, Sr. Director, Strategic Sourcing Global COE, Cargill

"The whole notion of collaboration, both internally and externally, I think, is something that, in procurement, we have to be really religious about. We have to be really militant about it, because if we're not, I think the forces that want to separate are greater than the forces that want to combine." – Thomas Linton, Chief Procurement and Supply Chain Officer at Flextronics, International

"Part of the next phase of our business-partner relationship is to use spend intelligence to identify opportunities that will help us become proactive to reach out and recommend new projects." – CPO, Health Care Services Industry

"With the speed of change in our business, procurement's role at times is to tell the business what is needed or if it is moving too fast. We have to keep pace with the market, but we must ensure that we're not making rash decisions." – Andrew Swift, Head of Procurement at Affinion International

"I've always believed that you want to be a customer of choice to your supplier base. So, I've spent an awful lot of time selling our approach and the value proposition that we have as a potential customer." – Vice President - Procurement, Strategic Sourcing & Contracts, Mid-Market Company

"For our A & B components, we try to strategically partner. We use market pricing as a means to assess their ability to hit our targets." – Sr. Director, Strategic Sourcing, A&D Industry

Procurement Collaboration & Visibility

With its linkage to so many different internal and external stakeholders, the procurement department has more opportunities than most functions to broadly impact operations and results. And, if procurement's essential remit is to influence stakeholders to make smart decisions, it needs two things: (1) engagement with the stakeholders and (2) intelligence and context to guide wisely. Collaboration and visibility are the critical enablers of these two areas and thus serve as the foundation on which procurement success is built.

The connections between the enablers and the opportunity to make an impact are quite clear. Procurement's ability to place spend under its management or influence is greatly enhanced by its ability to engage budget-holders and functional peers in proactive conversations. As was shown earlier in this report (see Figure 5, Chapter 1), procurement's ability to advance to the next level of performance hinges on getting engaged earlier in sourcing opportunities. Poor levels of collaboration will greatly impede this from happening. Additionally, being able to share visibility into processes and projects will help procurement engage at the right time and execute more efficiently and with better results.

Finally, in the land of enterprise spend, spend visibility is king. Of course, being able to turn that visibility into enterprise value is “aces.” Below are the levels of collaboration (see Figure 12) and visibility (see Figure 13) that exist in procurement departments today. Notable in these charts is procurement’s outstanding relationship with the CFO and accounts payable (“AP”) and the large number of procurement teams that lack enterprise-level visibility into spend. Since collaboration and visibility are such critical drivers of procurement performance, this discussion will continue in the next chapter.

Figure 12: “Strong” Collaboration

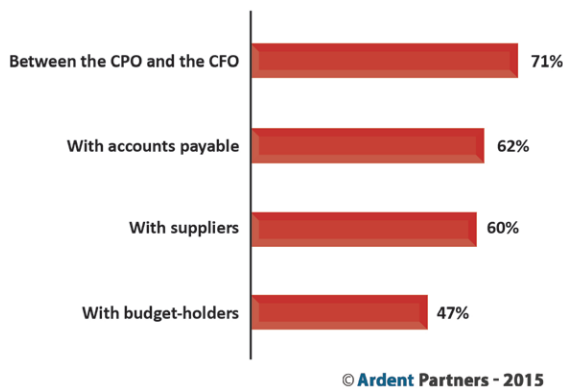
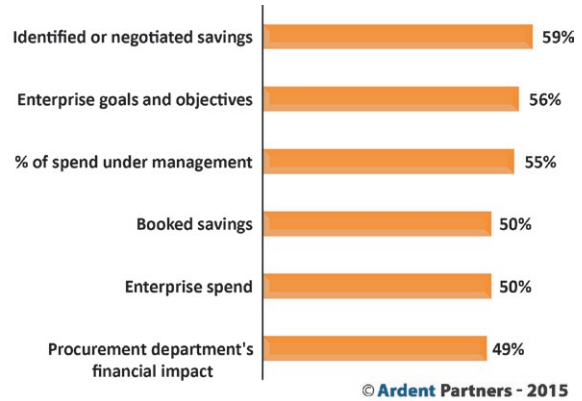


Figure 13: Visibility



CPO Case Study Buying Low AND Selling High

In a post-merger environment, Steve Murphy, Supply Chain Director (CPO) at Enable Midstream Partners, was faced with the daunting task of optimizing the sourcing programs and maximizing the value of existing resources. To attack the issues, Steve and his team embarked on a multi-phase, multi-year transformation project starting with a plan to drive a procurement transformation in three waves. Wave one included standard activities like spend aggregation, supplier rationalization, and sourcing, but it also included an inventory reduction and capital investment recovery campaign, all of which he hoped would show significant and near-term results for the company as it prepared for an IPO. Steve and his team began sourcing in earnest, aggregating spend across the two joined entities. They also examined the two groups’ existing inventories and equipment with an eye for duplicate or surplus equipment and parts that, as a unified company, they no longer needed. “I think we took a more disciplined approach to evaluating how much inventory we need to maintain,” said Steve, who was aided by good visibility into current inventory levels and a staff that was keenly focused on smart reductions. Steve and his team identified the surplus inventory and pared it down quickly over time. The team also worked aggressively to find the right channels to sell the excess equipment back to the market and recover some of their initial investment. The initiative was a success, with notable returns at a critical time in the new company’s history. “We had a good feel for the sourcing opportunity and executed that piece well. The inventory and investment recovery contributions, however, really exceeded what we thought it would do,” said Steve. “We think we can take another bite out of it in 2015,”

