Procurement

KEY DRIVERS FOR MODERN PROCUREMENT

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CONTENT

TRANSFORMING PROCUREMENT
DRIVING CHANGE IN A STRATEGIC ROLE

Overview

Modern procurement calls for different strategies and organizational structures in generating the most value for the business. Procurement performance, intelligence, and collaboration are key drivers to ensuring that today's procurement organizations are able to work hand in hand with the business to ultimately deliver shareholder value. The research presented here, conducted by the Procurement Leaders Network in conjunction with SAP, examines the issues of modern-day procurement. In a survey conducted in April–May 2010, we asked over 320 procurement executives about what strategies are working today in a time when procurement organizations are transforming themselves from a back-office function to a strategic one that leads the way into the future.

Procurement is more strategic than ever before. Increasingly considered a board-level function, it is gaining more internal prominence and is more closely integrated with the rest of the business, especially finance.

Although there continues to be intense pressures on procurement organizations to continue to deliver savings, control costs, and drive operational and process efficiencies, the issues of sustainability and corporate social responsibility continue to grow in importance. And the focus is not only on internal policies but also on ensuring that suppliers are instituting their own aligned policies for sustainability and social responsibility. More and more, companies are looking across their global supply chains to foster excellence in these initiatives through the sharing of information and best practices in an effort to ensure the highest standards.

The structure of modern procurement organizations is also changing dramatically. There is a rapid movement toward the centrally led organization where a centralized procurement strategy enables tighter control and standardization of decentralized transactions but still allows local purchasing execution. These centralized structures provide procurement organizations with greater negotiating power and drive bottom-line savings for the entire organization.

Along with centralization, there is also a tighter integration between procurement and the rest of the organization. As procurement paves the way to control expenditures, drive standardization, and process efficiencies, we see greater collaboration occurring especially with finance. In addition, collaboration with suppliers is becoming more and more important as organizations look to optimize supply chain performance.

Procurement is also achieving a new prominence within the organization and is regarded as more strategic to the business than ever before. The days are gone when the procurement organization was viewed as a transaction processor. Modern procurement organizations are now viewed as key to enabling the organization as a whole in achieving its strategic objectives of cost-cutting, meeting corporate social commitments, and ensuring that strategies are sustainable and can pave the way to the future.

Procurement intelligence to drive purchasing strategy is also undergoing major change. High-quality intelligence is becoming key to understanding and managing supplier risk. Market information, as it pertains to category cost drivers and pricing, is becoming ever more critical to achieving procurement goals in support of business objectives.

The importance of technology to enable procurement is also continuing to grow. Key areas of focus for applying technology include sourcing, supplier management, e-procurement, and spend analysis. As part of this focus on technology, the on-demand deployment model is increasingly preferred. Two key reasons cited by procurement executives driving the shift to an on-demand model are the cost efficiency and quick deployment associated with it. One CPO says, "Time to benefit is a key driver of why 'on demand' is becoming more and more important. The pace of change is getting faster and faster. . . . Companies have to adopt new technologies that quickly meet their changing business requirements."

There is a greater focus on spend visibility and analysis to identify cost savings opportunities and drive optimal expenditures. Spend analysis is increasingly viewed as vital to the procurement organization and as a best practice to track procurement performance.

As modern-day procurement organizations move into the future, they find themselves more and more in a strategic role – driving change and leading the way to achieving corporate goals through collaboration, performance, and intelligence.

About the survey

This analysis is based on over 320 responses from global procurement executives to a survey conducted during April–May 2010. Eighty-three percent of respondents name procurement as their core responsibility, and 9% say supply chain management. Respondents work in all industry sectors (see Figure 1), with 71% representing companies whose annual revenue exceeds €1 billion and 54% representing companies with an annual procurement spend in excess of €1 billion. The organizations represented in this survey each employ an average of 245 purchasing full-time equivalents (FTEs).

Key findings

The key findings of the 2010 survey are as follows.

General

- Organizations are rapidly centralizing their procurement activities as streamlining and cost control become key.
- Procurement is more strategic than ever before. Increasingly considered a board-level function, it is gaining more internal prominence and is more closely integrated with the rest of the business, especially finance.
- The two issues of sustainability and social responsibility are still growing in importance despite the intense operational pressures that many

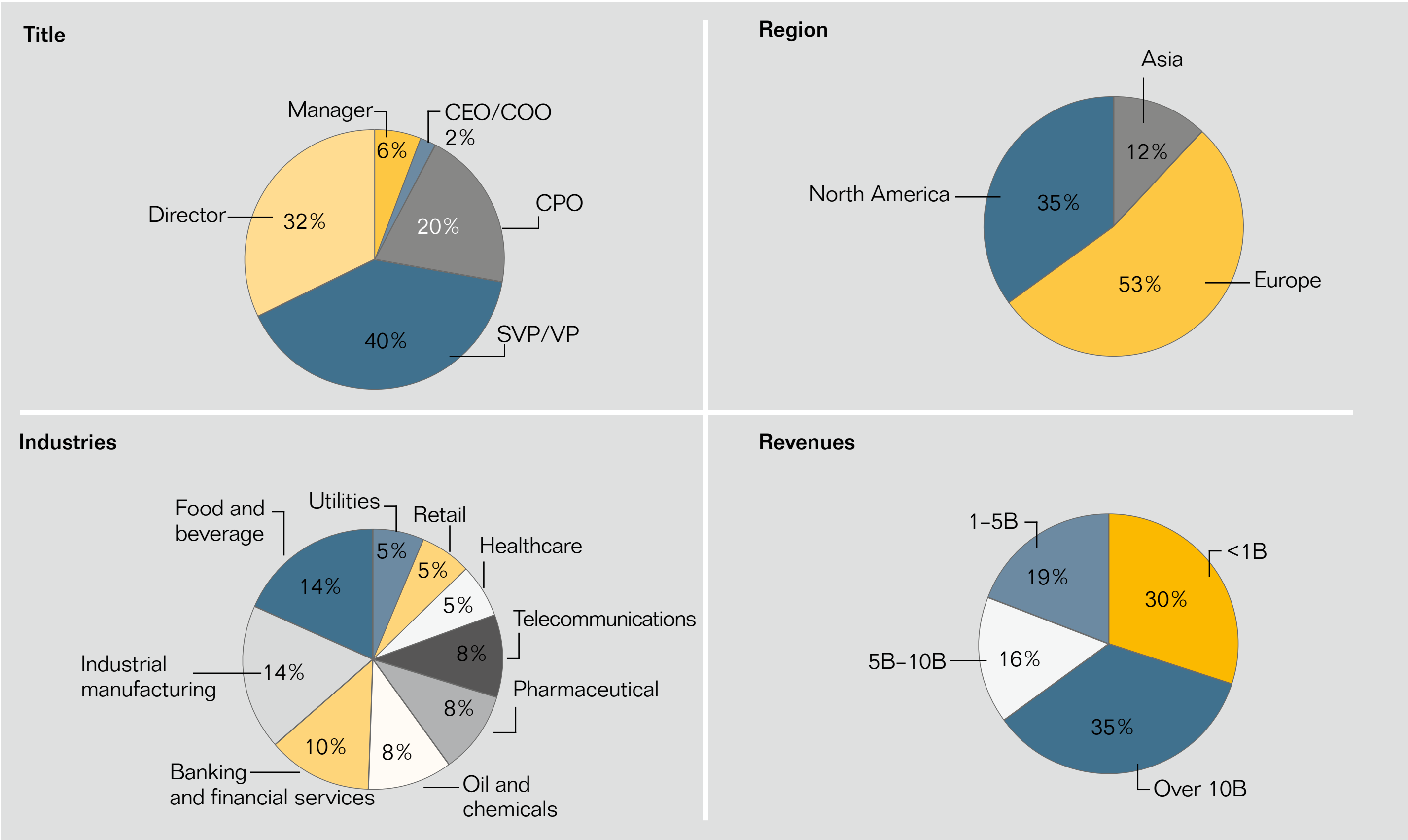
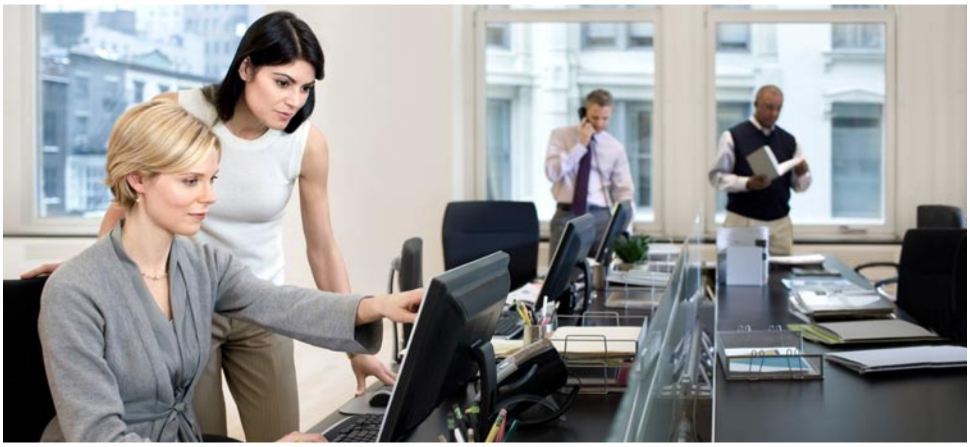


