



cutting through complexity

Harnessing the power of procurement

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Key findings from KPMG's Power of Procurement 2.0 Survey

For today's procurement functions, a single-minded focus on reducing input costs is not enough. Evidence shows that investing in mature procurement facilities really pays off in terms of top-line growth. Companies that take a strategic approach to procurement innovate more new products, bring them to market faster and enjoy higher revenues as a result.

Building these broader capabilities requires companies to recognize the value and protection from risk that a strategic procurement approach can bring, and to invest in the skills and technologies needed to raise the bar for their internal procurement functions.

However, a 2014 KPMG survey of procurement and C-Level executives found that 73 percent of C-Level executives still do not believe the procurement function adds real value to their organization.



73% of C-level executives do not think procurement adds real value



Less than 55% are satisfied with procurement process compliance

Source: KPMG International research, Power of Procurement 2.0 Survey, 2014

How can procurement functions demonstrate value and drive corporate strategy?

KPMG's survey reveals a common perception that the value of procurement is often not credible or perceived to be aligned

with business goals. Furthermore, a frequent lack of active tracking means that few realize value even exists.

Companies can only assess the full scope of procurement's value by tracking and assessing indicators that clearly show – quantitatively and qualitatively – the procurement function's link to corporate strategic objectives and its impact on top and bottom line growth.

KPMG's procurement survey suggests few organizations go beyond collecting traditional metrics. Most respondents measure costs. But only half externally benchmark cost savings to their organizations (49 percent), while even fewer capture and compare negotiated savings (44 percent) through real-time reporting.

Measuring value

What procurement KPIs can be used to measure value?

Strategic key performance indicators (KPIs) for procurement often vary by industry and between companies. However most fail to include KPIs that capture the full scope of value – or return on procurement – such as service or product enhancements introduced by suppliers, supplier performance against corporate social responsibility (CSR) objectives, and the innovation of new services and products. According to the survey, these top-line growth contributors are not widely tracked or often even considered in the evaluation of procurement's true performance.

Managing risk

Managing risk is key to preserving and building value. How do leading procurement functions approach risk?

From issues ranging from a lack of qualified personnel, the loss of critical suppliers to pricing volatility in raw material markets, KPMG's survey shows companies surveyed are well aware of the risks they face. But few of them have developed a professional risk portfolio strategy to proactively mitigate. Most do not have a systematic breakdown of their risks that assesses risk in terms of probability and potential damage or that segments their supply base by vulnerability or risk type.

Further, beyond their strategic suppliers, 70 percent of companies do not have a process for managing risks further upstream within their supply chains.

Companies can reduce their exposure by setting up a comprehensive risk management system that directly connects procurement value delivery with corporate objectives and overall company success. At the same time, companies should monitor and actively manage procurement and supply chain risks as diligently as other financial and operating risks.

Transforming talent

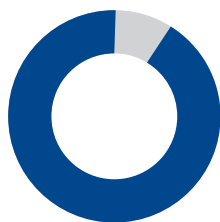
The gap between traditional procurement skills and the skills needed to perform a more strategic role is significant. How can procurement transform talent?

KPMG's survey shows few companies benchmark procurement training needs against revenue generating functions. Only half use external trainers to help their procurement people keep up with changing practices and industry dynamics.

The result is that other stakeholders in the company do not engage with or appreciate procurement's role in value delivery:



60% said stakeholders do not usually ask procurement to help them achieve their objectives



Less than 10% of businesses strongly agree that procurement affects transformative changes



28% do not think the procurement function has strong business strategy and management skills



Over 45% state that procurement is not asked to train other functional personnel in commercial matters

Source: KPMG International research, Power of Procurement 2.0 Survey, 2014

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To turn this around, procurement organizations must develop a comprehensive talent management strategy and clearly communicate its return on investment. This means identifying skills gaps and engaging the right resources to fix them, investing in training and highlighting its benefits, and targeting the best people with the right competencies for the future of the profession.

The technology pay-off

How can procurement take up a more strategic role in the face of expectations to do more with less?

Procurement functions can boost their strategic capabilities with integrated procurement technologies. But KPMG's survey shows investment in these technologies remains low and training is typically limited, even though upgraded technological skills are acknowledged as important for advancing the careers of procurement staff.

High performing procurement functions are developing procurement technology strategies which tackle the challenges of business digitization head on. Doing so allows them to think beyond the limitations of their current systems landscape and internal data limitations to reap the benefits of cloud technologies, data analytics and other powerful and readily available new tools and technologies.

To find out more about the impact of these trends on your organization and potential strategies for response, please contact us at globalprocurement@kpmg.com or visit kpmg.com/Procurement.