CHAPTER THREE: PROCUREMENT PERFORMANCE

*“The whole role of procurement is a strong influence in the investor community. For the last two years, I’ve been a lead keynote speaker at our investor conference... People now know that a company’s success is not just about revenue growth, but also how it generates cash and produces profitability through effective cost management” ~ **Thomas Linton, Chief Procurement and Supply Chain Officer at Flextronics, International***

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

- Benchmark their performance against industry averages and understand how they are performing relative to the average procurement department in the marketplace.
- Understand the operational and performance metrics that define Best-in-Class performance levels for procurement departments in 2015.
- Understand the people, process, and technology levers that Best-in-Class procurement departments use to outperform the market.

A Dynamic Duo

Behind every great procurement department stands a wise executive who made the smart decision to invest in the creation of a strategic procurement function and, in all likelihood, hire a Chief Procurement Officer. In most enterprises, the odds are that that executive was the CFO who hired the first CPO or convinced the CEO to do so. The analysts at Ardent Partners have chronicled the complex CPO-CFO relationship for more than a decade. For most of that time, the typical relationship was inconsistent, reactive, and significantly less effective than it could be. But the level of CPO and CFO collaboration has steadily increased in recent years and there appears to be a breakthrough such that 71% of CPOs now consider the level of collaboration that they have with their CFO to be strong (see *Figure 12, Chapter 2*).

The capability problems that plagued many CPOs in the past and restricted them from engaging with the finance department and the CFO on their own terms continue to recede. And, in 2015, the CPO and their procurement departments are better equipped to support the strategic objectives of the CFO and the overall enterprise than at any other time in history. This has been driven by many factors, including the development of more advanced procurement capabilities, the utilization of powerful process automation tools that can support a wide-range of business objectives, and the intense period of collaboration between the departments during the recent global financial crisis. An increased focus on cash management and a more holistic view of the source-to-settle process have also contributed. This could be the beginning of a beautiful relationship.

Procurement Performance Measurement

Chief Procurement Officers would be wise to capitalize on their blossoming CFO relationships and work with their finance counterparts to consider, discuss, and ultimately develop a more sophisticated and comprehensive way to evaluate procurement’s performance and present it to the larger enterprise. In the 2012 version of this report, [CPO Rising 2012: Keeping Score](#), Ardent

Partners introduced the CPO Scorecard™ as a mechanism for CPOs to expand the performance discussion beyond savings and better capture the nuances and complexities of procurement-driven value and results.

This Scorecard utilizes (1) **Hard financial metrics**, including savings and cash-flow impact, (2) **Stakeholder metrics**, including internal customer feedback and supplier performance and risk, (3) **Process and technology metrics**, including procurement efficiency and activity metrics, and (4) **People and knowledge metrics**, including staff competencies, training, and retention to accomplish its goals. The particular Scorecard inputs should vary by organization based upon any number of issues, like industry, region, organizational structure, etc.; but, the need to adopt an approach like this still remains.

Whether or not a broad shift in the way that procurement performance is measured can be realized immediately, it is incumbent upon the CPO to continue to capture and demonstrate procurement's true value proposition. The reality is that the CFO, more than any other executive, should have a very clear understanding of the difficulties and nuances of performance measurement and the challenges in communicating and selling a preferred approach.

Consider that most CFOs, particularly those at publicly traded companies, spend a significant amount of their time defining and communicating results, and then positioning those results to help analysts and investors evaluate performance and the company's value. CPOs and their lieutenants should follow suit and model their efforts to sell their vision on that of the CFO. Identifying the similarities between the two leaders' efforts may spur greater CFO interest and engagement in establishing a new methodology.

The 2015 Procurement Benchmarks

The Procurement Benchmarks in Table 1 below represent the average performance and operational results for procurement departments in the market today. By and large, the benchmarks in this year's study reflect solid, if not exciting, performance for the 318 procurement departments that are represented.

In 2015, procurement departments, on average, manage just slightly over 60% of total enterprise spend, a number that has stayed flat for the past few years. Additionally, these organizations, on average, delivered annual savings that totaled 6.0% last year (2014) and are expected to deliver 6.6% this year (2015). The savings numbers continue a multi-year downward trend and parallel the gradual, relative de-emphasis on procurement savings that is occurring within global enterprises and their procurement departments. Average sourcing volumes have followed in lock-step with savings, trending downward this year and falling below 50% for the first time in several years. Average compliance figures remain lower than expected and give CPOs good cause for concern. It is why one in three CPOs has identified compliance as a top priority and initiative over the next few years (see Figure 4, Chapter 1).

This year, Ardent Partners introduces several new metrics in this report, including several compliance metrics like the percentage of PO-based spend and the percentage of catalog-based spend, as well as several supplier-based metrics like the percentage of suppliers who comprise

80% of total spend and the percentage of “high risk” suppliers. Ardent’s research on contract compliance has shown that every non-compliant dollar of spend costs the enterprise in the range of an extra 12% to 18%. The hard cost of non-compliance adds up fast.

From an operational perspective, catalog-based spend and PO-based (“purchase order-based”) spend give procurement departments certain assurances about the supplier source and the decision-making process involved in the purchase. Enterprises, on average, have 63% of their total spend linked to a purchase order, but only 14% of their spend is linked to catalog-based orders.

