



cutting through complexity

High Impact Procurement Operating Models –

A Survey of Global CPOs

kpmg.com



Foreword



Procurement's journey from an also-ran, back-office tactical function to a key lever of competitive differentiation is a story that has been receiving greater attention the past several years. With an ever-increasing focus on costs, firms have begun taking a closer look at the procurement function as a driver of value and innovation. This increased focus has led to a more professional approach to the procurement function, with respect to strategy, talent, process, and tools. These themes and procurement's challenges to evolve in this changing environment have been covered extensively in prior research conducted by KPMG and other parties. However, the questions of "What should procurement look like and why?" and "How should procurement best interface with its internal customer?" have not been effectively explored. In an effort to address these topics directly, we launched this study with Procurement Leaders.

The concept of a procurement operating model (POM) would seem familiar territory for those who have watched the changing landscape closely. Like most, our original thought was to try and identify the linkages between centralized, decentralized, center-led approaches, and savings to find the "best" model. Working with our colleagues at Procurement Leaders and soliciting the input of over 400 global Chief Procurement Officers (CPOs), we sought to bring a data-driven and empirical approach to examine the rationale, selection, and implementation of their chosen operating models to answer the following:

- What operating models are being deployed today?
- How are operating models deployed "in the real world"?
- How does the choice of a procurement operating model impact results delivered?
- What are the criteria in the selection of a procurement operating model?
- What are the key lessons learned from the implementation of a new operating model?



The following pages present our results, and we expect that you will be surprised and intrigued by some of the findings. For example, as we began categorizing firms according to their model, it became clear that there was in fact no “pure” example of any of the models among our respondents. Each of the firms that self-identified as “centralized” or “center-led,” etc. showed characteristics of other models. One of the more intriguing insights may be that the target operating model may not be a “target” at all, but rather a reflection of the procurement strategies a firm is seeking to operationalize. To that end, a firm’s operating model is not a destination, but rather a point in a continuum that changes with the firm’s strategic focus. That it is the change itself that stimulates savings is another surprising and critical insight as, regardless of the model, there is a degree of atrophy that sets in over time. But change does not mean destruction, as we saw evidence that the valuable aspects of the previous operating models are often retained even as firms transform and transition from one model to another in reaction to their perceived needs and behaviors.

We believe that the message of focusing on aligning the procurement operating model with the overall corporate strategy is consistent with our view of leading practices. It is with this view that we encourage you to apply the lessons learned from this research to the unique needs of your procurement organization.

Samir Khushalani

US Practice Leader, Procurement Advisory
Strategy and Operations
KPMG LLP

Femi Obi

Director, Procurement Advisory
Strategy and Operations
KPMG LLP



Contents



01

Executive summary



03

Introduction



04

Definitions



07

Procurement journey



09

Procurement operating models do not deliver savings, but *changing* the models does



11

Current wave of centralization



16

How do we get there?



21

Conclusions and key learning points



22

Appendix I: About the research



24

Appendix II:
Procurement operating models by category



25

Appendix III:
Procurement operating models by industry sector



Executive summary

The purpose of the survey was not only to understand how different procurement operating models (POMs) worked in various organizations, but also the meaning of the terms used to describe governance structures. The findings of this report were based on a survey of over 400 procurement professionals from a range of positions, sectors, and geographies.

