



INTERNATIONAL SURVEY

PROCUREMENT EXECUTIVES

POWERED BY IVALUA

Procurement Value Creation

Sustained Value Growth vs. Short-Term Cost Reductions:
Tracking Procurement Contribution to Corporate
Global Performance

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Editorial

“ The **Ivalua Procurement Executives Survey** of 2013 is the first international survey dedicated to Procurement Executives conducted by Ivalua. Ivalua Procurement Executives Survey has two main purposes: to inform the judgment of procurement departments on major challenges they have to face and to allow executives to compare their strategies with fundamental trends of the industry. We thank the **457 professionals** who have shared their views and experiences with us and especially the procurement leaders who agreed to be quoted in this report.

For its first edition, the Procurement Executive Survey focused on the complex topic of **procurement department value creation** in volatile environments. Results determined that procurement leaders from global companies **rethink their roles and responsibilities** to be part of a more strategic view of the procurement profession, **developing new ways to create value** for their businesses.

This vital change is not linear. Ivalua interviewed procurement executives from major global companies to determine which exact role within companies they played in hopes to draw a clear line between the aspirations of procurement departments and their reality along with determining the elements involved in this evolution from a purely operational role to a **more strategic position** with businesses. ”

G rard DAHAN, Manager EMEA, Ivalua.





About the study

The results cited in this article come from a **survey of some of the challenges** that procurement executives face, conducted by Ivalua from June 2013 to September 2013.

457 procurement executives (vice presidents, directors, and managers) from **16 countries:** Argentina (10), Canada (27), China (17), Finland (5), France (85), Germany (63), Hungary(7), Italy(20) , India(12) , Ireland (5), Malaysia (3), Poland (7) , Spain (8), Switzerland (11) , UK (79) and the USA (98) answered a 22-question survey administered online.

The respondents came from a wide range of economic sector covering both **public** (74) and **private sectors** (483).

72% of respondents are part of large organizations with revenues **equivalent or above \$1 billion**. 10% of respondents are part of organizations with revenues equivalent or above \$500 million. 8% of respondents are part of organizations with revenues equivalent or above \$100 million. 6% of respondents are part of organizations with revenues equivalent or below \$50 million.

88% of respondents described their procurement organizations as “established”, “leading” or “best in class”. 12% of respondents described their procurement organizations as “just starting”.





Procurement objectives



A majority of procurement executives (73%) stated that the objectives of their procurement department are linked to the global objectives of their companies.

Among the companies that have not yet followed their corporate procurement strategy, 11% believe that a shift is in their near future. There is a strong correlation between the level of maturity of procurement departments and if procurement objectives mirror corporate objectives. The wide majority of organizations qualified as mature by the procurement executives stated that their corporate and procurement objectives are linked.

“In the context of increased competition on the telecommunications market, the Group's management of Nokia Networks Solutions stressed the need to accelerate the pace of innovation and to create radically different business models to maintain its leading position on the market. The procurement department plays a key role in the deployment of this strategy. Process standardization at global level, suppliers' performance improvement and cost optimization are among the concrete actions implemented by the procurement department which are directly linked to global corporate achievements.”

Anis HAMROUNI,
Country Procurement Manager - France
Nokia Solutions & Networks



Are your Procurement objectives linked to Global Corporate objectives?

YES THEY ARE

73%

NO THEY ARE NOT

16%

NO THEY ARE NOT, BUT THEY WILL BE SOON

11%

Value creation: the procurement intentions



Much work has been done by procurement departments in recent years. 9 out of 10 procurement decision makers consider the role of their department as that which creates value beyond "cost-killing."

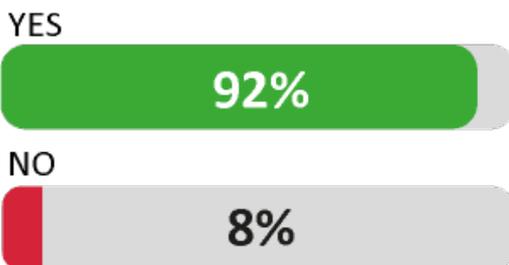
Procurement departments have deployed strategies to reduce purchasing costs at a global level using many methods such as centralization, standardization needs, and reducing the number of suppliers. Procurement departments are given free rein to reinvent their role and participate in the creation of value beyond cost-killing through many new performance procedures: risk management, suppliers' innovation management, CSR, etc. Procurement departments can no longer stand alone in the company infrastructure; they must now integrate themselves with other divisions to optimize procurement.