The successful users of business process automation across the source-to-settle process prove year-in and year-out the value that technology can play in helping scale a procurement operation and maximize its impact.

Because there is a real cost spent in managing its suppliers, procurement departments often use the Pareto principle (often referred to as the “80-20 rule”) to guide their supplier rationalization efforts. The benefits of spend aggregation and volume buying, at the core of much sourcing value, also promote the idea that having fewer suppliers is preferable. In 2015, procurement departments, on average, report that 21.9% of their suppliers account for 80% of total enterprise spend.

More important than the total number of suppliers is the number of suppliers that are identified as high risk. The respondents to this year’s survey report an average number of high-risk suppliers, based upon their own risk criteria, totaling 6.5%. This number, however, may potentially underestimate the actual number of high-risk suppliers in the market because a full 40% of procurement leaders either “do not measure” or “could not measure” the percentage of suppliers that were, in fact, high risk.

Of course, when it comes to supply risk management, the percentage of high-risk suppliers is not in, and of itself, the key to avoiding problems. The identification of supply risks and the ability to manage and mitigate them is what is important. Many risks are worth taking; the enterprise should be aware that it is taking one.

Table 1: The 2015 Procurement Benchmarks

Metrics	Market Average
Spend under management	61.4%
Savings 2014 (Actual)	6.0%
Savings 2015 (Target)	6.6%
Addressable spend that is sourced	47.9%
Spend that is contract compliant	55.2%
Transactions that are contract compliant	63.0%
Contracts stored in a central, searchable repository	57.4%
Percentage of catalog-based spend	14.3%
PO-based spend	63.0%
Suppliers representing 80% of total spend	21.9%

Metrics	Market Average
Enabled suppliers	29.2%
High-risk suppliers	6.5%

© Ardent Partners - 2015

Best-in-Class Performance

Ardent’s analysis in this report determined Best-in-Class procurement performance by identifying the top 20% of performers in the spend under management metric. These leaders have all placed, on average, 90% of spend under the management of the procurement organization and on average manage a full 70% more spend than their peers. Ardent uses spend under management as a starting point in the development of its Best-in-Class Framework and to drive additional discussion and deeper analysis of strategies, capabilities, and results.

Figure 14

SPEND UNDER MANAGEMENT



© Ardent Partners - 2015

The Best-in-Class Advantage

In 2015, the Best-in-Class procurement departments manage most of their enterprise spend (90%) and based on the other metrics in Table 2, manage it well, or at least significantly better than the competition. The ability to influence 90% of total spend is an accomplishment borne from years of hard work, tenacity, and consistent execution. It is also worthy of high praise. These Best-in-Class teams have proven that their CPOs’ plans to gain credibility and influence spend are both achievable and worthwhile. These groups, more than others, stand on the cusp of the next wave of procurement, well-positioned to continue to push the procurement performance envelope and execute the CPO’s new Agility Agenda.

The Best-in-Class manage significantly more spend than their peers (90.0% vs. 53.1%); they also source significantly more of their addressable spend (61.8% vs. 43.9%). This higher level of sourcing activity, combined with other efforts, enabled the Best-in-Class to report savings that were 15% higher in 2014 on a much bigger spend portfolio. This means that the bottom line impact of having a Best-in-Class procurement department can be in the tens of millions of dollars. The leverage from a successful procurement operation can be extraordinary.

It should come as no surprise that Best-in-Class procurement departments report compliance rates that are 24% to 30% higher than the others and that their PO-based spend is approaching 80%, a full 35% higher than their peers. Likewise, when it comes to suppliers, the Best-in-Class

have 17% fewer suppliers, accounting for 80% of their total spend and have enabled 35% more suppliers to transact electronically.

Table 2: Ardent Partners’ 2015 Best-in-Class Framework for Procurement

Metrics	Best-in-Class	All Others
Spend under management	90.0%	53.1%
Savings 2014 (Actual)	6.7%	5.8%
Savings 2015 (Target)	6.6%	6.6%
Addressable spend that is sourced	61.8%	43.9%
Spend that is contract compliant	66.3%	51.7%
Transactions that are contract compliant	73.8%	59.7%
Contracts stored in a central, searchable repository	68.9%	53.9%
Percentage of catalog-based spend	14.5%	14.2%
PO-based spend	79.2%	58.6%
Suppliers representing 80% of total spend	18.8%	22.6%
Enabled suppliers	36.7%	27.3%
High-risk suppliers	8.4%	5.6%

