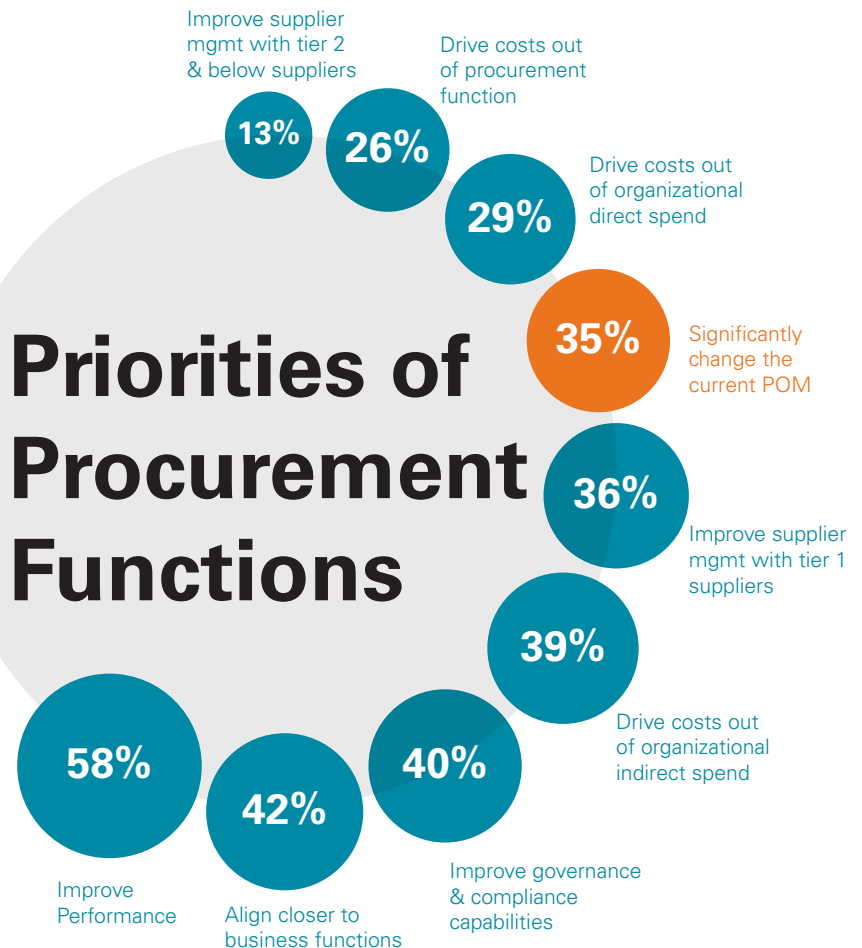




Bargain hunter to business partner: **The monumental opportunity facing procurement**

Key findings from KPMG's Procurement Advisory Pulse Survey

The appetite for strategic and operational change within the Procurement function is expected to grow over the next 1-2 years. According to a recent KPMG survey, Procurement organizations continue to prioritize a focus on more traditional value delivery and compliance improvements to drive impact to the enterprise. While lower on the list of priorities – and what may often be overlooked – strategic transformation including a change in Procurement Operating Model (POM) can be a key driver to realizing those higher ranked priorities and more.



Source: KPMG International, Procurement Advisory Pulse Survey, 2014

Evolving procurement operating models

Centralized versus center-led procurement – Hybrid models gain the benefits of both.

As procurement within many organizations evolves from a dispersed and often disconnected cost center function into the role of strategic business partner, many companies adopt more **centralized procurement operating models** in order to leverage **increased purchasing power** and **greater economies of scale**. In the next phase of evolution into a strategic source of value, the pendulum often swings again toward decentralizing activities – creating a new **center-led model** that is **more nimble** and **more responsive** to local business needs.

A recent survey of Procurement Advisory professionals across KPMG’s global member firms shows a strong trend toward the adoption of both centralized and center-led models. The survey also suggests **outsourced procurement and hybrid procurement operating models are gaining traction** among the more mature procurement functions.

“A hybrid procurement operating model may offer the best results, by balancing business proximity with purchasing power leverage.” says Samir Khushalani, Americas Practice Leader for Procurement Advisory.