Figure 1: Respondents by Title, Region, Industry, and Revenue



"Cost savings as a percentage of managed spend" is a KPI consistently used when measuring procurement's overall business impact.

companies have found themselves under recently. It has become the norm for organizations to extend their own policies to their suppliers, requiring them to sign up to a responsible procurement policy; however, the majority of suppliers are still left to "self-audit."

Intelligence

- A far greater focus is being placed on the collection of category-relevant information, with the proportion of companies dedicating an internal resource at a corporate level to intelligence sourcing doubling over the last two years.
- The value of technology within modern procurement has surged, especially in the areas of spend analysis, strategic sourcing, e-procurement, supplier management, and sourcing.
- The on-demand model is growing in importance. On-demand technology benefits include cost-effectiveness, the ability to deploy rapidly, improved cash flow, and the ability to upgrade quickly to take advantage of new functionality. These are critical factors in enabling procurement.
- Spend analysis continues to gain recognition as a critical modern procurement process. More companies are leveraging their spend data to formulate sourcing strategies and consider it a vital tool for measuring procurement's overall impact on the business in terms of key performance metrics.

Performance

- Across responding companies, few key performance metrics are being used consistently to measure procurement performance, with the exception of "cost savings as a percentage of managed spend," which most companies do track. The majority of companies say they are at or below the 10% savings level for this metric.
- Key metrics that companies are using include spend under management, FTEs per billion spend, customer satisfaction, supplier performance, and sustainability. Interestingly, "requisition to PO" cycle time is only being measured less than 24% of the time.
- Success of individual procurement initiatives is being documented and tracked by a vast majority of companies; however, category-level year-over-year results are more rarely analyzed.

Collaboration

- Supplier collaboration is recognized more and more as a way of optimizing company processes and drastically improving supply chain performance beyond the boundaries of one's own company.
- Internal collaboration with the finance function is also expanding and becoming more important over time; however, opportunity still appears to exist in coordinating more closely around sourcing plans and impacts as well as in identifying joint process improvements.

Streamlining and Controlling Through Centralization

One of the most dramatic changes seen in modern procurement strategies over the last two years is the rapidly changing organizational structure of purchasing departments, with a clear move toward some kind of centralization. In 2008 over one-third (35.7%) of the respondents' purchasing organizations followed a decentralized model, which meant that purchasing decisions were made by their companies' individual business units. By 2010 this proportion has plunged to less than 6%. (See Figure 2.)

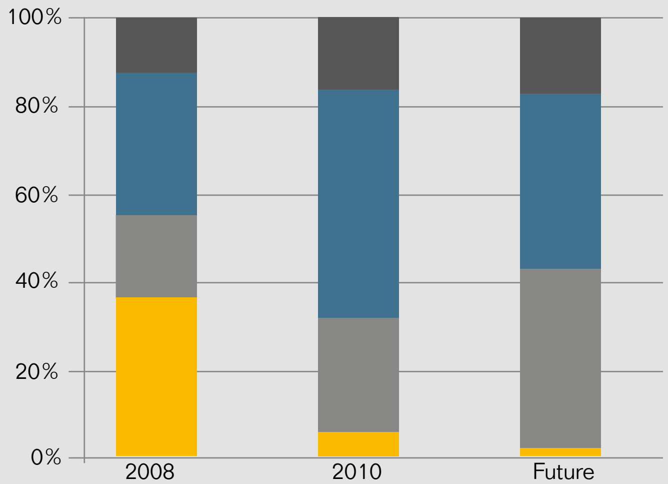
Mostly, this is in favor of a center-led organization, whereby decentralized transactions are dictated by a central purchasing strategy; over 50% of respondents described their current procurement organization as center-led in 2010, compared to just over 30% in 2008. So far, there has been a lesser shift toward a completely centralized structure, in which all procurement is managed centrally, with the proportion of centralized structures rising from 20% in 2008 to 26.6% in 2010. However, 80% of respondents say that in the future their procurement structure will become even more centralized, with an equal split between those moving toward completely centralized procurement and those favoring a center-led strategy. Size of company plays a part here; only 35.4% of businesses with annual revenue in excess of €1 billion foresee their procurement organizations becoming completely centralized in the future, compared with 54.6% of companies with annual revenue below €1 billion. This suggests that the larger the organization, the less realistic it becomes to implement a completely centralized model.

The matrix method of organizational structure whereby reporting lines exist to both procurement and the business is gradually increasing in popularity. In 2008, 12.3% of organizations followed a matrix model for purchasing, with this proportion expected to rise to 17.4% in the future.

In some industries, this shift toward centralization is even greater. In banking and financial services, for example, 61.5% of companies now follow a center-led procurement strategy in 2010, up from 36% in 2008, while almost 50% foresee their purchasing becoming completely centralized in the future, up from just 20% in 2008.

A number of factors are driving this move away from the classic decentralized purchasing model, which carries the risk of different business units following different purchasing strategies. These factors include the need for consolidation and tighter control of expenditure, product and process standardization, and greater negotiating power as companies strive to achieve an ever-more-streamlined procurement strategy as a way of reaping huge bottom-line savings for the entire organization.

There is an increasing focus on tighter control of expenditure, product and process standardization, and greater negotiating power.