© Ardent Partners - 2015

Best-in-Class Levers for Success

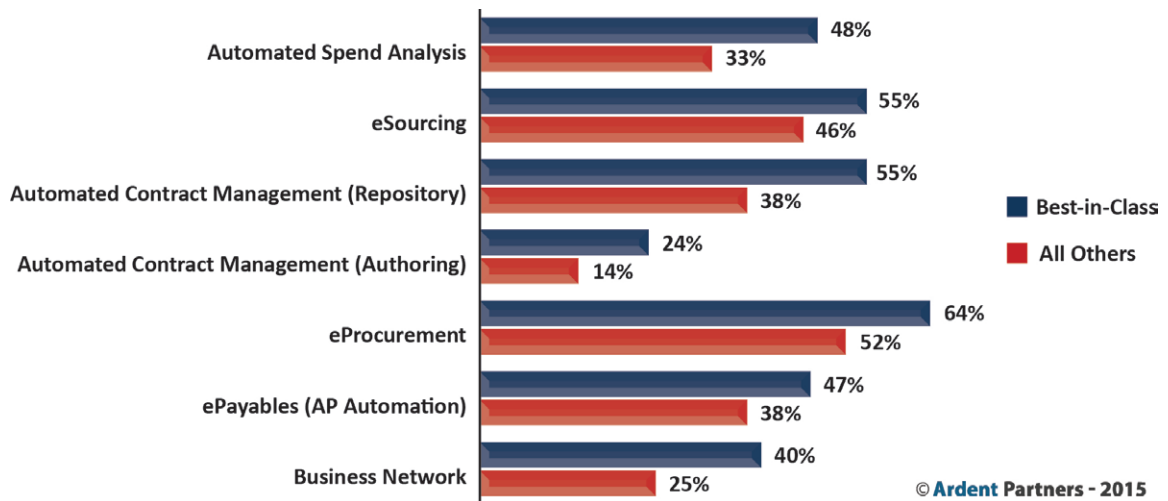
Best-in-Class enterprises have shown that investments in improving internal systems and processes and enhancing external relationships with key partners are proven paths to better performance. The Best-in-Class have differentiated themselves with superior performance across the primary procurement performance metrics above (see Table 2), and have utilized the specific capabilities and technologies noted below to a greater degree and impact to gain their advantage in the marketplace.

Best-in-Class Capabilities – From a process standpoint, the Best-in-Class are firing on most cylinders with clear advantages over their counterparts when it comes to standardization and automation. In the areas of sourcing and contract standardization, the Best-in-Class hold advantages, albeit slight ones. But in the areas more directly related to post-contract execution, like supplier performance and supply risk management, the Best-in-Class are more than 70% more likely to have standardized. Similarly, the Best-in-Class shine when it comes to their spend analysis processes; they are more than 40% more likely to standardize it and more than 30% likely to link it to their sourcing activity.

Across the Source-to-Settle process, the Best-in-Class use automation more frequently and more effectively (see Figure 15). In each primary application or business sub-process area, the frequency of Best-in-Class usage exceeds 20% and averages 40% across the full spectrum. Technology, when it is well-deployed and used proficiently, offers a multiplier effect on a procurement team’s efforts. For example, when a sourcing team uses eSourcing more frequently, their sourcing cycle times shrink, enabling them to source more, thereby influencing more decisions and adding more value.

Another example is the use of Business Networks, which can enable more efficient transactions and offer deeper visibility into certain markets. These networks, with an already established supplier base, can generally support faster and more robust supplier enablement. The Best-in-Class' use of business networks helps to explain their superior levels of compliance, suppliers enabled to transact electronically, and supplier collaboration.

Figure 15: The Best-in-Class Technology Advantage



The supply management technology multiplier effect extends beyond key performance indicators to agility enablers like visibility and collaboration:

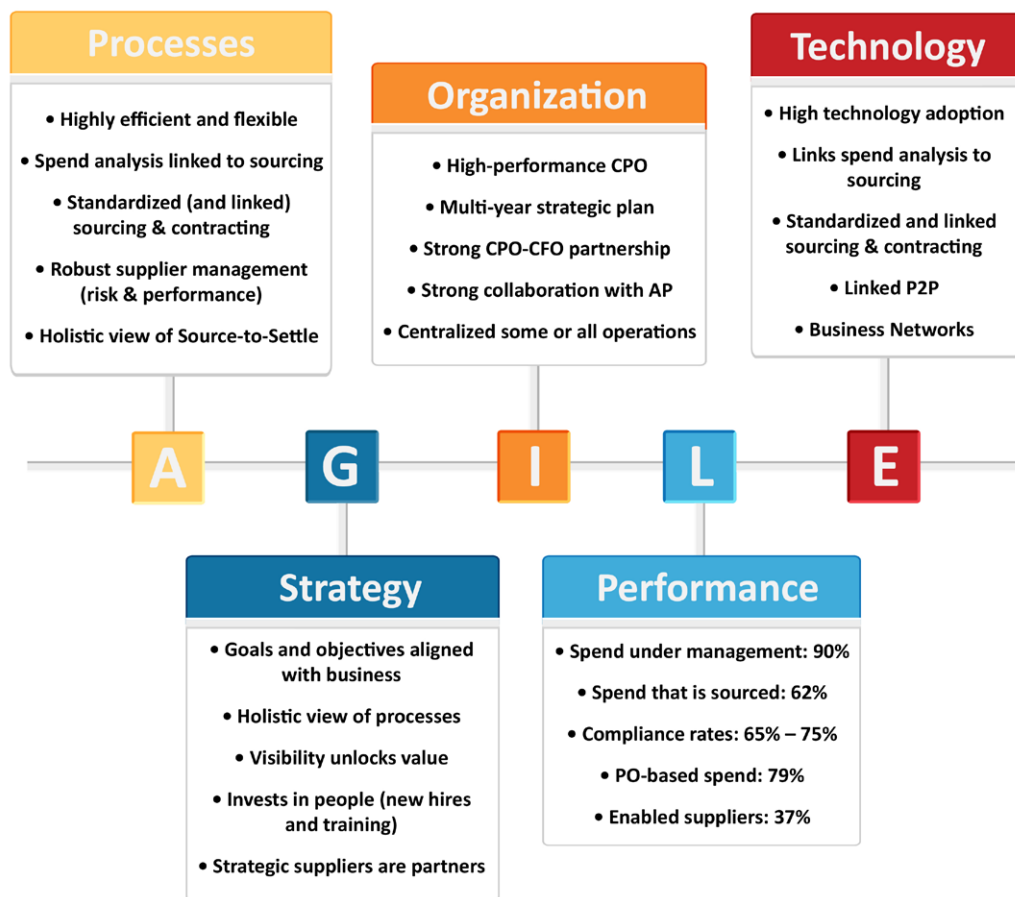
- When it comes to **supply risk**, the Best-in-Class are more than 77% more likely to have an active supply risk management program. They are also 77% more likely to have visibility into supplier performance and supply risk.
- When it comes to **collaboration**, the Best-in-Class are 91% more likely to have a formal supplier innovation program, 39% more likely to report strong supplier collaboration, and 31% more likely to have strong collaboration with the accounts payable team.
- When it comes to **performance visibility**, the Best-in-Class are 59% more likely to have visibility into implemented savings rates, 41% more likely to have a clear view into the financial impact they are making as a procurement organization, and 30% more likely to have clear visibility into enterprise goals and objectives.
- When it comes to the **expansion of procurement responsibilities**, the Best-in-Class are 42% more active in pushing procurement into new areas.