Section	Insight	Commentary
1. Definition	The attributes of real world operating models match the title by which they are referred, but most implementations actually incorporate a blend of operating models.	We find that there are clear variations among different models, as stated by respondents. The most important ones were CPO reporting line and strategy formation. However, the stated operating models in the study are merely markers in a broader continuum, and procurement models, as implemented in most organizations, are rarely pure and instead, tend to reflect features from various models.
	There is a spectrum of operating models; business need and functional maturity determine where on the spectrum organizations position themselves.	The differences between types of POMs can be one of business focus; the importance is not the overarching term for the current POM, but the underlying structures and the divisions of responsibility. It needs to be aligned with the corporate culture and business goals, and be fit-for-purpose with the maturity of the procurement function.
2. The procurement journey	POMs change rapidly and most organizations follow the same path. The common pathway of organization being: decentralized to centralized to 'center-led' to...	Most organizations have recently changed POMs – 83 percent having changed in the last five years. We have found that the most mature companies are tending towards a “center-led” model, which incorporates elements of both centralized and decentralized models. The starting point is often a decentralized construct that serves as a “call for action” as the organization seeks to leverage its combined purchasing power. Often, the pendulum swings to the “centralized” end before settling on a “center-led” model.
	As organizations transform, the benefits of past models are retained as procurement evolves into new structures.	The advantages of decentralized models, such as customer proximity, and responsiveness, are still retained when organizations move to more centralized structures and achieve higher levels of stakeholder satisfaction.
3. Procurement operating models do not deliver savings, but <i>changing</i> the model does	Each operating model is capable of delivering equivalent but different value to a business.	Each model provides value and offers its unique set of benefits and constraints. And there is no single answer or common destination for organizations in relation to their POM.
	No single model can sustain the delivered benefits indefinitely. A change in operating model allows the function to deliver value in new ways, enabling benefits to be sustained.	Savings delivered from a given POM can erode over time as behaviors become ossified. Repeated, incremental savings thus become unsustainable; continued savings require a regular change of POM. The transformation <i>in and of itself</i> can be said to produce wider benefits that CPOs can use to add value.

Section	Insight	Commentary
4. Current situation and dominant structures	Most firms are currently undergoing a centralizing phase.	Most organizations are aiming for a centralized or center-led POM, with over two-thirds of organizations planning to centralize their functions.
	More “mature” functions are no longer centralized, and are not aiming to be.	Most mature companies are currently center-led, but as a part of the wider trend of change, these leading organizations are not continuing this centralization to reach a predesignated end-point. Even those at the cutting edge will evolve in the future.
	The use of global category management generates more stakeholder approval.	One way to generate higher levels of stakeholder engagement, satisfaction, and support is to direct a greater proportion of organization spend through a globalized category management structure.
	Industry sectors that are more direct materials-focused are more likely to have CPOs that report directly to CEOs.	There is wide variation over the dominant reporting lines for CPOs between different sectors. There is some evidence in this research that the more direct materials-focused the business model, the more likely that CPOs will report to the CEO.
	Outsourced procurement is an option yet to be fully explored.	Few organizations make use of outsourced service providers for sourcing. As the function evolves, this ‘operating model’ could become more mainstream as procurement functions seek to outsource tactical business processes and focus on the retained strategic elements.
	What's next: More decentralization? More centralization?	There may be two paths for organizations: either decentralize in the form of center-led structures, or explore “super-centralization” in the form of procurement outsourcing.
5. How do we get there?	Transformational change is a holistic process, requiring a range of complex supporting sub-projects.	The perceived benefits of the various POMs vary. To deliver the benefits sought for the given model—and for the organization’s level of maturity—CPOs must outline a range of complex and resource-intensive projects to support the transformation.
	Change management capabilities are vital in implementing POMs and adjusting to continual change.	To help maximize the benefits from the change in the operating model, procurement organizations must maneuver through obstacles to change. Our research found that the greatest factor preventing transition is procurement’s own lack of change management capabilities.
	Despite the pressure of continual change, CPOs must be mindful of the costs of excessively fast change.	As ever, the most successful companies must weigh the costs between transforming and running the company. The pace and extent of change being introduced must respect organizational culture and capacity for absorption in order to be truly sustainable.



Introduction



The purpose of this research is to establish which POMs have been applied, how they have been implemented, and what benefits have been delivered. We begin with a list of terms commonly used to describe procurement organizational structures and use the research to establish the typical features of each.

Variations in governance structure, commercial approach, and geographic organization were measured in order to profile each of the established organizational models and discover the sequence in which they typically occur. This profiling provided us with a view of the ways in which each model can be implemented and shows the type and degree of variation between these models.

The research examines the development of the POM in the context of an emerging and evolving purchasing function; the benefits that the different models deliver, as well as potential sourcing configurations in the future.

This report is based on a survey of leading purchasing executives over the fourth quarter of 2012 conducted by KPMG LLP (KPMG) in association with Procurement Leaders.