Key takeaways

- Decentralized model:
  - In 2008, more than 35% followed this model
  - In 2010, this had decreased to less than 6%
- Center-led model:
  - In 2008, 30% used this model
  - In 2010, this increased to more than 50%
  - In the future, more than 80% are planning on either center-led or centralized models
  - In banking and financial services, this increased from 36% in 2008 to more than 61% in 2010

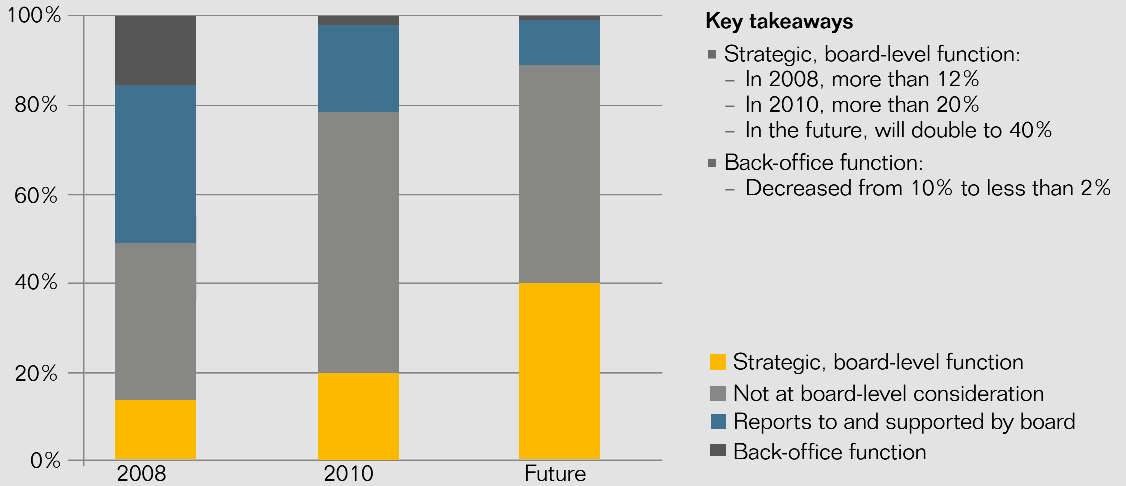
Figure 2: The Centralization of Procurement

Procurement Enjoys More Prominence and Business Integration

As procurement activities become more centralized, they are also becoming far more prominent within their respective organizations. In 2008 only 12.7% of procurement departments were considered a strategic, board-level function. That proportion has already risen to over 20% in 2010 and is seen doubling again in the future, to 40%. (See Figure 3.)

As procurement's internal profile rises, so does its level of integration with the rest of the business. Less than 20% of respondents described the nature of procurement's collaboration with the business as proactive and consistent in

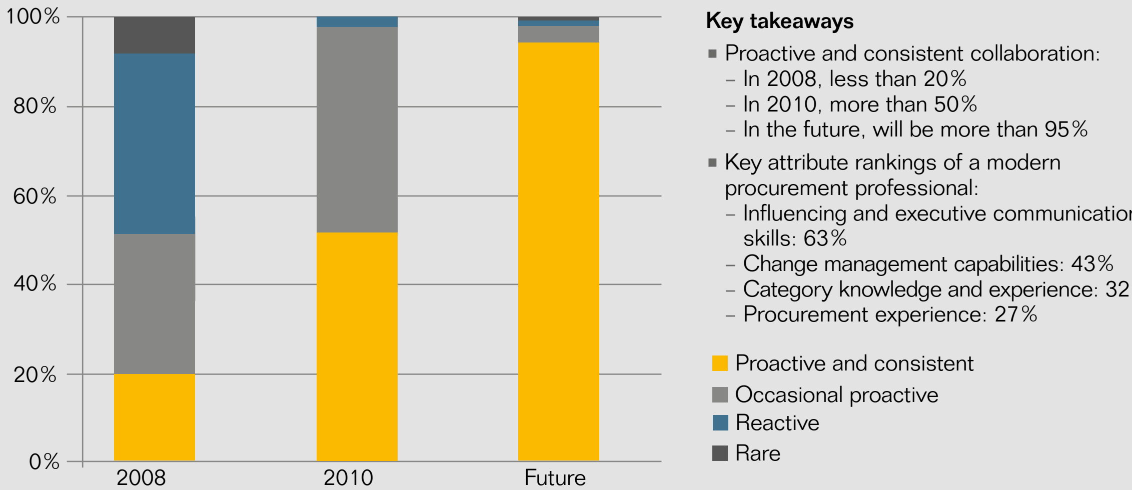
As procurement becomes more centralized, it is increasingly viewed as more strategic.



Key takeaways
- Strategic, board-level function:
  - In 2008, more than 12%
  - In 2010, more than 20%
  - In the future, will double to 40%
- Back-office function:
  - Decreased from 10% to less than 2%

Figure 3: Procurement's Increased Internal Prominence

Procurement is dramatically improving its proactive and consistent collaboration with the rest of the company.



Key takeaways
- Proactive and consistent collaboration:
  - In 2008, less than 20%
  - In 2010, more than 50%
  - In the future, will be more than 95%
- Key attribute rankings of a modern procurement professional:
  - Influencing and executive communication skills: 63%
  - Change management capabilities: 43%
  - Category knowledge and experience: 32%
  - Procurement experience: 27%

Figure 4: Procurement's Integration with Business

2008. By 2010 this proportion has already leaped to over 50% and is seen exceeding 95% in the future. (See Figure 4.) Several respondents also note that their employees spend significant amounts of time collaborating with the business – as much as 40% of their workweek – in order to align goals and ensure compliance.

Perhaps as a direct result of this increase in board-level interest, three-quarters of respondents describe procurement's position within their company in 2010 as "more strategic" than in 2008 (see Figure 5). Reflecting this increased strategic importance are the key attributes that are sought from today's modern procurement professionals, shown in Figure 4. The characteristics of "influencing and executive communication skills" and "change management abilities" are both ranked more important than the characteristics of "category knowledge and experience"

Nearly three-quarters of the respondents described procurement's position within their company in 2010 as "more strategic" than in 2008 – perhaps a direct result of board-level interest.

Procurement is viewed as more strategic by 72% of the respondents.

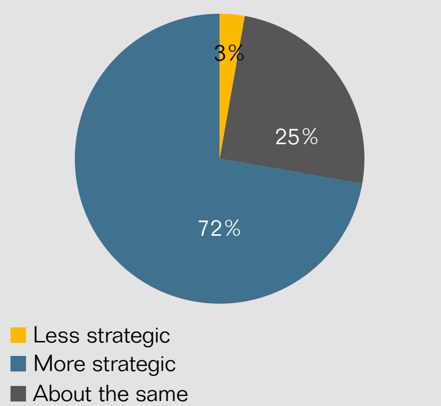


Figure 5: Procurement's Position Within the Company.

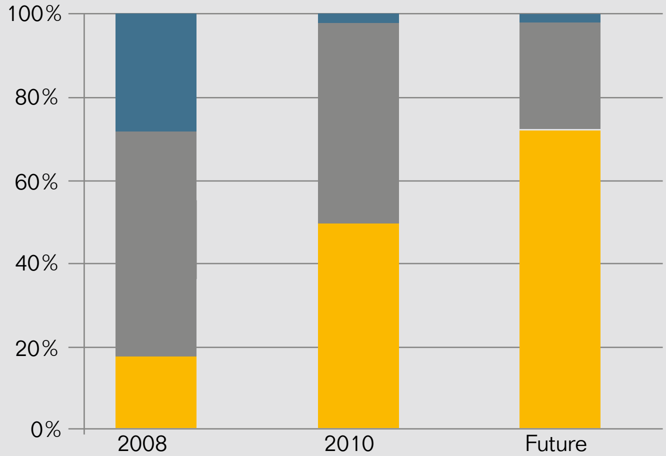
and "solid track record of procurement experience" when it comes to the key requirements of a modern procurement professional.