«We run a progressive organization of sourcing and supply management and our procurement philosophy is to add value beyond the contract negotiation. We do that with an emphasis on collaboration, innovation, and sustainability. »

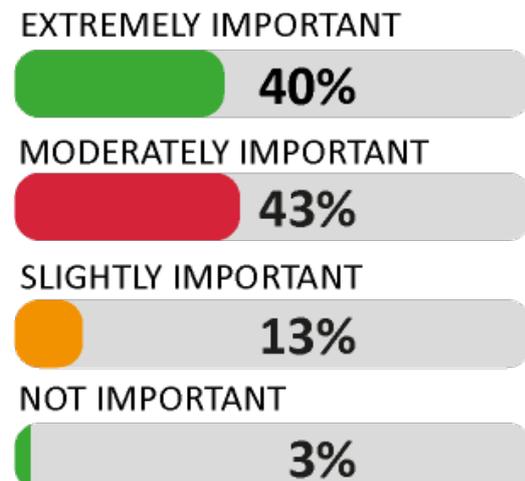
Kevin GIBLIN,
Senior Director, Global Sourcing & Procurement, McGraw-Hill Companies



Is it the role of Procurement department to create value beyond cost reduction?



How much of a priority is Value Creation (rather than cost reduction) for your Procurement department?





...the Procurement reality

Procurement leaders recognize their responsibilities as "global value creators" beyond their historical cost-killing role, further expanding areas in which they feel they have an influence. Suppliers' innovation and risk management are the two areas most often cited (63% and 51%). Cost optimization remaining the line of business for theme (75%).

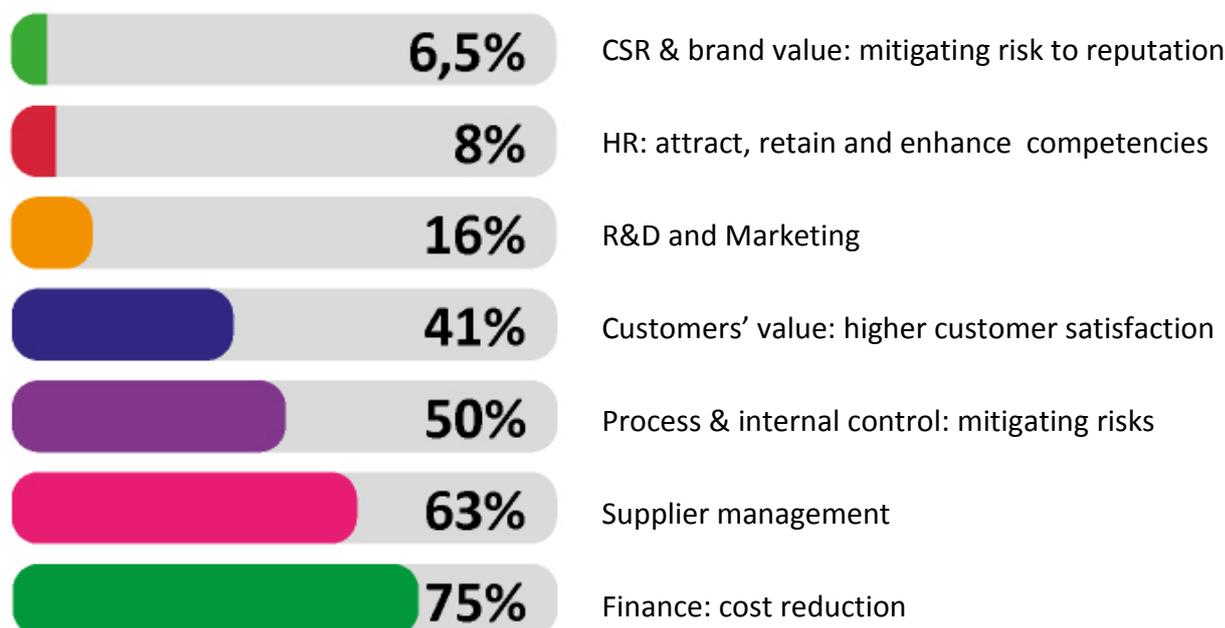
However, many areas conducive to creating value beyond cost reduction and to having a more strategic role (CSR, customer satisfaction, team performance, HR, etc.) are less often cited as an area of potential impact by the procurement executives. This is a clear indication that the procurement aspiration to a more strategic role is not (yet) followed by concrete actions.