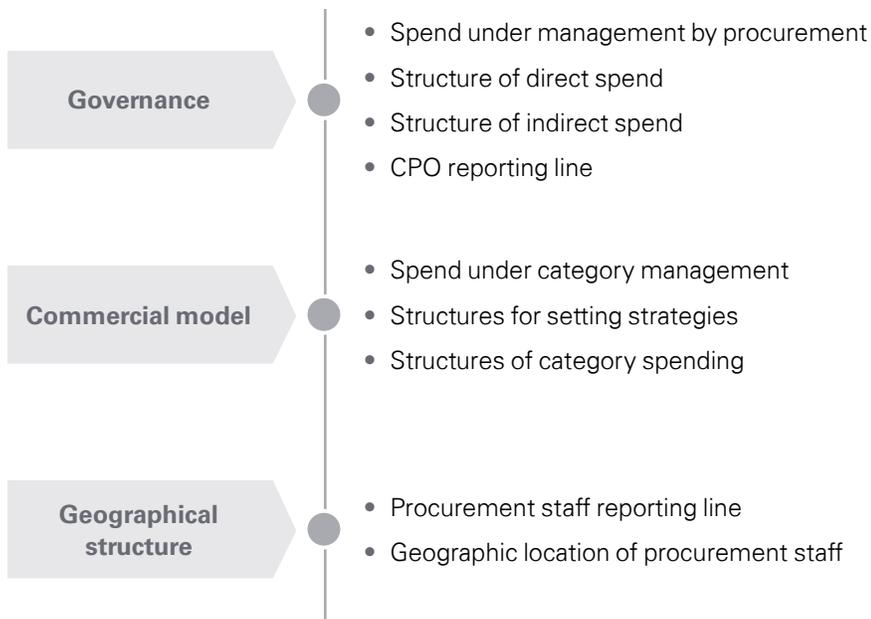


Definitions

One of the central aims of the research is to determine the meaning of many of the terms that are frequently used to describe POMs. Many procurement professionals refer to “decentralized” or “center-led” structures, but often the precise meaning of these phrases is unclear.

For the first time, we will look at the facts behind the names, and look at the difference between these models using evidence. The primary attributes that lie beneath the operating models are set out in Figure 1.

Figure 1: Attributes underlying POMs



Respondents to our survey were also given four choices to describe their company’s structure. Their options were:

- Decentralized
- Center-led
- Centralized
- Hybrid

We found that the actual operating models in use—as described by the respondents to this research—did reflect the names ascribed to them. It is expected that 65 percent of staff in decentralized organizations are based at the local business unit level. Firms self-described as centralized had 60 percent of their resources aligned to global teams. The revelation here is the wide range of configurations in which each of these models appear.

Insight: The attributes of real world operating models match the title by which they are referred, but most implementations actually incorporate a blend of operating models.

Although respondents tended to label their structures with a singular description, there are shared elements of all models. The overriding message is that while almost all organizations make use of a combination of structures, the question is which structure dominates. The differences between the operating models are often more nuanced than you might expect. We found, for instance, that even decentralized organizations still have many staff sited in a central location.

There are some key points of departure, however, within self-identified structures. In a decentralized environment, the most senior procurement officer tended to report to the COO. This may reflect the fact that decentralized models emerged from functions that were still evolving, and the purchasing arm developed from managing day-to-day

operational and project needs. On the other hand, the majority of both center-led and centralized organizations had their CPOs report directly to the CEO. In many respects, this shows that the establishment of central structures formalizes the importance of the function to meet business need. The issue for many to consider is whether it is the direct reporting line that delivers these centralized structures, or whether greater centralization requires more CEO oversight.

Insight: There is a spectrum of operating models; business need determines where on the spectrum organizations position themselves.

We see that the configuration of these departments is based primarily on business need; organizational models are made to measure, no one size fits all. Many of the centralized companies are within the manufacturing sector, where there is a greater focus on direct procurement. Hybrid models are perhaps the most flexible and may also be the most cost-effective structures, on average requiring fewer buyers to maintain this model than the alternatives.

It seems that the operating model is designed to support the sourcing activities and strategy-setting requirements, rather than these being a product of the operating model. The first question to answer in selecting an organizational model is: what type of strategy does my business need, and which operating model configuration will best support it?