Procurement and Finance – A Budding Relationship

In particular, procurement's relationship with finance is becoming ever stronger, as the aforementioned need for streamlining and cost control of purchasing intensifies (see Figure 6). The proportion of respondents describing the collaboration between procurement and finance as "very important" rose from 18.7% in 2008 to 47.9% in 2010. And 72.6% of respondents believe it will be very important in the future.

The issues on which procurement and finance collaborate in 2010 are equally split between the identification of cost-reduction targets, setting budgets, and identifying process improvements. It wasn't always so, however. Only 12.7% of respondents say that procurement and finance worked together on identifying process improvements in 2008. In 2010 that proportion has increased to 38.8% and is seen rising to 48.6% in the future.

Relationship with finance is growing stronger, driven by the increased focus on process streamlining and cost control.



Key takeaways

Very important:
- In 2008, less than 20%
- In 2010, more than 47%
- In the future, will be more than 72%

Topics of focus are split between:
- Cost-reduction targets
- Setting budgets
- Identifying process improvements
  – In 2008, 12.7%
  – In 2010, 38.8%

Figure 6: Increased Collaboration with Finance

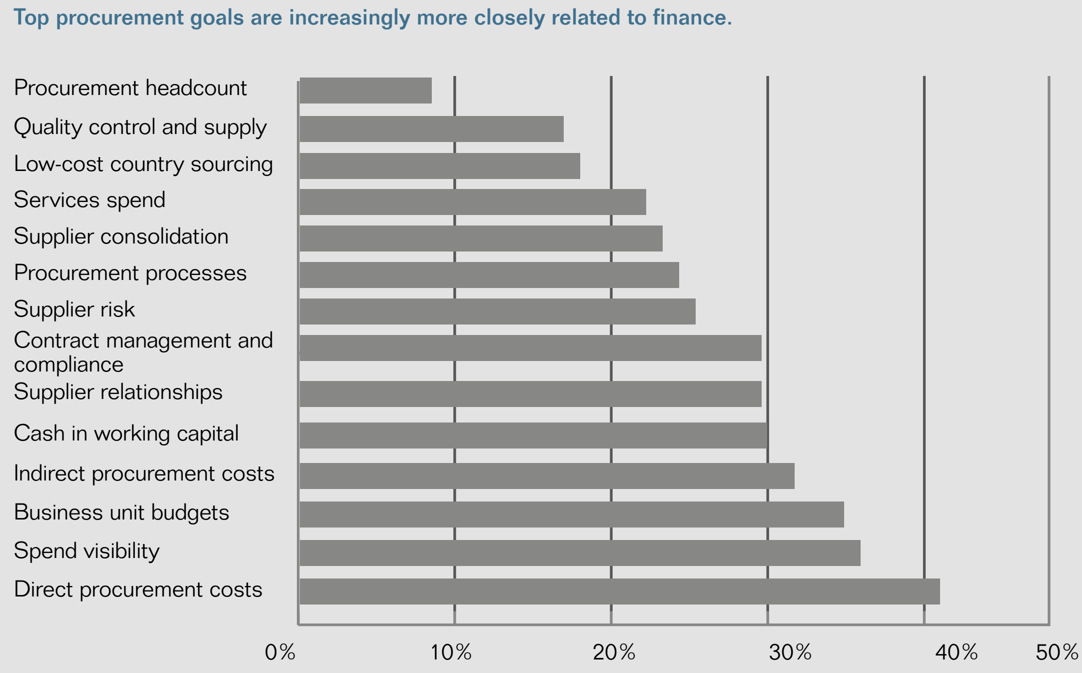
The goals on which procurement departments are most closely focused nowadays are also finance-related. More respondents (40.8%) say they are highly focused on reducing direct procurement costs than any other driver, followed by improving visibility of spend (37.8%) and supporting business units to maximize their budget impact (35.8%). (See Figure 7.)

Supplier Collaboration

More and more purchasing experts are realizing the importance of supplier collaboration as a way of optimizing company processes and drastically improving supply chain performance beyond the boundaries of their own companies. One-third of respondents rated supplier collaboration initiatives as "not important" in 2008, with less than 11% rating them as "very important" in the same year. Yet in 2010 this view is completely reversed, with over one-third now recognizing supplier collaboration initiatives as very important, compared to just 7.1% still viewing them as unimportant. Over 95% of respondents believe that supplier collaboration initiatives will be either very important or important in the future. (See Figure 8.)

This shift in attitude is backed up by the fact that more organizations are engaging in proactive and regular collaboration with their suppliers. In 2008 only 11% of organizations proactively and consistently collaborated with suppliers, leaving almost 50% collaborating with them only reactively or rarely. This compares to 2010 when less than 10% still only collaborate reactively or rarely, and 32.4% now claim to consistently seek out proactive collaboration with their suppliers. Over four-fifths of respondents plan to engage in proactive and consistent supplier collaboration in the future.

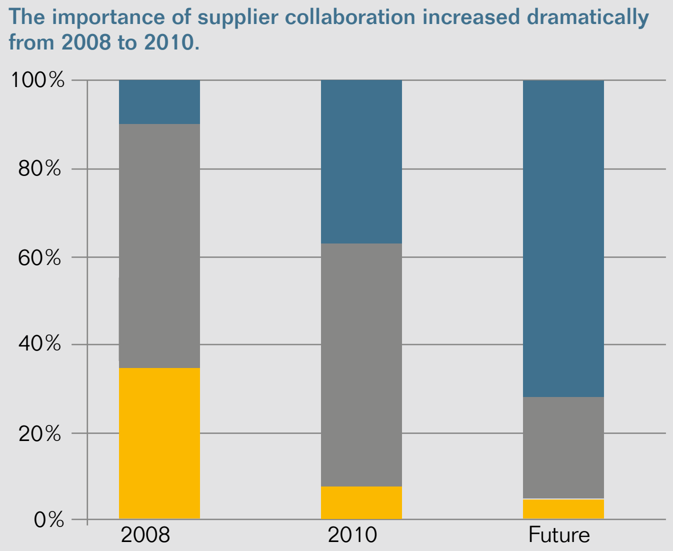
The results vary significantly by industry, with supplier collaboration clearly holding more value in some sectors than others. Almost one-quarter (23.7%) of respondents from industrial manufacturing say that they already proactively and consistently collaborated with suppliers in 2008, which was almost twice as high as the survey average. Likewise, 76.9% of respondents from industrial manufacturing see supplier collaboration initiatives as becoming very important in the future, compared to only 50% of respondents in banking and financial services. As industrial and manufacturing sectors generally have long and quite complicated supply chains, the potential savings to be gained from supplier collaboration for companies in this area are likely to be greater than for companies with more basic supply chains or in nonmanufacturing industries.



Key takeaways

- Top procurement goals:
  - Reducing direct procurement costs: 40%
  - Improving spend visibility: 38%
  - Maximizing business unit budgets: 36%
  - Decreasing indirect procurement costs: 33%
  - Reducing cash tied up in working capital: 30%
- Other procurement goals:
  - Reducing procurement headcount: 7% (identified as the least-important goal)

Figure 7: Rating Procurement Goals



Key takeaways

Supplier collaboration:

- In 2008:
  - More than 34% identified as not important
  - Less than 11% identified as very important
- In 2010:
  - More than 35% recognized as very important
- In the future:
  - More than 95% see supplier collaboration important to very important

Industries:

- More than 76% view manufacturing report as very important
- Only 50% for banking and financial services

Very important
Important
Not important

Figure 8: Importance of Supplier Collaboration

There is little difference, on the other hand, in how those companies with a smaller procurement spend (less than €500 million annually) view the importance of supplier collaboration initiatives compared to companies with a much larger procurement spend (more than €5 billion). Around 80% of both view such initiatives as very important in the future.