In the short-term, the Best-in-Class procurement departments do many things better, faster, and more frequently than other procurement teams and they have the results to prove it. Their characteristics broadly shape their performance (see *Graphic 3*). It is interesting to note that staff/talent constraints (51%) are the Best-in-Class' top hurdle to achieving mid-term goals and that improving staff capabilities with more/better training and better hiring practices (55%) is the clear

CPOs must work now to develop a customized Agility Agenda that embeds their organizations with agile and innovative characteristics while maintaining discipline and efficiency.

top strategy being executed today. Aligning processes with systems is the top hurdle for the other procurement groups and, based upon performance, it appears to be a significant one.

Figure 16: Best-in-Class Characteristics



© Ardent Partners - 2015

Agility: The CPO's View

We're moving as fast and as far away as we can from command and control to what I'd call an "enlightened enablement". We enable the individual buyer to work at their own level, use their own judgment, and react in a positive, constructive, and agile way to meet the needs and deliver value and credibility. – **Robert Gleason, Director, Div. of Purchases & Supply ("CPO") at Commonwealth of Virginia**

Above all else, our job is to ensure that the company is competitive regardless of the environment we're in, things change so quickly and we have to be ready. – **Steve Murphy, Supply Chain Director (CPO) at Enable Midstream Partners**

We've seen a significant change to our business model, which means new product lifecycles, enabling us to bring more products to the market faster. We need to communicate our needs better and challenge our suppliers to meet these needs. – **Garry Christie, Director, Procurement, Advanced Micro Devices**

"As we continue to transform the organization, we must become more agile and operate in a way that enables my staff to get in front of things and deliver value directly. We have to forget about the chain of command and do what's best for our customers." – **Chief Procurement Officer, Pharma Industry, EMEA**

Procurement organizations must work hard to remain agile and adapt to changing business goals – Procurement teams otherwise risk being seen as a stagnant 'governance' function or, worse yet, as the 'procurement police'. – **Heidi Landry, CPO, Global Procurement, Dow Corning Corporation**

Procurement: The CEO's View

Rio Tinto CEO, Sam Walsh was recently awarded the first "CEO Procurement Champion" by the Chartered Institute of Purchasing & Supply (CIPS) at an awards banquet in London in March, 2015. The award came as no surprise since Rio Tinto has had great procurement leadership for many years including **Scott Singer, (former CPO) and Current Head of Global Business Services & CIO** (who was profiled in CPO Rising 2011: Innovative Ideas for the Decade Ahead) and **Ramsay Chu, Rio's current CPO** who replaced Scott. Walsh was interviewed during the awards banquet. Here are a few of his comments about procurement.

"Innovation is something that's incredibly important in our business. Who helps us with that? It's suppliers of one color or another. [Procurement is] the opening for that."

"It's about value and being focused on value. Purchasing price is important but value is far more."

"You [procurement professionals] are probably representing 60% - 70% of your company's costs,"

"Who would have thought three years ago that we would be using big data in the way we make purchasing decisions?"

"Working closely with a supplier you can pull more cost out of the business than if you have an annual tender. By working with suppliers, that will enable you to get a leap on all of your competitors, because they are the people who know the products. You are buying their expertise."

Congratulations to Sam Walsh, Rio Tinto CEO and "Procurement Champion."