Figure 2: Governance structures

		Decentralized	Center-led	Centralized	Hybrid	Average
Primary CPO reporting line		COO	CEO	CEO	CFO	Mixed
Procurement influence	No influence	27%	21%	23%	28%	25%
	Influencer	53%	62%	58%	49%	55%
	Budget holder	21%	17%	19%	23%	20%
Direct spend	Central global team	46%	57%	65%	59%	56%
	Shared service center	4%	7%	6%	8%	6%
	Local or business unit	48%	35%	27%	31%	36%
	Outsourced	3%	1%	2%	3%	2%
Indirect spend	Central global team	34%	40%	57%	41%	43%
	Shared service center	7%	13%	7%	13%	10%
	Local or business unit	56%	45%	30%	40%	43%
	Outsourced	3%	7%	7%	5%	5%

Figure 3: Geographic structures

		Decentralized	Center-led	Centralized	Hybrid	Average
Global headcount		299	161	184	159	208
Reporting line	Report to business unit	26%	14%	11%	26%	19%
	Report to business unit, with dotted line to global procurement function	28%	29%	14%	24%	24%
	Direct report to global procurement function	46%	57%	77%	50%	57%
Geographic structure	Central global team	28%	42%	59%	47%	44%
	Shared service center	5%	8%	4%	4%	5%
	Local or business unit procurement team	65%	48%	35%	48%	50%
	Outsourced	2%	2%	2%	1%	2%

Figure 4: Commercial models

		Decentralized	Center-led	Centralized	Hybrid	Average
Proportion of spend on direct goods/services		57%	54%	60%	51%	56%
Category management	Spend not subject to category management	27%	19%	25%	26%	24%
	Spend under local or regional category management	36%	26%	18%	30%	28%
	Spend under global category management	37%	55%	57%	44%	48%
Strategy formulation	Central global team	50%	64%	70%	61%	61%
	Shared service center	4%	5%	6%	5%	5%
	Local or business unit procurement team	44%	30%	22%	32%	33%
	Outsourced	2%	1%	3%	2%	2%



Action points

- Take business needs as the starting point and establish the types of strategic and sourcing activities that are required to meet these needs. Select the operating model that best supports the delivery of the necessary procurement activities.
- Configure the organizational design to the exact needs of your business; there are not just three or four options – there are many permutations.



Procurement journey

We have seen the evolution of most organizations follow the same course: one of increasing control by procurement through centralized operating structures. Centralization brings obvious benefits, but once centralization has occurred, the benefits are known to fall off quite rapidly, so what is next? We found that after a period of full centralization, there is often a correction applied to the organizational structure, manifesting itself as a shift to a center-led structure.

We also found evidence that as organizations progress through these phases, the benefits of previous models are retained. The journey is not so much a cycle through alternative structures, but an accumulation of features and benefits.

Insight: POMs are in a period of rapid change and most organizations follow the same path. The proposed pathway of organization being: decentralized to centralized to “center-led” to...

In many companies, purchasing is still finding its feet, with CPOs representing a relatively recent addition to the corporate title roster. Even for those more established functions, there are innovations in methodology requiring a change in the operating model. For instance, the introduction of category management, for one ex-CPO is “the most complex business process an organization will undergo.” This requires substantial work in stakeholder management, strategic planning, and organizational redesign.

For many in procurement, the function appears to be in permanent transition, with its identity and role changing frequently. For those believing that procurement is a function marked both by its relative youth and its perennial state of self-transformation, it would appear that the evidence supports their perception. Our data shows that most organizations have recently undergone a change in POMs. Four-fifths of surveyed organizations have experienced transition in the last five years. Just under half have changed in the last year. This is consistent for almost all legacy models.

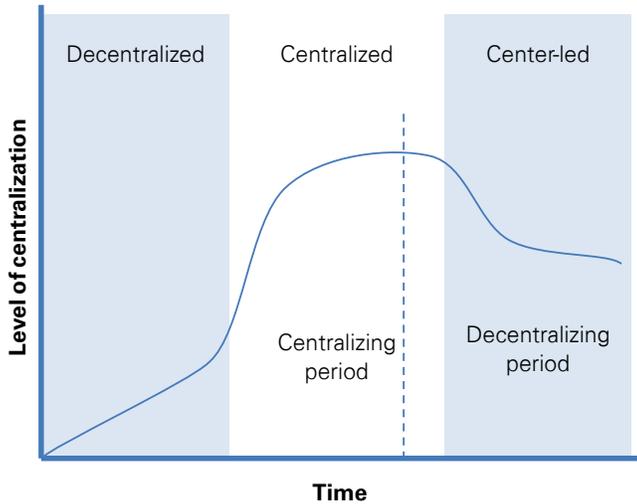
The transition that appears to be experienced by many is an oscillation between two trends. Firstly, there is a *centralizing* phase, where more spend is under management, with the organization aiming for a centralized structure. Secondly, there is evidence of a *decentralizing* phase, as this moves to a more center-led structure.