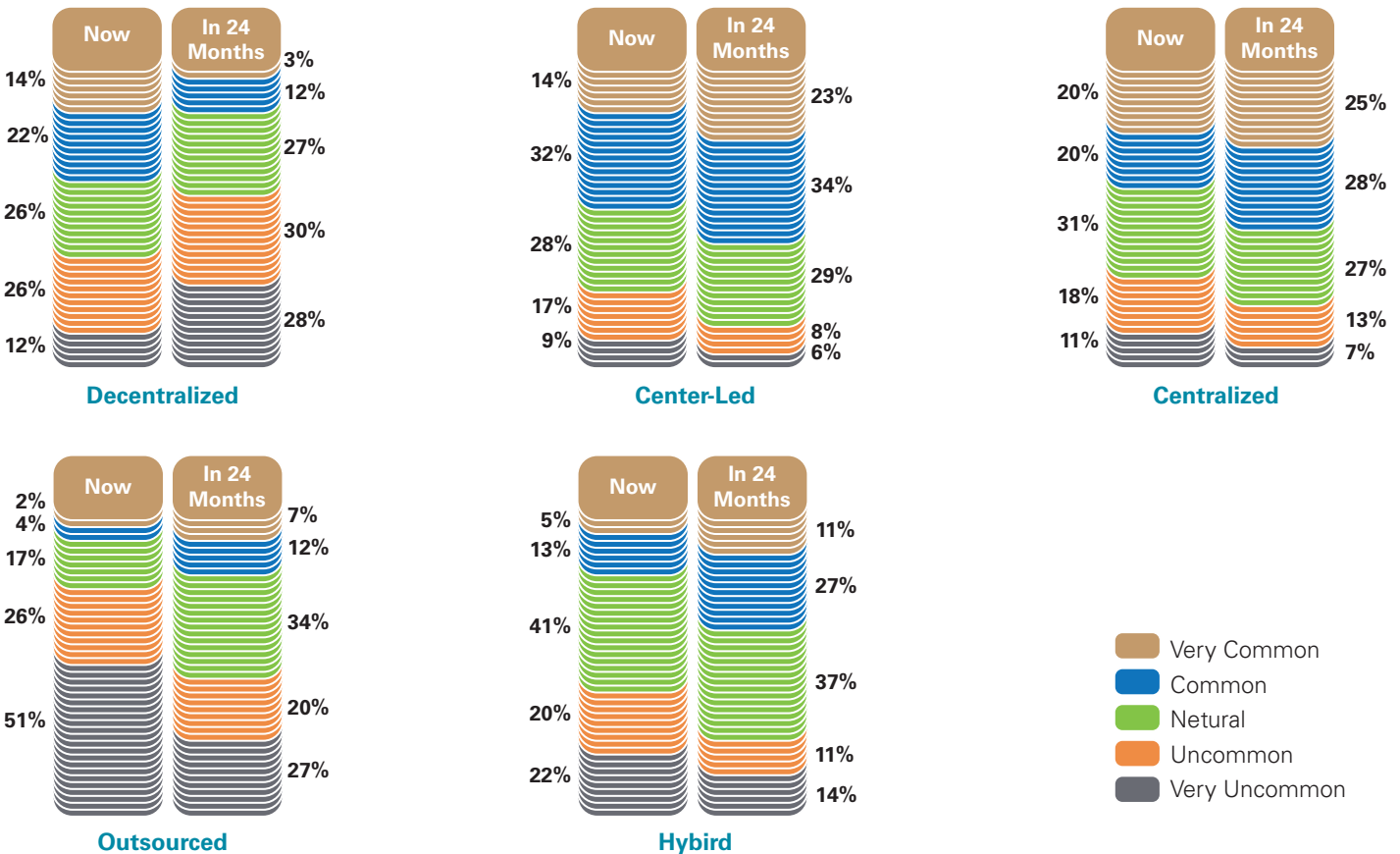
“Hybrid models take a more structured approach to category management by recognizing the differences across categories of spend” Khushalani explains. “Categories may be managed locally, regionally, or enterprise-wide depending on factors such as strategic importance, commonality/uniqueness of requirements, and nature of the supply market.”

Furthermore, “hybrid operating models – along with a renewed focus on core capabilities and market power – are enabling leading-edge corporations to leverage ‘Smart BPO’ and procurement alliance approaches to unlock even further value” says Christian Rast, Head of KPMG’s Global Procurement Center of Excellence. “As organizations maximize internal value delivery through category management and process optimization, leading procurement functions are looking externally to drive further synergies and economies of scale.”

Ultimately, the **optimal procurement operating model** for any given company significantly depends on **industry and market forces** for its critical categories of spend. For example:

- For financial services companies struggling with a complex and dynamic regulatory environment, **risk management** is front and center, and may affect the need for centralized and scalable procurement process design and configuration.
- For high-growth companies in the digital economy, cost of procurement may be less important than the **speed** and **agility** afforded by a more decentralized approach.

“Each model provides value and offers its unique set of benefits and constraints. But no single model can deliver its particular benefits indefinitely,” says Khushalani. “Savings may erode over time. As behaviors become ossified and repeated, savings become unsustainable. Continued savings require a periodic assessment of the operating model. And as organizations transform, the benefits of past models are typically retained as procurement evolves into its new structure.”



Source: KPMG International, Procurement Advisory Pulse Survey, 2014

Managing risk and compliance

Managing risk is also key to preserving and building value. How are leading procurement organizations approaching risk?

Enhanced risk mitigation, governance and compliance continues to be a high priority for procurement. From continuously evolving regulatory and due diligence requirements to more traditional issues related to the lack of qualified personnel, the **loss of critical suppliers** or **pricing volatility in raw material markets**, the Procurement function must be capable of managing a wide range of new challenges and disparate risks. However, KPMG's survey shows that **current risk management capabilities** and **comprehensiveness** rank **moderately** at best.