CHAPTER FOUR: STRATEGIES FOR SUCCESS

“Procurement is an incredibly important part of the business. You need to get that right.”
~ Sam Walsh, CEO, Rio Tinto

General Recommendations

Best-in-Class procurement departments, on average, manage 90% of enterprise spend and they do it more efficiently and more effectively than their competitors. They think about their processes more holistically and utilize technology to drive visibility, collaboration, and superior performance. Beyond utilizing the Best-in-Class’ “Levers for Success” (see Chapter 3), Ardent recommends the following strategies and approaches for CPOs and procurement departments seeking to improve their performance:

- **Develop and promote an Agility Agenda** – Continue the procurement department’s momentum by developing a forward-looking agenda. Ardent Partners’ CPO’s Agility Agenda (see Figure 17) is designed to help procurement organizations operate predictably in the face of uncertainty, complexity, and constant change by expanding the level of agility that exists across the critical areas that drive procurement operations and performance. CPOs and other procurement leaders can use the agenda to assess their organizations’ relative strengths and weaknesses as it relates to agility and take action to improve those areas. The CPO Agility Agenda will help procurement departments drive to the next level of performance (*discussion continues below*).
- **Prioritize the urgency to get engaged earlier on sourcing opportunities** – Two-thirds of all CPOs believe that this is a fundamental step to getting their departments to the next level of performance. Set this initiative at the top of the 2015 plan and develop metrics that measure point or time of engagement, but also, the level or quality of engagement. The strategies to get earlier (and better) engagement are both numerous and straightforward. CPOs should take personal ownership of the success or failure of this initiative.
- **Deploy new and improved technology** – More than half of all CPOs believe that this is a fundamental step to getting their departments to the next level of performance. Investments made in current systems are sunk costs and continued use of outmoded systems is an anchor to poor performance. Procurement departments should perform a quick technology diagnostic (or pay for one) that identifies key technology gaps, outdated systems, and underperforming or stalled initiatives and prioritizes a new technology needs list. Next, begin developing the business case for new investment.
- **Use supply management technology to make collaboration a habit within the enterprise** – CPOs and their departments can better optimize the collaboration opportunities that exist with their peers in finance and with budget-holders by utilizing process automation tools that promote visibility and enable executive reporting. Developing better business relationships requires interpersonal interaction. Supply management technology can help improve interactions by providing the stakeholders with better visibility into procurement activities, projects, and results.

Agility is the characteristic that will help procurement departments advance and thrive in this new age... Agility, however, does not grow organically. CPOs must take deliberate steps to build agility into the DNA of their staffs and operations. It starts with The Agility Agenda.

- **Use business networks to make collaboration a habit within the supply chain** – Business networks serve as web-based platforms through which buyers and suppliers can automate processes, enable closer connections to trading partners, and improve collaboration. Business networks facilitate the digitization of many of the core P2P processes, activities, and documents and enable multiple buyers to connect to multiple suppliers on the same platform. The speed in which ideas can cross-pollinate across different business entities will be a powerful determinant to the pace of value-creation and innovation across a supply chain. Business networks can accelerate this.
- **Develop a procurement-led initiative to foster supplier innovation** – No enterprise has cornered the market on innovation within its industry or supply chain. Finding an innovative game-changer (that “eureka” moment) in the supply base cannot be planned. What can be planned is a deliberate and organized approach to developing supplier innovation. Set up an independent innovation team that exists outside of the normal supplier relationship management structure and set program targets that mirror a sales pipeline. Use metrics like number of new innovation leads or ideas vetted, number of qualified innovations, and number of innovation projects started to track progress.
- **Develop a spend under management “pipeline”** – Like innovation, procurement departments need a strategy to place more spend under management each year. CPOs that gain control over a significant majority of enterprise spend have an extraordinary opportunity to drive value. To get there, CPOs must set a plan that enables their team to manage more spend and influence more behaviors. The first step is placing spend under management, the next step is to manage the spend well.
- **Engage Finance and Treasury to connect the last mile of the Source-to-Settle process** – Seamless source-to-settle processes can help capture and retain value efficiently and effectively in a repeatable and scalable way. The connection of sourcing, contracting, and procurement operations to invoice and payment management will help align procurement and finance objectives and help procurement drive value in previously untapped areas like dynamic discounting and cash management. The incremental investment needed to link each additional sub-process has the potential to generate exponential returns.
- **Work to redefine procurement performance for the enterprise** – With pressure to deliver savings at a decade-low, now is the time for CPOs to push the enterprise away from a savings-centric view of their work. Begin working with the CFOs and other finance leaders to consider, discuss, and ultimately develop a more sophisticated and comprehensive way to evaluate procurement’s performance and present it to the larger enterprise.