Center-led functions can enjoy the benefits of standardization and control that comes with centralization, while engaging directly with stakeholders and ensuring compliance at the local level. Those organizations adopting center-led structures are the most recent to have changed, with most such companies having solidified their model within the last twelve months. Recency of implementation is strong evidence that center-led structures are at the cutting edge of procurement thinking.

But, as we shall see later, this is not necessarily the final destination for current or future organizations.



Figure 5: Procurement journey

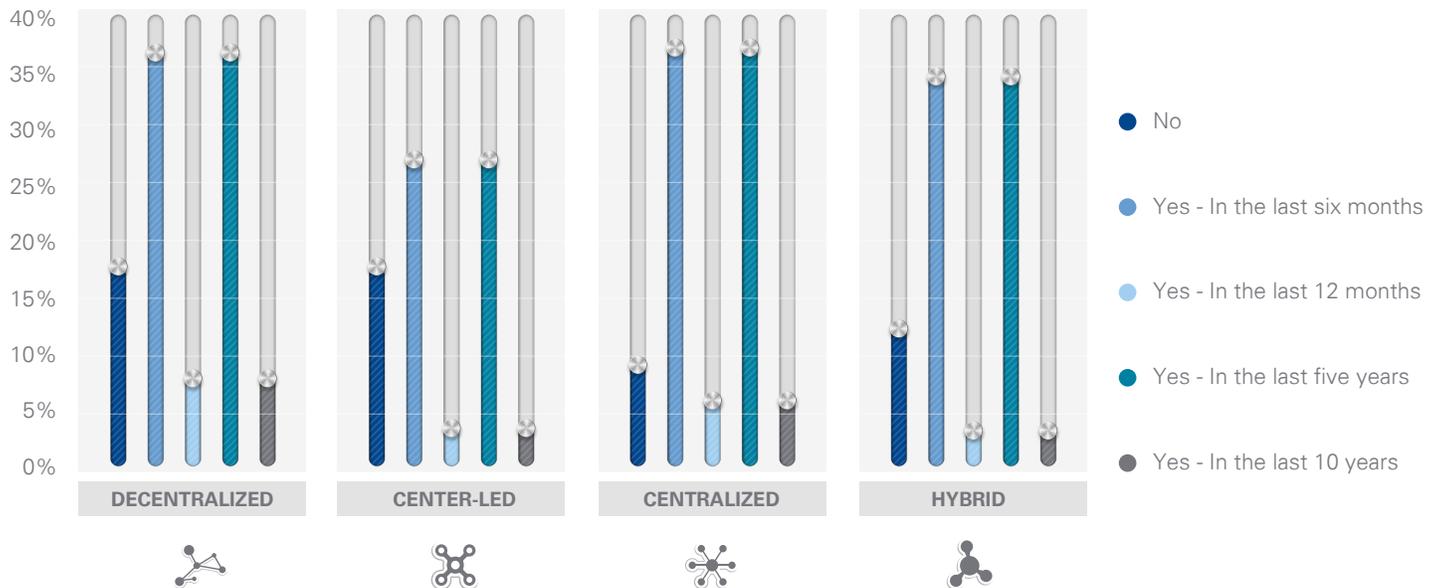


Insight: As organizations transform, the benefits of past models are retained as procurement evolves into new structures.

As touched on previously, the outcome of companies progressing through their procurement journey resembles a steady accumulation of capabilities, as opposed to a trade-off between alternative models. As companies progress from decentralized to more centralized structures, they do not lose the benefits of being decentralized (such as stakeholder proximity and responsiveness). Rather, these qualities are retained as firms centralize procurement activities.

To validate this, we asked respondents about the expected benefits of their procurement operating model. From a total of six benefits,¹ the profile of the attributed value of each model tended to be similar, in the view of our survey participants.

Figure 6: Has your organization changed its POM recently?



Decentralizing organizations were expected to be coupled with an average of 2.9 benefits (with the priority resting on greater savings). Those moving to a centralized model expected 2.6 benefits, with an emphasis on greater alignment with stakeholder needs. Organizations moving to center-led structures focused upon higher levels of operational efficiency.