Intelligent "Intelligence Sourcing"

Another major change in purchasing strategy that has taken place during the last two years is the way in which companies approach the collection of category-relevant information. Over half of respondents say that they followed no formal procedure for the gathering of category-relevant intelligence in 2008, with less than one-quarter having an internal resource at a corporate level dedicated to it. Two years later, however, almost half (47.9%) of respondents now have a dedicated internal resource at a corporate level to gather such information, leaving only 18.8% of companies with no formal procedure in place. In the future, about 60% of respondents foresee having an internal corporate resource dedicated to category-relevant information gathering, while 15.5% say they will outsource this job to a third party. (See Figure 9.)

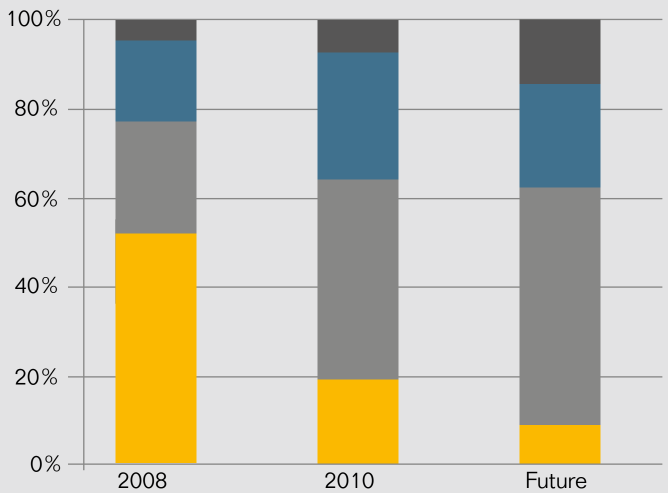
In terms of exactly what sort of intelligence is gathered and how, the majority of internal and managed intelligence focuses on market information (such as category cost drivers and commodity pricing) and financial information about suppliers (such as cash flow, margin, and results). Almost one-quarter of respondents do not proactively collect information about their competitors' behavior, such as their sales or purchasing performance. (See Figure 10.)

High-quality intelligence is viewed as critical to certain procurement goals, especially those of supplier risk management and driving better pricing.

Performance

While the only consistently used key performance indicator (KPI) noted by respondents is "cost savings as a percentage of managed spend" at 89%, several other KPIs are used by many companies, including supplier performance scores (71%), internal customer satisfaction (75%), and procurement FTE per unit of spend (66%). Surprisingly, requisition-to-PO cycle times are

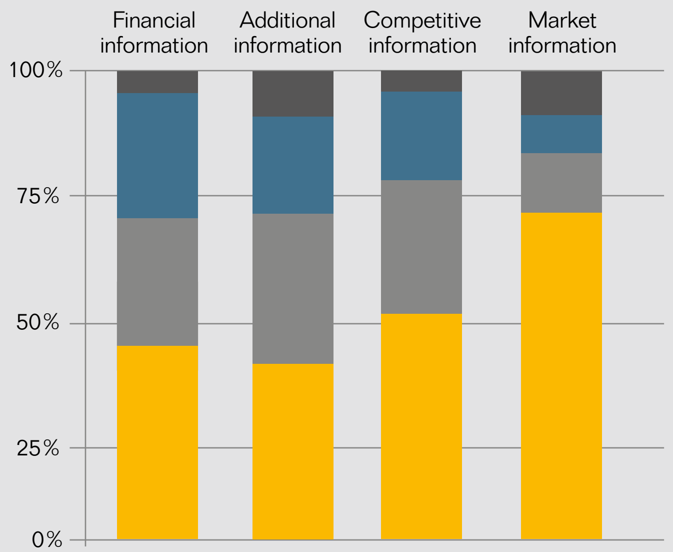
Focus on and investment in category-relevant information gathering has increased.



Key takeaways
- In 2008:
  - More than 50% had no formal procedures
  - Only 25% had a corporate resource dedicated to information gathering
- In 2010:
  - More than 47% have a dedicated focus
  - Less than 19% have no formal procedures
- In the future:
  - About 60% of companies foresee having internal corporate resources dedicated to category-relevant information gathering

Figure 9: Methods of Gathering Category-Relevant Intelligence

High-quality intelligence is increasingly viewed as critical to procurement goals.



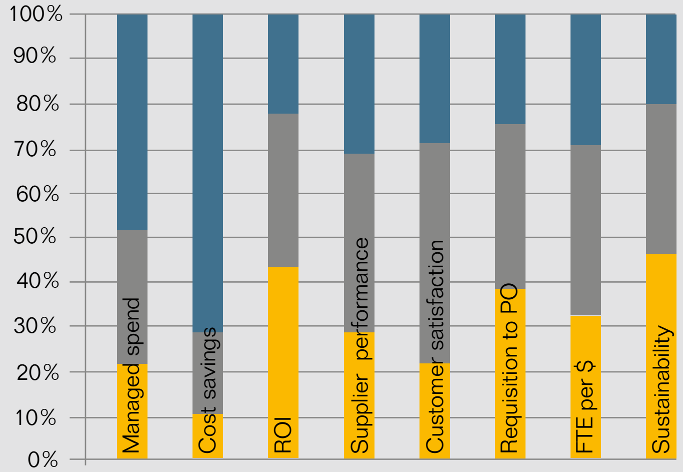
Key takeaways

Internally (managed):
- More than 40% use for financial information – cash flow, margin, results
- More than 40% use to collect additional information – management turnover, expansion, corporate social responsibility record, and so on
- More than 50% use for competitive information – sales and purchasing performance
- More than 70% use to deliver market information – category cost drivers, commodity pricing
- A surprising 15% have no focus

Internal (managed)
Internal (unmanaged)
3rd party
Not collected

Figure 10: Type of Intelligence Gathered and Method of Gathering

"Cost savings at % of managed spend" is the most consistently used KPI.



Key takeaways

- At 71%, cost savings as % of managed spend is the most consistently used KPI
- 52% enable business units to reinvest cost savings dependent on categories
- Other top KPIs:
  - Managed spend: 49%
  - Supplier performance: 30%
  - Customer satisfaction: 29%
- Requisition to PO:
  - Surprisingly, used less than 24% of the time
  - 39% don't measure this KPI at all

KPI is not used
KPI is sometimes used
KPI is consistently used

Figure 11: Key Performance Indicators Used to Measure Procurement's Business Impact

measured consistently by only 24%, with about 40% not measuring this important KPI at all. (See Figure 11.) Some respondents indicate that they measure and track in excess of 50 KPIs regularly in order to precisely hone certain functions and processes, while others say they focused on just the top three to five that are well understood by the board and the business.

As savings are a critical KPI for most respondents, they were also asked how they treat savings once identified. A notable 52% of respondents say that savings are allowed to be reinvested by business units, while 68% say that savings are removed from either corporate or business unit budgets. This contradictory data indicates that perhaps in some categories of spend (such as marketing) business units are allowed to reinvest, while in others (such as office supplies) they are not.