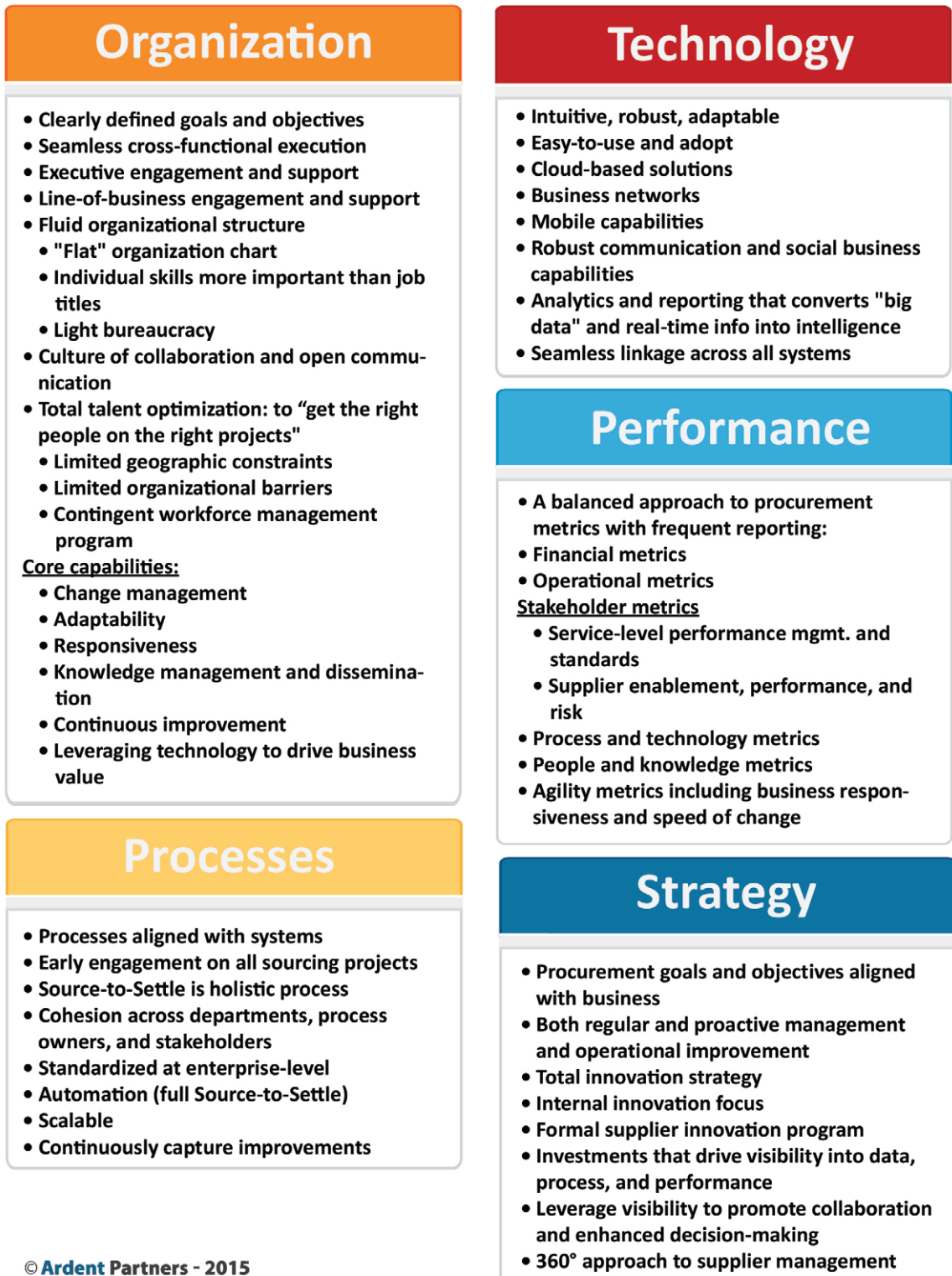
Recommendation: Develop The CPO's Agility Agenda

Opportunities abound for procurement leaders to execute strategies that will improve the performance of their teams in the near-term. But, the reality is that in the years to come, CPOs will be forced to redefine, and in some ways, re-imagine their current approaches, if they are to keep pace with the fast-changing needs of their enterprises and more volatile market conditions.

CPOs must work now to develop a customized Agility Agenda that embeds their organizations with agile and innovative characteristics while maintaining discipline and efficiency. Ardent Partners has created “The CPO's Agility Agenda” for CPOs to use as a foundation for the customized agenda that they should be developing (*see Figure 17*). The critical areas in the agenda are discussed below.

- **Organization** – An agile procurement organization is one that has a fluid organizational structure and prizes skills over experience. The organization is regularly aligned with the strategic plan and objectives of the enterprise and operates with an open flow of information and communication. Individuals and the organization they comprise are adaptable, responsive, and looking for the next challenge or threat. Above all, an agile organization has fluid resource allocation enabling it to get the right talent focused on the right opportunities at the right time.
- **Processes** – Agile procurement processes are standardized, automated, streamlined, and scalable, but they are also managed in a cohesive and holistic manner by a procurement team that is continually looking to improve them by reducing and/or eliminating complexity as well as any barriers that impede progress. Agile procurement processes can be robust (but, not a requirement); but they are always pragmatic and adaptive and, above all else, effective at accomplishing desired tasks expeditiously and with a minimum investment of resources.
- **Strategies** – Agile procurement strategies focus on regular and proactive management and operational improvement. These strategies interlink planning with execution to ensure that the procurement organization's decisions and practices are responsive to the changing needs and requirements of the business' customers, stakeholders, suppliers, and partners.
- **Technology** – Agile supply management technology is cloud-based, easy-to-use, and easy to adopt. The solutions are robust but also intuitive, adaptable, and easy to deploy. The solutions support collaboration and advanced communication and offer strong reporting and analytics.
- **Performance** – Agile procurement performance takes a balanced approach to measuring and evaluating metrics. The scorecard metrics should be linked directly to the overall procurement strategy document (or plan) which, in turn, should link to the primary goals and objectives of the enterprise and its multi-year strategic plan.

Figure 17 - The CPO's Agility Agenda



© Ardent Partners - 2015

Conclusion

In 2015, the tried and true procurement strategies still work. But, more than a decade after the first “CPO Agenda” was written, the procurement profession needs new, more adaptive strategies and approaches to propel it to the next level of performance. The winners in procurement will be the agile organizations that can leverage their strategic prowess and fluid resources to anticipate and support dynamic business requirements amidst the more rapid changes in industry, supply markets, and customer behaviors.