Despite the variation of emphasis, there was still a broad scope in expected benefits. This underlines the point that we saw in Section 1, that although the definition or label of the structure is critical; rather it is the specific benefits which deliver particular business needs which are important. The question was not so much of the breadth of benefits, but the emphasis on which particular benefits were associated with specific operating models.

¹ These consist of:

- Greater savings
- Greater alignment with stakeholder needs
- Higher levels of operational efficacy
- Higher revenue
- Higher profits
- Tax efficiencies



Action points

- Most companies start from a legacy of decentralized structures, which a nascent procurement function seeks to consolidate in the center. This seems to give way to a second wave of decentralizing, leading to center-led models.
- As organizations cycle through different POMs, they do not lose the benefits of past models.



Procurement operating models do not deliver savings, but changing the models does

Given that operating models are numerous and fast changing, charting the change of an organization's structure is an important means for leaders to exert their influence over the business outputs. With respect to procurement, our findings show that for CPOs, the *changing* of an operating model can be just as important as the final output.

Insight: Each operating model is capable of delivering equivalent but different value to a business.

The levels of reported savings—which is the main metric of note for most procurement professionals—do not vary greatly between different procurement models. The average level of annual savings appears to stand at 6 percent for all organizations.

We also correlated the reported savings to our behavior variables. We detected no significant or strong correlations. This indicates that there are no “quick wins” when it comes to POMs. Savings can be generated in a variety of different configurations and levels of maturity.

The lesson here may be due more to the limited results from a savings-driven approach. Eventually, any new sourcing methodology, or for that matter a new POM, will reach a point at which savings are no longer available. To reduce costs in future years requires more effort and input from buyers as low-hanging fruit depletes.

This underscores the importance of the wider benefits that procurement can generate for the business. Once prices have dropped to their lowest point and the supply chain is as lean as it can be, buyers must look to the next level of benefits for their stakeholders. This is principally in those value-adding services and the level of satisfaction of internal customers and senior management in relation to purchasing.

Figure 7: Savings generated by different operating models

Decentralized	Center-led	Centralized	Hybrid
6%	6%	5%	6%

Insight: No single model can sustain the delivered benefits indefinitely. A change in operating model allows the function to deliver value in new ways, enabling benefits to be sustained.

Given that incremental savings are not related to operating structures, there is often no single answer that can deliver sustained cost savings for organizations. But we do see benefits from organizations' transitions between models.

Indeed, it seems as though one of the means to secure continuous savings delivered by the procurement function is through changing the structure. Although there is some evidence outside the purchasing function which indicates the negative impact on profit of excessive organizational change, this research suggests that change itself may provide benefits. In fact, our findings bear out that greater savings are to be expected as companies transition to new structures.

As part of the research, we asked CPOs about the critical factors required for successful transformation. Among the requirements such as senior management-led and stakeholder engagement, many commented on the organizational maturity needed to achieve the desired structure. Given that advanced procurement entails engaging with disparate functions and interests, the transformational process can itself accelerate the realization of the procurement and business partnership.

One executive from the construction sector described a key success factor as :

“Everyone understanding their role to play in making the transition from the old model to the new model. To understand that they will initially be operating outside of their comfort zone.”

Engaging with new stakeholders, adapting to new ways of working, and reaffirming their place within the organization can enhance the skills profile and impact of buyers. Regardless of the intended destination, the journey can be a means to grow the capabilities of the procurement function.

Figure 8: POM lever



Action points

- POMs do not by themselves deliver incremental savings. There is no single answer for an organization in finding its procurement operating model.
- Changing the POM can itself generate additional benefits and possibilities of savings delivered in a new environment. The change, *in and of itself*, can produce wider benefits.



Current wave of centralization

The trend appears to reflect an increasing bias towards centralization. In this section we ask whether this is the best approach and explore the future beyond centralized procurement.

Insight: Most firms are currently undergoing a centralizing phase.

Given all of the above indicators, we have a strong set of data which allows us to profile and compare respondents by their degree of centralization. We also identified a number of indicators to measure the impact of centralizing both strategy and execution.