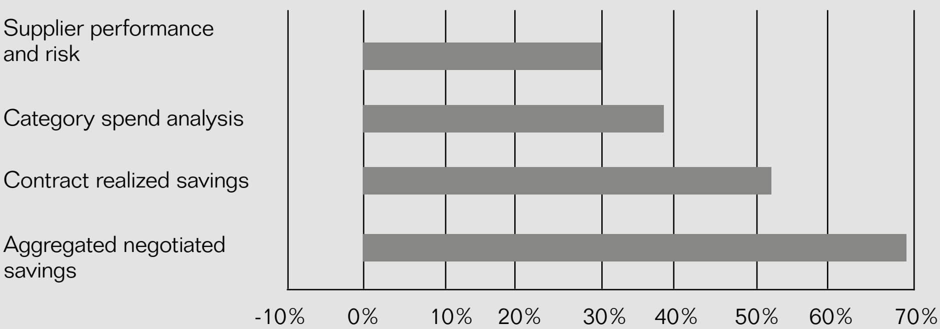
Some respondents indicated that it is also increasingly important to measure global supply chain risk in addition to measuring individual supplier risk. Others say that innovation is a key goal; specifically, measuring supplier involvement in bringing innovation to the organization is a key performance measure that is being actively monitored. In many cases, suppliers are viewed as experts in their fields and are expected to deliver innovation as part of the services they offer. (See Figure 12.)

Technology Gains Value

The use of technology has surged in value within the modern procurement organization. Only 17.2% of respondents rated technology as a very important enabler of their procurement organization in 2008, compared with 48.2% recognizing it as very important in 2010. Likewise, almost one-quarter viewed technology as not important to purchasing back in 2008, a proportion that has since shrunk to less than 4%. Over 70% of respondents acknowledge that technology will be a very important enabler of their future procurement organizations, leaving just 2.3% still believing it has no place in the modern purchasing environment. (See Figure 13.)

About the strategic importance of the procurement organization and its clear impact on business objectives, one executive comments, "There is so much opportunity to drive significant cost savings by moving the needle just a bit that the lion's share of IT budget goes to procurement because that is where the benefit to the company is." Organizations continue to employ enabling technologies in procurement to drive strategy and new ways to reduce total cost of ownership.

Aggregated negotiated savings is the top measurement used for individual procurement-driven initiatives.

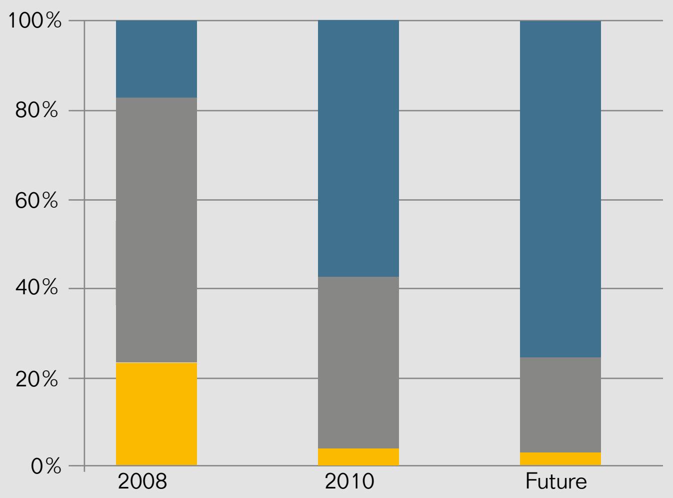


Key takeaways

- More than 69% use aggregated negotiated savings as a primary measurement
- Other top areas:
  - Contract realized savings: 52%
  - Category spend analysis: 40%
  - Supplier performance and risk: 30%

Figure 12: Measurement of Individual Procurement Initiatives

Technology continues to grow in importance in most companies.

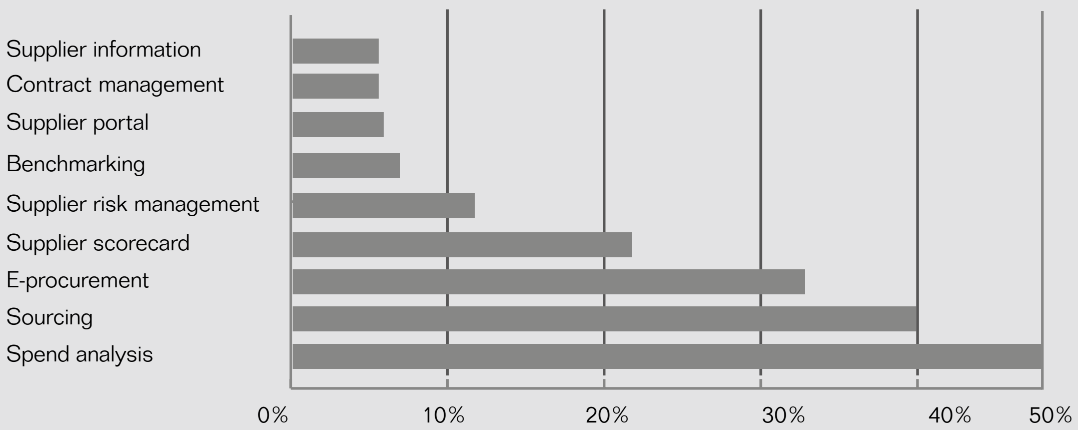


Key takeaways

Very important:
- In 2008, less than 17%
- In 2010, more than 56%
- In the future, will be more than 70%

Figure 13: Importance of Technology in Enabling Procurement

Spend analysis, sourcing, and e-procurement are key targets for enablement.



Key takeaways

- More than 50% of respondents are focused on the topic of spend analysis
- Other top areas:
  - Sourcing: 40%
  - E-procurement: 33%
  - Supplier scorecard and performance management: 21%
- All less than 10%:
  - Supplier information
  - Contract management
  - Supplier portal
  - Benchmarking

Figure 14: Key Areas of Focus for Enabling Technologies

In terms of which technology area respondents are most focused upon, it is no surprise that many respondents (50.9%) say that they are extremely focused on the hot topic of spend analysis. Other technology areas on which respondents say they are extremely focused are strategic sourcing (40.2%) – such as project management, RFx, reverse auctions, and the like – and e-procurement (33.2%) in terms of transactions and electronic purchase orders. Those areas where a high proportion of respondents say they are still not fully focused include supplier portals (26.1%) and benchmarking analysis. (See Figure 14.)

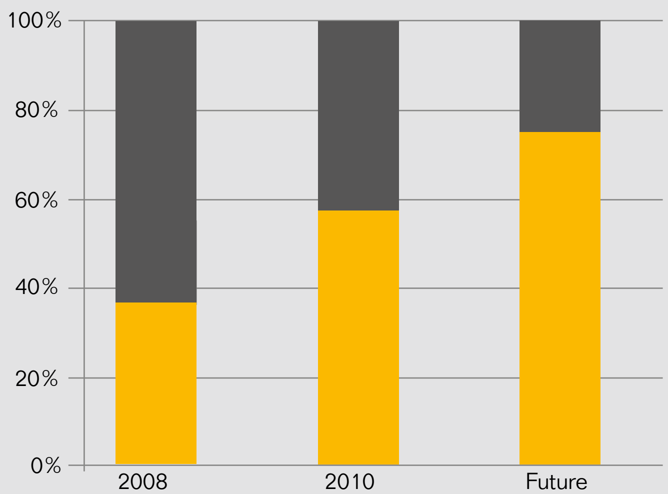
Three-quarters of respondents have an IT strategy in 2010 that includes plans to implement on-demand procurement solutions. Again, there is most interest in the area of spend analysis, with over two-thirds of respondents indicating that they would consider deploying an on-demand spend analysis solution. (See Figure 15.)

In terms of what will drive the adoption of on-demand procurement solutions, the most important factor is improved cost efficiencies, followed by the ability to deploy new systems quickly. (See Figure 16.)