« BPCI Achats (BPCI Procurement) is in charge of providing procurement consulting services to any of the Group entities. One of our missions is to identify and share best practices in order to benefit from all the savings potential and opportunities. Our role is also so support the entities in the implementation of our recommendations in order to optimize their spend. »

Arnaud MINVIELLE,
Procurement Director, BPCI Achats



What are the line of Business which can be most affected by Procurement Initiatives?



Value creation lifts

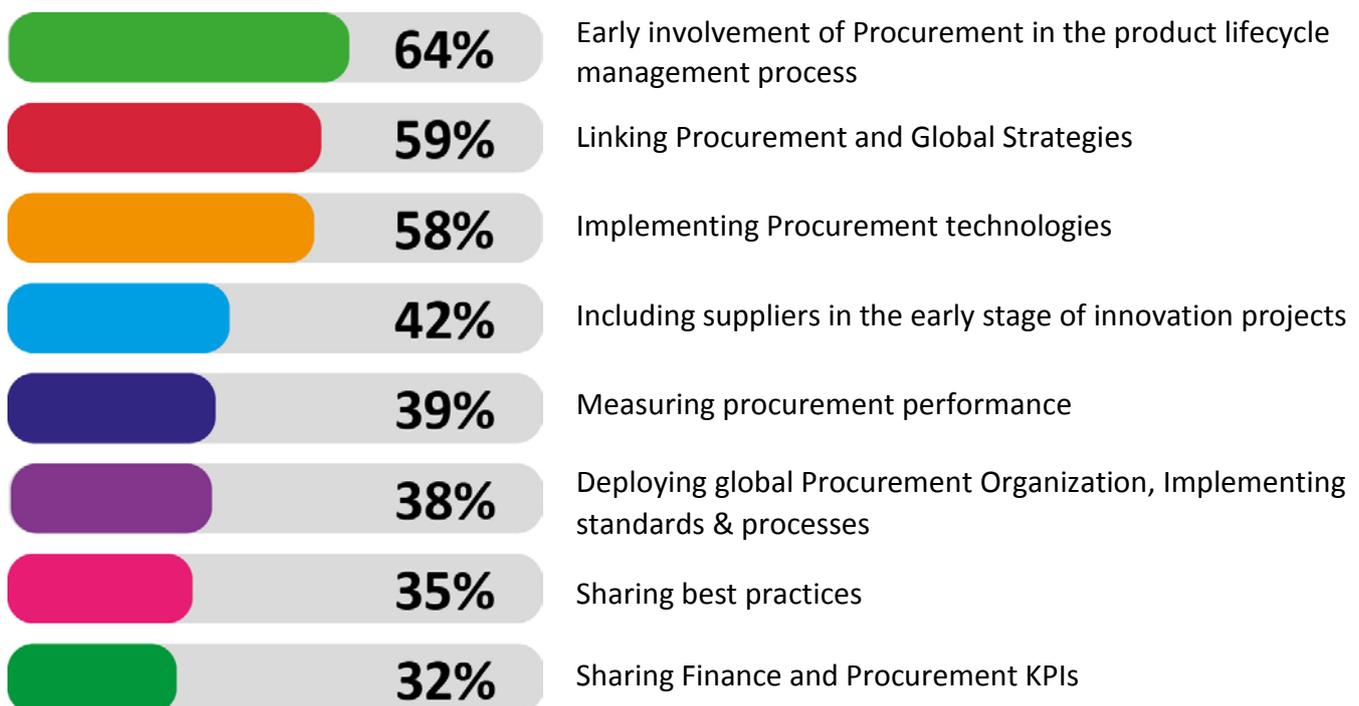


According to the procurement executives, 3 things are playing an important part in the process of creating value: including procurement departments being in the early stage of innovation projects (64%), linking Procurement and Global strategies (59%), and the implementation of procurement technologies (58%).

These elements are the prerequisite of procurement performance and of achieving a more strategic role for the procurement departments. According to respondents, the procurement departments can fulfill their potential only when integrated upstream in the value chain of their business: at strategic level

during the global corporate strategy definition stage and at operational level during the design phase of a new product or of a purchasing project. The e-procurement tools are perceived as essential elements for the creation of value by procurement departments. The e-procurement tools have a key support role in procurement strategies (mass orders, streamlining suppliers list, etc.) allowing procurement departments to improve their financial and process-wise performance.