As we can see from Figure 10, most organizations work on the same plane. Those organizations which are highly centralized (with a positive score) clustered around the heaviest users of global category management. On the opposite end of the spectrum (those in the minus scores and therefore the most decentralized in their structure) we have those companies which are the highest adopters in the practice known as “lead-site buying.” This is the practice whereby local sites have responsibility to buy on behalf of other sites.

There are few companies which deploy lead-site buying as their primary means for sourcing. Aside from their numerical rareness, the defining characteristic of these organizations is the large number of procurement staff which report directly to

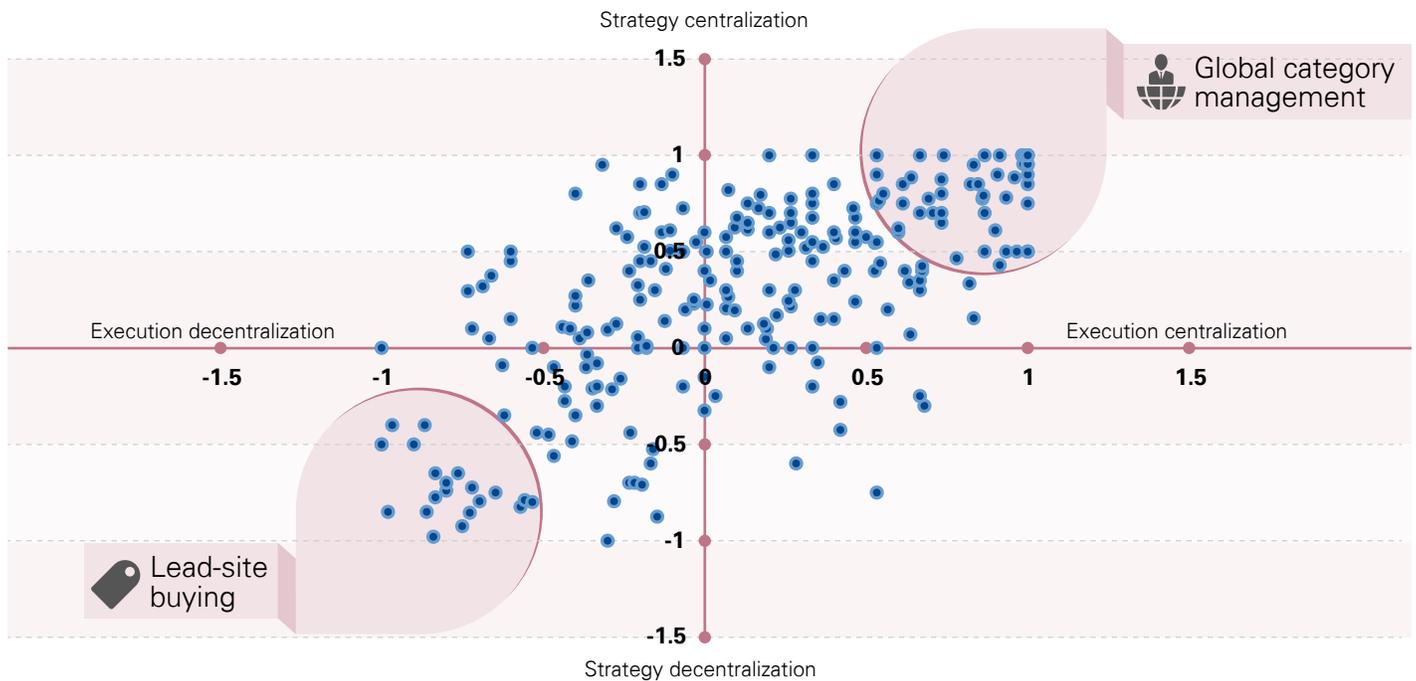
the business unit. Contrast this to those at the other end of the spectrum – the “global category managers” for which nearly their entire staff report to a central global function.



Figure 9: Geographical location and sourcing models

	Percentage allocation of procurement staff		
	Report to business unit	Report to business unit, with dotted line to global procurement function	Direct report to global procurement function
Lead-site buyers	59%	24%	17%
Interquartile	17%	26%	58%
Global category managers	2%	5%	92%

Figure 10: The degree of strategy and execution centralization of survey respondents



Insight: More 'mature' functions are no more centralized, and are not aiming to be.

A common request in this type of study is to look at the behavior of the most mature organizations. We took maturity to be those organizations with the procurement function acting as budget-holder for more than 60 percent of total global spend.