KPMG's recent survey found that while comprehensive due diligence on even the most strategic suppliers is inconsistent, even fewer procurement teams maintain a **systematic breakdown of risk exposure** that assesses each in terms of **probability** and **potential damage** – or that **segments** the supply base by **potential risk types**. Even fewer companies extend risk management programs to cover **second-tier suppliers**.

John Tros, Head of KPMG's Procurement Advisory in the Netherlands observes "Leading companies are harnessing **data analytics and predictive modeling** to manage the potential impacts of short- and long-term risk trends."

Leading procurement organizations are reducing risk exposure by setting up **comprehensive risk management systems** which enable them to **monitor and actively manage procurement and supply chain risks** as diligently as other financial and operating risks.



1=Rarely/Never, 3=Sometimes, 5=Frequently/Almost always

Source: KPMG International, Procurement Advisory Pulse Survey, 2014

Realizing value

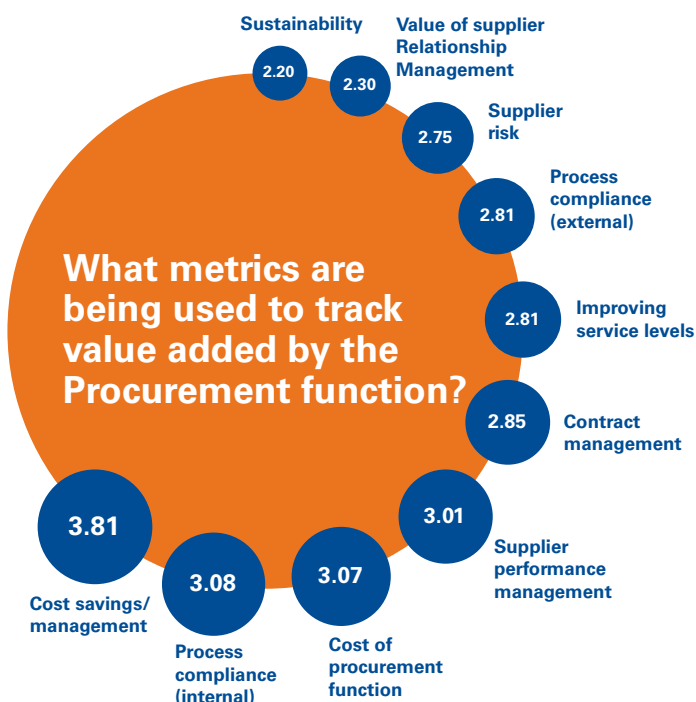
Most companies actively measure the value of the procurement function, but quantitative measures alone do not fully capture the bottom-line impact.

While cost improvement remains a top priority for value generation, less tangible benefits such as improved performance and business alignment rank even higher. Yet the value of these initiatives is not being measured or adequately captured. Because most companies continue to focus primarily on **traditional, quantitative metrics**, they fail to recognize the full value a mature procurement function can bring. In KPMG's recent survey, respondents ranked **cost and compliance focused metrics as the top 3 measures of procurement function performance**.

"Beyond purely cost savings there are other sources of value – such as cash and tax impact – where procurement can contribute significant value to the bottom line" states KPMG's Rast.

Qualitative measures that demonstrate value arising from procurement's broader influence and impact remain relatively **rare**. Such measures can be leveraged to track performance around supplier risk, supplier relationship management, sustainability, and social & environmental impact.

The survey suggests procurement groups could be taking a more **holistic approach** to measuring and communicating value. This can be achieved by developing and implementing a "**return on procurement**" measurement and assessment model. Companies can only assess the **full scope of value**



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Source: KPMG International, Procurement Advisory Pulse Survey, 2014

the procurement function adds by tracking and assessing indicators that clearly show – quantitatively and qualitatively – the function’s linkage to corporate strategic objectives and its direct impacts on both top and bottom line growth.

Real-time spend monitoring offers one way to more effectively capture, communicate and enhance procurement’s value to the organization. With higher degrees of automation and rolling visibility over the company’s spend, procurement teams can significantly **improve data quality and security**, while enabling **live monitoring and user-specific dashboarding** to make decisions more quickly, strategically and with greater impact. Leading organizations take this a step further – enabling proactive budget management. By taking an active role in the budgeting process, procurement can **close process loopholes** to fully capture savings and benefits, **challenge demands** more effectively and **model the impact** of decisions. The outcome is a **closer, more efficient, visibly beneficial partnership** between procurement and the broader organization.

According to Khushalani, procurement teams will continue to focus on incremental improvements that deliver tangible impacts in cost, performance and risk mitigation. But to achieve the next level of performance and value delivery, leading organizations are recognizing that a more strategic approach – often including optimization of the Procurement Operating Model – can be key to realizing many of these improvements and maximizing their impacts. “Above all, companies need to evaluate and move towards a POM which is **best-fit to each organization’s unique positioning and configuration**. And that investment must include enablement of the innovative, communicative, collaborative and analytic skills and capabilities needed to drive a more strategic, value enhancing procurement function.”



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To find out more about the impact of these trends on your organization and potential strategies for response, please contact:

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