Assess the importance of the following for Procurement organizations to contribute to effective value creation.



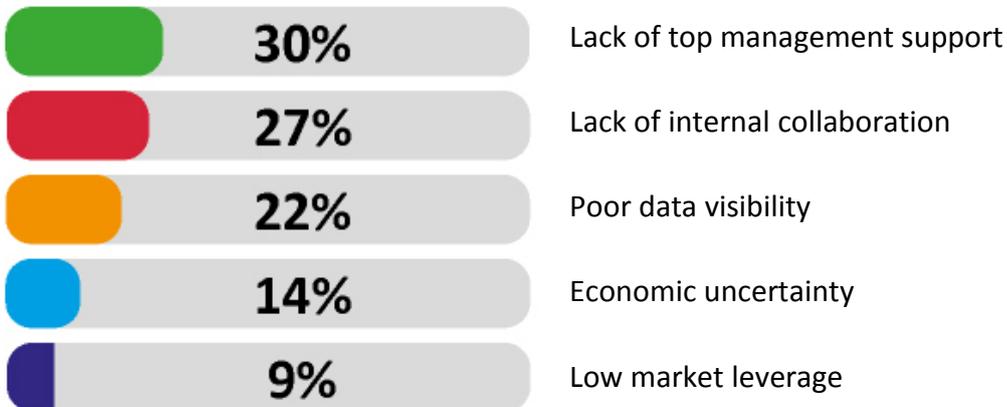
Barriers to creating value



Top management involvement is critical to establishing effective procurement policy and activities.

Nearly one respondent of three (30%) believes that the lack of support from top management is the main element overshadowing the capacity of procurement departments to create value for their business. The second factor most often cited is the lack of internal communication and collaboration on procurement projects (27%). Finally poor procurement data visibility is mentioned by 22 % of the panel as a barrier to value creation. These elements are the counterparts of the answers to the previous question confirming that for generating value, procurement departments must: be involved in decisions related to their business strategy, collaborate with all the business divisions involved during products design phases and implement tools that allow them to get a clear (a clear what? view?) on their spend, their suppliers and all the corporate procurement activities.

Which of the following can overshadow the capacity of Procurement to create value?



“Big Data visibility is one major strategic asset for Central Procurement Departments in large organizations. Together with a global market intelligence capability, these numbers and figures allow deploying cost-effective Procurement Plans and Strategic Sourcing initiatives, exposing saving opportunities. “

Michelangelo FANI,
Group Purchasing - Head of Engineering and Production Support - Finmeccanica



Procurement impact



Only 57 % of Procurement leaders believe that their departments have a significant impact beyond the procurement department. 27% of respondents believe that procurement has a significant impact on the business processes, 22% believe it's the strategic positioning of the company and 10% the business model.

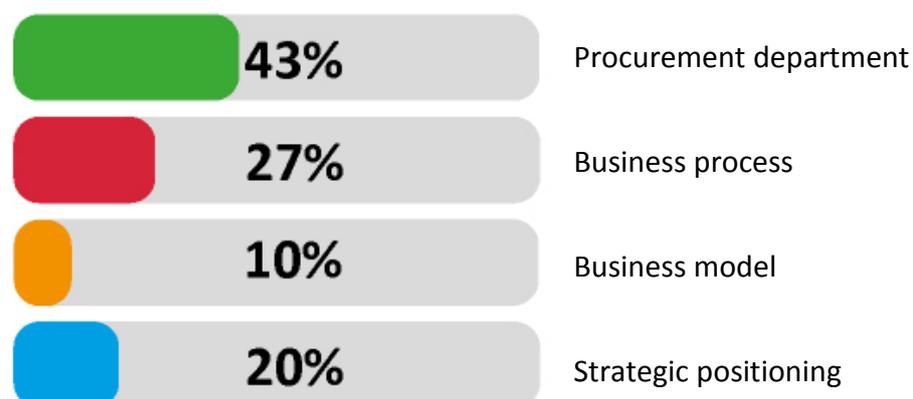
It is estimated that spend totals, depending on the industry, average between 40% - 80% of the turnover of a firm (McKinsey, 2007). In reality, procurement initiatives have a much broader impact than procurement departments themselves. However, this lack of consideration for the impact of procurement at the most strategic levels of an organization clearly indicates that unlike communication, marketing, HR and Finance departments, which have long printed their influence on top of the corporate hierarchy, Procurement departments are still struggling to promote their role, and the importance of their actions at strategic levels. As evidenced by the absence of Procurement executives in executive committees of the major international groups.