Spend Analysis Now Best Practice

As already alluded to, the importance of spend analysis continues to be recognized. A majority of respondents name spend analysis as an increasingly vital modern procurement process that can provide even the average enterprise with significant gains in terms of cost savings and optimized spend utilization. As seen, organizations are also realizing the value of owning a software tool for spend data classification; over 60% of respondents employ spend analysis tools for analyzing spend in 2010, compared with 40% who did so in 2008. In 2010 three-quarters of respondents say that their purchasing departments work with the lines of business to refine sourcing targets and identify opportunities, up from just over half who did so in 2008. With complete spend visibility being key to the success of sourcing programs, it is not surprising that the proportion of respondents who say their procurement organizations have full visibility to their corporate spend data has risen from 31.3% in 2008 to 56.7% in 2010. (See Figure 17.)

On-demand technology continues to grow as an important enabler for companies.



Key takeaways

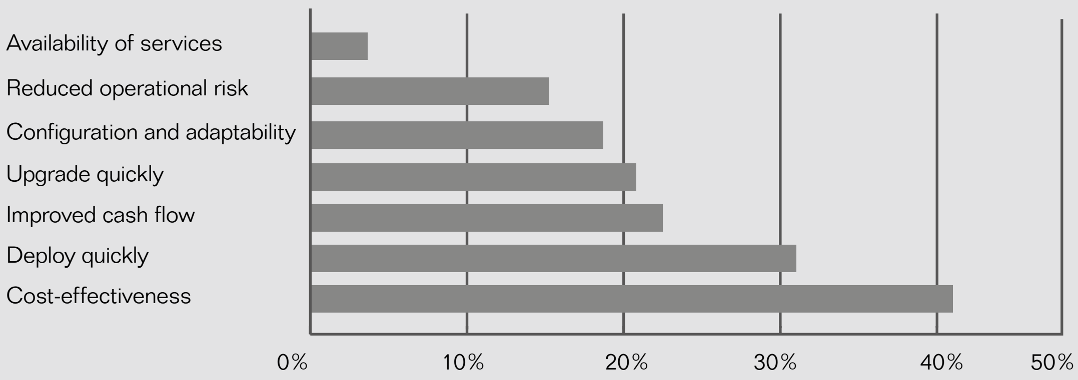
On-demand solution technology:
- In 2008, less than 33% had or would use it
- In 2010, more than 57% have or will use it
- In the future, more than 75% intend to use it

The most highly identified technology areas for on-demand procurement include:
- Spend analysis
- Sourcing
- Supplier scorecard and performance management
- E-procurement

We have/will use
We have no plans

Figure 15: On Demand as a Key Deployment Model for Enabling Procurement Quickly

Cost-effectiveness is a primary driver of on-demand technology.

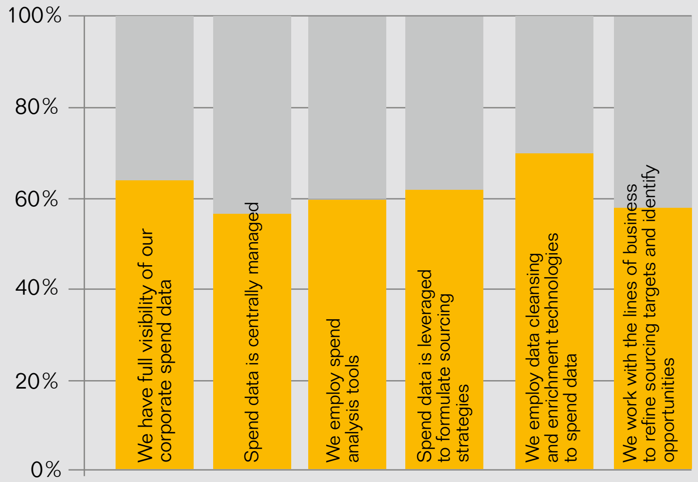


Key takeaways

- More than 44% of respondents identified cost-effectiveness as the top benefit of on-demand technology
- Other top areas:
  - Ability to deploy quickly: 32%
  - Improve cash flow: 23%
  - Upgrade quickly: 21%
- Surprisingly, the availability of services was identified as the least-important area (7%)

Figure 16: Key Drivers of On-Demand Deployments

In 2010, over 75% of companies leverage spend data to formulate sourcing strategies.



Key takeaways

- Spend analysis tools:
  - In 2008, less than 40% employe spend analysis tools
  - In 2010, more than 60% are using spend analysis tools
- Spend data visibility:
  - In 2008, less than 32% had full visibility to spend data
  - In 2010, more than 56% have full visibility to their spend data

Figure 17: Using and Managing Spend Analysis

In a wider sense, spend analysis has become critical to measuring procurement's overall impact on the business. In this regard, it has moved beyond a one-off strategic sourcing kickoff activity and has matured into a best practice for any efficient organization that wants to track its spend management KPIs.

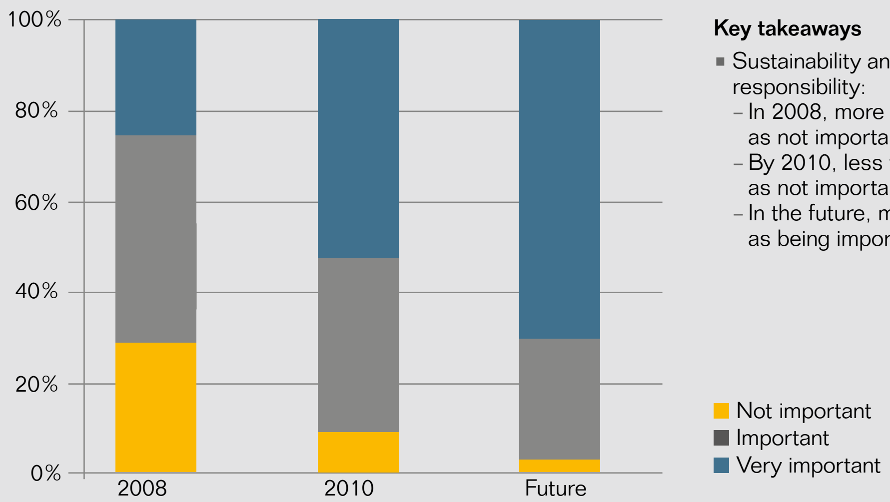
Sustainability and Corporate Social Responsibility

Despite the intense operational pressures under which many companies have found themselves during the last two years, the two issues of sustainability and social responsibility continue to grow in importance for the vast majority of companies. Only two years ago, in 2008, 27.6% of respondents still rated these issues as not important. In 2010 that proportion has dropped to 7.7%, meaning that 92.3% of respondents currently see them as either important or very important. This figure rises to 97.7% for the future. (See Figure 18.)

The need for suppliers to take these issues seriously is also increasing. In 2008 only one-third of companies required their suppliers to sign a responsible procurement policy. By 2010, only one-third do not require their suppliers to agree to such a scheme. Over 90% of respondents say that in the future, their suppliers will be required to sign a responsible procurement policy. Over one-quarter of respondents (28.5%) say that suppliers have already been dropped due to poor sustainability or corporate responsibility performance. (See Figure 19.)

The vast majority of these policies (over 80%) include a code of ethics or business integrity, environmental issues, and health and safety issues. Despite the fact that 61.5% of companies have a member of the board leading these issues, however, and 60% say their CEO or management team recognizes them as a key competitive driver, just over half of companies still allow their suppliers to self-evaluate and fill out a survey, while more than one-fifth still do not perform any auditing at all of their suppliers when it comes to their sustainability and corporate responsibility practices. Respondents recognize that sustainability policies could actually favorably impact the bottom line (and not just protect brand value) but that executives would look for proof points before making significant investments in new projects. (See Figure 20.)