Agility is the characteristic that will help procurement departments advance and thrive in this new age where innovation continues to expand beyond mere products and services to core business processes and entire business models. Agility, however, does not grow organically. CPOs must take deliberate steps to build agility into the DNA of their staffs and operations and it starts with The Agility Agenda.

APPENDIX

ABOUT ARDENT PARTNERS

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the [CPO Rising](#) and [Payables Place](#) websites. Register for exclusive access to (and discounts on) Ardent Partners research at ardentpartners.com/newsletter-registration/.

ABOUT THE AUTHOR



Andrew Bartolini, Chief Research Officer, Ardent Partners is a globally recognized expert in sourcing, procurement, accounts payable, and supply management. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their procurement and finance departments. Andrew is also the publisher of [CPO Rising](#), the leading research and analysis site for Chief Procurement Officers and other supply management executives (www.cporising.com).

Advisor to CPOs and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 200 times in seven different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their sourcing, procurement, accounts payable, and supply management operations and his research is currently part of the Supply Chain/Management curriculum at several U.S. universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable. And, he has been published or quoted in leading business publications, including *The Wall Street Journal*, *Business Week*, *Investor's Business Daily*, *Forbes*, and *Fortune*, as well as the major trade publications focused on supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a 'real-world' context for his research and writing.

Andrew has been named a "Pro to Know" by Supply and Demand Chain Executive three times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

RESEARCH METHODOLOGY

Ardent Partners follows a rigorous research process developed over years spent researching the supply management market. The research in this report represents the web-based survey responses of 318 CPOs and other procurement and business leaders captured in January to March, 2015 as well as direct interviews with 26 CPOs and procurement leaders (21 of whom took the survey). These 318 participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class procurement performance and understand what levers the leading groups pull to obtain their advantage. Nearly 150 of the total participants shared some personal insight and commentary to help provide greater context to the results. This primary research effort was also informed by the experience and analysis of the report author and the entire Ardent Partners research team. Complete respondent demographics are included below.

REPORT DEMOGRAPHICS

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

Job Function: 82% procurement; 7% supply chain; 5% finance; 6% other

Job Role: 38% VP-level or higher; 34% director-level; 19% manager-level; 9% staff-level

Company Revenue: 63% Large (revenue > \$1 billion); 13% Mid-market (revenue between \$250 million and \$1 billion); 24% Small (revenue < \$250 million)

Region: 61% North America; 26% EMEA; 11% Asia-Pacific; 2% LATAM

Industry: More than 25 distinct industries are represented. Public Sector, Financial Services, Oil and Energy, and Manufacturing are the largest industries in the survey pool; no industry represents more than 13% of the overall survey respondents.

Industry Standard "Fine Print:" The information contained herein has been obtained from sources believed to be reliable. Ardent Partners, Ltd. disclaims all warranties as to the accuracy, completeness or adequacy of such information. Ardent Partners, Ltd. shall have no liability for errors, omissions, or inadequacies in the information contained herein or for interpretations thereof. The contents expressed herein represent Ardent Partners' best analysis at the time and are subject to change without notice.

© 2015 Ardent Partners, Ltd. All rights reserved. Reproduction and distribution of this publication in any form without prior written permission is forbidden. Solution providers and consultancies should take special note that Ardent Partners reserves the right to seek legal remedies including injunctions, impoundment, destruction, damages, and fees for any copyright infringement (which includes but is not limited to usage in company collateral, presentations, and websites) in accordance with the laws of the Commonwealth of Massachusetts and the United States.

CPO Rising 2015: THE PROCUREMENT EVENT OF THE YEAR

October 20 & 21 – Boston, MA

This October, a select group of Chief Procurement Officers and other business leaders will come together at the Harvard Club (Back Bay) in Boston for the inaugural **CPO Rising 2015** event, an executive symposium brought to you by Ardent Partners.

This exclusive event promises valuable networking opportunities and the interactive exchange of ideas for CPOs and other procurement executives. Attendees can expect to return home with a collection of new and innovative ideas and strategies that will help improve the performance of their organizations and increase the impact their teams have on business results.

“Ardent Partners’ research and unique insights into people, process and technology have a broad reach that resonates within the ranks of global procurement leaders.”
~Scott Singer, (former CPO) Current Head of GBS & CIO, Rio Tinto

From keynote presentations to CPO panel discussions, case studies, and breakout sessions, the unparalleled speaker panel will highlight procurement-led innovation within the enterprise and across the supply chain and present key topics such as:

- The CPO’s Agility Agenda
- Procurement-led Innovation
- The Pillars of Strategic Sourcing Success
- P2P Excellence and Expansion
- Internal & External Collaboration
- Globalization & Supply Risk
- Contingent Workforce Management
- Complex Spend Management
- Procurement Performance Measurement

Who Will Attend?

CPO Rising 2015 will be an event for CPOs by CPOs. The event will provide an intimate setting for delegates to connect, network, and share knowledge and experiences. The executive-focused agenda will ensure that CPO Rising 2015 maintains a high level of relevancy and maximizes the time and opportunity for all attendees. Join an expected 125-150 CPOs and other executives for this exclusive event.

Online registration is opening soon with “Early Bird Pricing” available until July 15.

For more details and updates, visit

<http://cporising.com/cpo-rising-event/>

THE CPO IS RISING IN 2015!