“Procurement departments have been able to partner with businesses in achieving cost reduction while achieving significant efficiencies and assuring that risks are addressed. The role of Procurement departments is to act as the facilitator throughout the whole procurement process. Our business clients are the ultimate decision makers. However, Procurement departments have fiduciary responsibilities to report to Audit and Senior Management if the decision made by the business could have negative impact from a risk, compliance, security and financial perspective. Procurement executives have a seat at the table at all levels and are involved in all strategic direction that requires third party assistance.”

Frédéric KHALIL,
VP, Head of Source-to-Pay - The
Guardian Life Insurance Company of
America



Which part of your company is most impacted by Procurement initiatives?



Value supply chain



Outside of the company, suppliers are the main partners of procurement departments sharing a goal of creating value.

The most important factors when it comes to benefiting from suppliers' potential are to "establish a collaboration between suppliers, purchasing and purchase demanders" (43%) and to "have a procurement team able to detect and work out this potential for value creation" (27%). In fact, mature procurement organizations, have reached an advanced stage of spend optimization and are now seeking new approaches from their suppliers (i.e. innovation, optimization of external processes, etc.). This is when buyers have to play an important part in coordination in order to build bridges between suppliers and buyers. This vertical collaboration on a procurement category or a specific product goes along with buyers' professionalization and specialization: buyers who have become experts in a particular field can participate in the suppliers R & D and in the purchasing demands processes to create favorable conditions for the expression of collective intelligence.

"Suppliers' relationship is a key element of the performance of Procurement Departments. Mass grouping of volumes have reached its limits and is no longer a lever of performance. So we are now, more than ever, looking for new sources of performance. New levers lie in the ability of the buyers to have a positive impact on suppliers' R & D in terms of reducing and optimizing their manufacturing, administrative, financial and commercial costs. The establishment of collaboration upstream and downstream of the purchasing process is fundamental. This collaboration relies on buyers' expertise of the market they are working in, expertise which must equal know-how possessed by suppliers in a specific industry."

Sébastien TAUPIAC,
Deputy Director for Complex Purchases –
UGAP

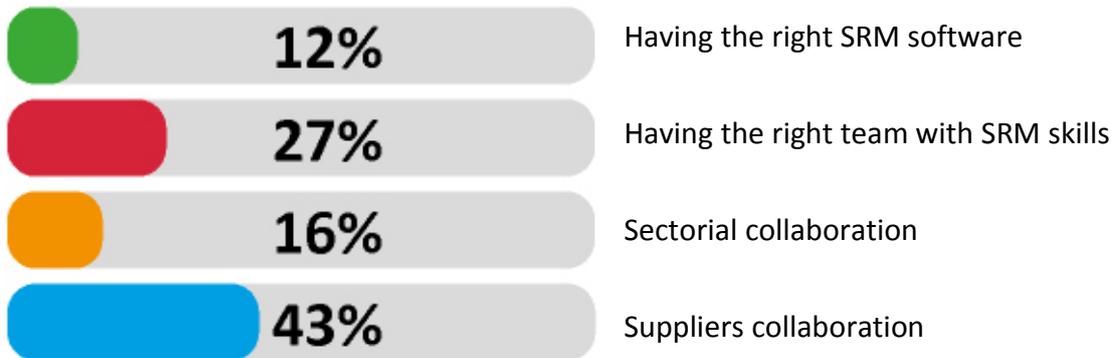


Who's your best external partner for value creation? (2 answers max)