These topics continue to grow in importance independent of operational pressures and the sluggish economy.

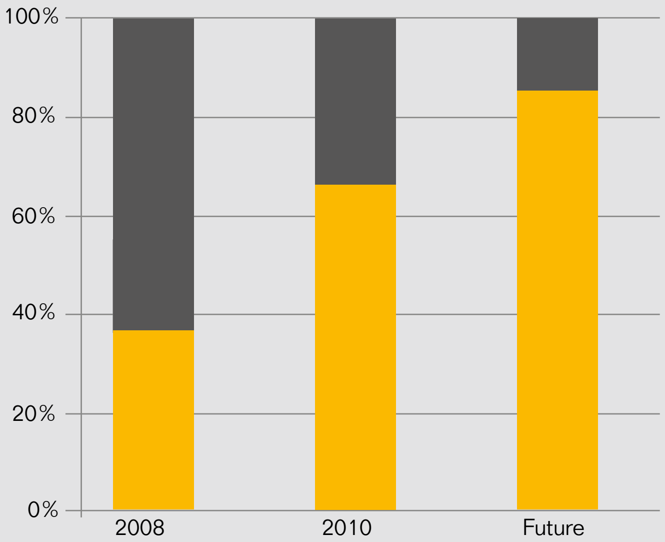


Key takeaways

- Sustainability and corporate social responsibility:
  - In 2008, more than 27% identified as not important
  - By 2010, less than 8% identified as not important
  - In the future, more than 97% see as being important or very important

Figure 18: Importance of Sustainability and Corporate Social Responsibility

In 2010, over 65% of companies require suppliers to sign a responsible procurement policy.

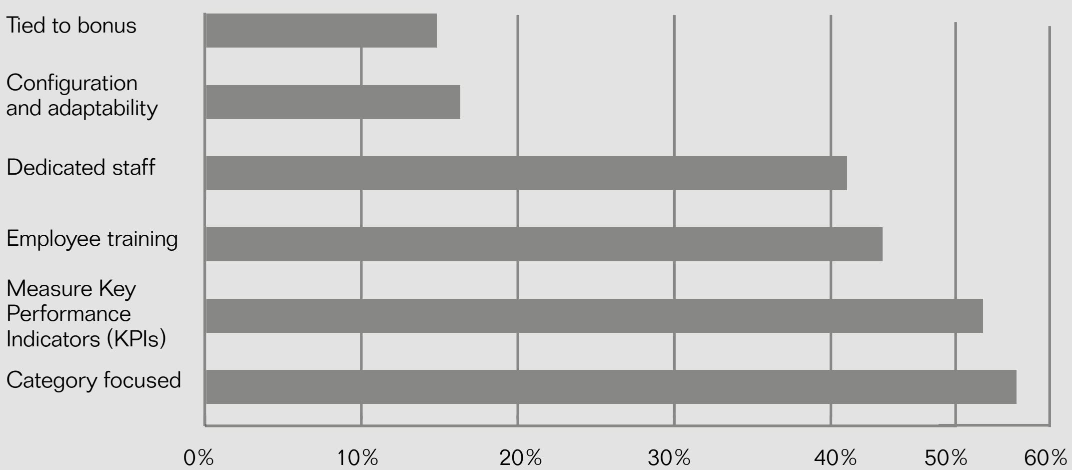


Key takeaways

- Responsible procurement policy:
  - In 2008, less than 36% required suppliers to sign
  - In 2010, this has reversed itself to over 65% requiring suppliers to sign
  - In the future, more than 90% of companies plan to require suppliers to sign
- More than 25% of respondents report that they have dropped suppliers due to poor sustainability and corporate social responsibility

Figure 19: Importance of Inclusion of Suppliers in Sustainability Initiatives

Focus has increased on sustainability measurement, impact, and training.



Key takeaways

- More than 58% of respondents have cross-functional teams focused on the impact of specific categories
- KPI measurements and employee training are the other top areas
- More than 40% have dedicated procurement staff focused on sustainability and corporate social responsibility

Figure 20: Measurement and Impact of Sustainability and Corporate Social Responsibility

CONCLUSION
CHALLENGES AND OPPORTUNITIES

As procurement transforms itself in preparation for the future, there is a renewed emphasis on the strategic importance of procurement across the organization and its impact on creating business value. As part of this major transformation, there are also significant organizational changes occurring toward a more centralized organization. And not only are procurement organizations looking to drive consistent strategies through center-led organizations, they are also looking for other skill sets in their procurement professionals. Although category expertise and procurement experience are important, the modern procurement professional will need to have executive communication skills and the ability to drive and manage change throughout the organization at many different levels.

Centralization

The need to have tighter control over expenditures and ensure that an organization's maximum negotiating power is leveraged is driving dramatic changes in the procurement organizational structure in many companies. Companies are changing to centralized organizational models to achieve a more streamlined procurement strategy as a way of impacting the bottom line and driving savings for the entire organization. There is a distinct movement toward either center-led or completely centralized procurement.

Business Integration and Collaboration

More and more, procurement organizations are considered a strategic, board-level function. With this new prominence, procurement executives are working much more closely with the business and most closely with their finance colleagues to align on business objectives, embed savings targets directly into budgets, and define standards for measuring and tracking savings. Executives agree that tight alignment with finance on goals that are iterated regularly – including profitability and goals related to cash, expense, and risk management – are all key areas for internal alignment and collaboration.

Supplier Collaboration

The importance of supplier collaboration in driving supply chain performance and optimizing processes across companies is also increasing in importance as procurement experts recognize that there are tremendous opportunities to improve beyond the four walls of their companies. A large number of organizations are engaging in proactive collaboration with their suppliers. The ability to tap into suppliers' expertise in delivering innovation as part of the critical services that they offer is becoming more and more important to the procurement organizations they serve, as those organizations look to increase their competitive advantage.

Importance of Technology in Procurement

The value of technology as an enabler within the modern procurement organization has grown rapidly. This is particularly true in the areas of spend analysis, strategic sourcing, supplier management, and e-procurement. More than ever before, organizations are seriously considering on-demand procurement solutions as they strive to meet the ever-changing business needs and to employ new strategies quickly that deliver additional value to the business. These organizations are also looking to drive innovation through more intense collaboration with their strategic suppliers. They view suppliers as experts in their fields who can help them to achieve competitive advantage.

Modern Procurement Organizations

It is clear that modern procurement executives understand that to achieve corporate business objectives, collaboration across the business is an imperative. They also recognize that working with finance to set budgets and savings targets and to align on process improvements is critical to delivering value to the business. As we've discussed, the skill sets of the modern procurement professional will need to include an arsenal of executive communication skills, strategic thinking, and change management as well as purchasing and category expertise.

Find Out More

To learn more about how SAP can help optimize your organization's procurement strategies, please contact your SAP representative or visit us on the Web at www.sap.com/procurement.

About the Procurement Leaders Network

The Procurement Leaders Network is an international membership-led community focused exclusively for executive-level procurement, sourcing, and supply chain management professionals. The network acts as a catalyst to spearhead innovation, leadership, and strategy and has been developed in support of its members' growing global remit. It delivers high-quality insight and perspective on today's most critical corporate issues while providing members with new ideas, approaches, and strategies to meet their current and future business challenges. For more information or to become a member, please visit www.procurementleaders.com.

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An SAP survey conducted in association with the Procurement Leaders Network

The characteristics of "influencing and executive communication skills" and "change management abilities" were both ranked more important than the characteristics of "category knowledge and experience" and "solid track record of procurement experience" when it comes to key requirements of a modern procurement professional.

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