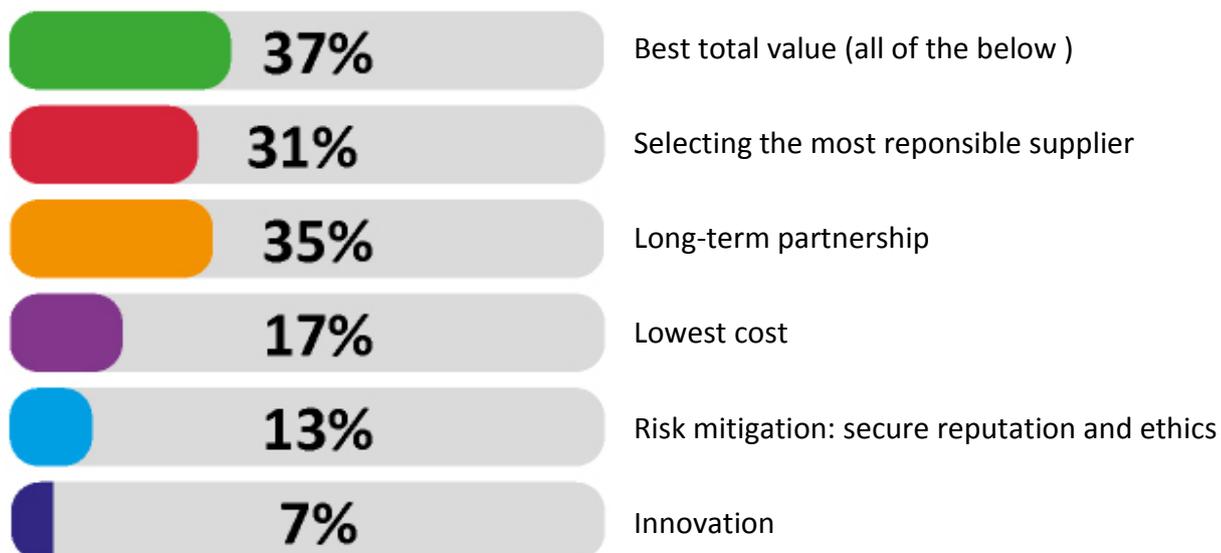




Which is more important in achieving the most value from suppliers? (1 max)



Which of the following is your primary goal in selecting and working with suppliers? (2 max)





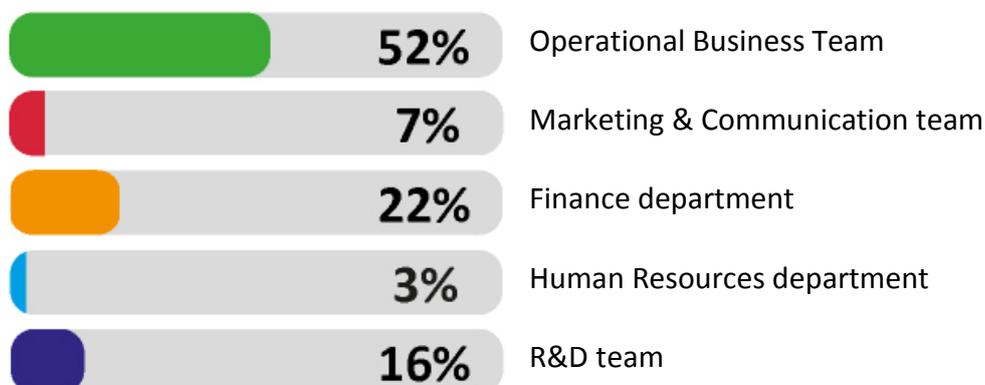
Procurement “Business Partners”

63% of procurement leaders consider the operational teams (people who make purchasing demands) as their privileged partners for value creation.

The procurement departments which have outgrown the cost-killing stage have implemented repositioning strategies (procurement internal marketing) promoting the role of procurement in the performance of their business and adding value beyond cost reduction.

This repositioning can be seen in the rising new partnerships between operational teams and procurement teams. With the objective to optimize procurement performance, these new teams aim to improve the global performance of the company. The “Procurement Business Partners” buy better and hold an advisory role as they provide solutions to operational challenges and a source of objectivity in the buyer / supplier relationship.

Who’s your best internal partner for value creation? (2 answers max)



« The business unit managers are the most important partners of our Procurement Department. One of the roles of procurement is to create collaboration between buyers and business managers at all stages of the purchasing cycle: from building budgets, through writing purchase specification to the evaluation of purchasing performance. This collaboration plays a vital role in the professionalization of the procurement department and the procurement process optimization. »

Sylvie NOEL,
Chief Procurement Officer – Covéa





Procurement strategic performance KPIs

The purchasing departments use a variety of non-financial indicators to measure their contribution to the performance of their businesses. The implementation of strategic (non-operational) indicators such as: customer satisfaction (32%), CSR (26%) and innovation (17%) clearly indicate that procurement departments have seized the strategic challenges of their businesses and that they measure the performance of their departments against these strategic KPIs.

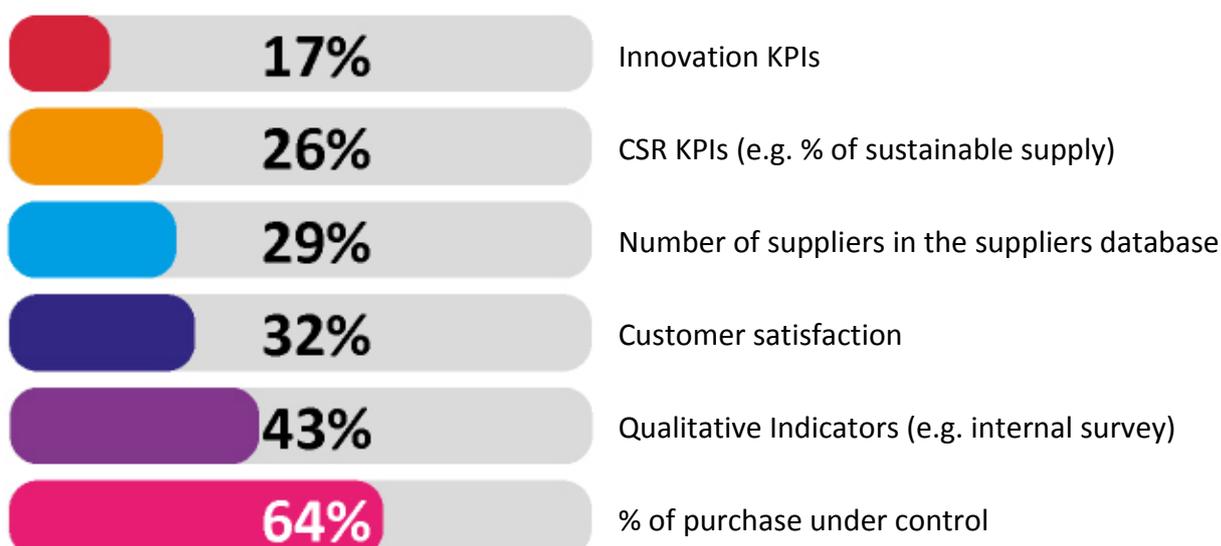
Operational indicators most often cited are quantitative with the percentage of spend under control (64%) and number of suppliers in the suppliers database (29%) being the two operational indicators most often cited. The internal customer satisfaction (buyers) is cited by 43% of participants.

«The evaluation of the procurement team performance based CSR criteria allows us to value suppliers good practices, to quickly and effectively extend responsible procurement, to measure our progress and finally to convince of the relevance of our approach both internally and externally. The establishment of CSR performance indicators was a fundamental step in the development of the responsible purchasing policy of La Poste Group. »

Jean-Marc MONOT,
Director Procurement Information
Systems and Methods - Groupe La
Poste



Which KPIs (other than savings) does your company use to assess Procurement performance?



E-procurement tools and value creation



Procurement executives believe that the value of e-procurement tools lie in their ability to provide “better analytics and reporting” (71%) and to streamline processes (64%).

E-procurement tools allow great time saving and efficiency due to: global, automated processes which incorporate best practice and eliminate unnecessary activities; and greater data accuracy, which minimizes ordering inaccuracies and provides the foundation for better management through measurement and analysis.

Procurement solutions assist procurement departments in the value creation cycle, allowing deployment and control of procurement processes across a business. By improving cross functional team collaboration/performance and reducing the length of purchasing cycles, procurement tools improve procurement operational performance and shift procurement departments toward a more strategic position with global companies.

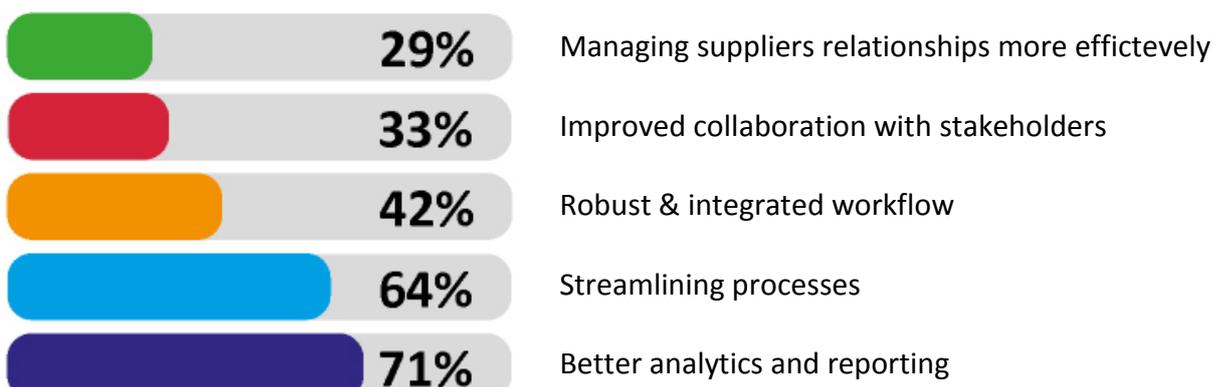
« Having a Purchasing solution that is both easy to use and powerful in terms of functionality, is a key part of Beacon’s growth strategy across the U.K. and beyond. The integration of new technology should help us to improve our supplier relationships and to implement effective supply chain management.»

Paul CONNELLY

Director of Purchasing and Operations , Beacon



What are the main benefits deriving from the implementation of your integrated Procurement solution? (3 max)



CONCLUSION

Many Procurement Departments from major international groups have reached a stage of advanced maturity, deploying processes and systems to optimize costs at the global level.

Strengthened by this success in recent years, the procurement leaders have initiated a period of reflection on a new position for procurement finally exceeding the historical role of cost -killers.

The Procurement Executives survey 2013 shows that procurement managers aspire beyond cost-killing to establish a procurement approach based on growth and global value creation for their companies. Innovation and risk management have become the areas in which the procurement departments believe they have the most potential for value creation.

The analysis of collected responses also clearly indicates that the majority of procurement departments are gradually beginning to grasp strategic issues for their businesses, including: customer satisfaction, innovation, CSR, R & D, etc., but it seems that their influence is still limited to the procurement scope. This limited influence is, according to procurement executives, the result of a lack of support from top management for procurement initiatives, the absence of internal collaboration and a poor visibility into their data.

To overcome these obstacles, procurement departments have started working in their businesses and their supplier networks to create partnerships, intended to allow procurement to leverage sources of performance instead of the cost reduction strategies that have been used until now.

Internally this is reflected by the establishment of increased collaboration with business managers to include procurement upstream design phases of a new product or procurement project, allowing procurement to provide advice and audit services during strategic decisions making in corporate projects. It can also be seen in e- procurement tool implementation, used to streamline procurement processes and provide a common support for collaborative work to all stakeholders.

Externally, the new role of procurement can be seen in buyer / supplier partnerships in the early stage of suppliers' value creation chain, particularly in terms of their R & D.

A sign of the degree of advancement of this repositioning process is that the procurement departments have aligned their goals and strategies with corporates' and the procurement departments are now assessing their performance not only against operational KPIs, but also against strategic performance criteria.

PERSPECTIVE

The Ivalua Procurement Executives survey of 2013 indicates that the process of reflection on new roles of procurement and responsibilities seem to make room to a phase of action. The strategic repositioning of procurement departments within their business is not completed yet, but surely gives them a glimpse of a promising future alike HR , communication, marketing, and financial departments , which in the past managed to print their marks permanently on corporates executives committees and hence their strategies. The subtext from the Ivalua survey is that three elements are key to the future success of procurement departments: (1) the specialization and professionalization of buyers (2) to open up the company and to create growth oriented partnerships and overall performance (3) The deployment of collaborative procurement tools with the capacity to support the strategic and operational performance of their business.

About Ivalua

Founded in January 2000, Ivalua has become one of the leading software vendors in the global market for e-procurement solutions. Its Ivalua Buyer V7 software suite covers all purchasing processes, from supplier relationship management to spend analysis, as well as e-Sourcing, e-procurement and invoice management.

Based in Europe and in the United States, Ivalua has successfully deployed over 100 projects in large international corporations across all sectors. This has allowed Ivalua to show high growth while continuing to stay profitable since its creation. Today, Ivalua solutions have been widely proven and adopted by thousands of users around the world.

Finally, thanks to its ecosystem of partners, Ivalua provides its clients with solutions offering a wide range of integrated services and content.

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