With respect to operating models, there are few detected differences between the mature companies and the general sample. In terms of spend management, strategy formation or procurement reporting lines, the most advanced functions display a similar profile as less mature companies. One of the few areas of difference were in the reporting lines of CPOs, which, for the leading organizations mostly led into the CEO-level, showing the importance of this metric within procurement.

One of the most interesting aspects of this data shows the differing trajectories of mature companies. Unlike the general sample, which is aiming for a more centralized structure, mature organizations are seeking to adopt a more center-led approach. Although the majority of strategies for advanced functions sit at the central level, most of their staff sit at the local and business unit level. This may reveal another path that less mature organizations will take, namely to disperse the procurement workforce to gain greater control over the business and ensure compliance.

That the most mature procurement organizations are seeking to move to a more center-led structure does not necessarily indicate a U-turn; just that a period of centralization has run its course, and a new structure is required to deliver innovative strategies. It seems reasonable to believe that a center-led team, postcentralization, could deliver strategies that a decentralized team could not. The center-led team will retain relationships from the period of centralization, and benefit from the complexity reduction and control the centralized team will have achieved. Given that center-led structures are characterized by a dispersed workforce, with buyers sitting among the business units and local units, but reporting to a centralized procurement function, we still see strategies set at the global level with widespread use of global category management. Indeed, these organizations enjoy the highest level of procurement influence.

Figure 11: Governance indicators of mature companies compared to the general sample

Level of procurement influence			
	Percentage of spend over which procurement has no influence	Percentage of spend where procurement is an influencer	Percentage of spend where procurement is the budget holder
General sample	25%	55%	20%
Mature functions	11%	14%	75%

CPO reporting line					
	CEO	Board	CFO	COO	Other
General sample	25%	8%	25%	20%	28%
Mature functions	53%	8%	8%	16%	20%

Figure 12: Legacy and target procurement operating model of mature companies compared to the general sample

Legacy procurement operating model				
	Decentralized	Center-led	Centralized	Hybrid
General sample	31%	21%	27%	21%
Mature functions	30%	18%	23%	30%
Targeted procurement operating model				
	Decentralized	Center-led	Centralized	Hybrid
General sample	4%	35%	33%	27%
Mature functions	5%	43%	30%	23%

Insight: The use of global category management generates improved stakeholder approval.

The research also finds that global category management can deliver substantial noncost value to the organization. Statistical testing was conducted upon all the variables to explore correlations. One of the strongest correlations found was between heavy users of category management and the levels of satisfaction for stakeholders.

Indeed, those reporting higher levels of spend through a global category management system, enjoyed higher levels of satisfaction from all presented stakeholders, namely:

- Senior management
- Procurement function
- Internal stakeholders
- Suppliers

Conversely, we found that those organizations with higher levels of spend and not subject to any category management were *negatively* correlated with levels of satisfaction from the procurement function and suppliers.

This corresponds with a separate finding which detected a negative correlation between procurement influence over spend and its ability to conduct category management. Essentially, if the function has no influence under spend, it cannot do category management.

In order for category management to be successfully implemented, the interests of stakeholders who category managers represent must be systematically monitored. Once an issue is monitored, the ability to improve and manage to targets is enabled.

As such, those organizations which make great use of category management—specifically conducted at a global level—effectively align the needs of stakeholders with procurement’s execution plan.

Insight: Industry sectors that are more direct-focused are more likely to have CPOs that report directly to CEOs.

One of the more salient areas of difference between industry sectors was around the reporting lines of CPOs. In many respects the question of the CPO reporting line is separate from that of POMs, and is considered more of an issue relating to the maturity of the function. Despite this, it is important to acknowledge that this relationship affects the overall shape of procurement's activities.

From our data, we find that CPOs operating in more direct-focused industries, such as automotive, manufacturing, and oil, were most likely to report into the CEO level. This perhaps underlines the importance of purchasing to the business model. In other sectors, procurement is a part of operations (e.g. technology and business services) whereas it tends to be a subdivision of finance in others (e.g. construction and pharmaceuticals).

As we saw in Figure 2, centralized and center-led organizations are more likely to have CPOs that report directly to the CEO. The more strategic the function is to the organization (and its importance to achieving the business plan), the stronger reporting relationships are among the most senior leaders.

Figure 13: CPO reporting line by industry sector

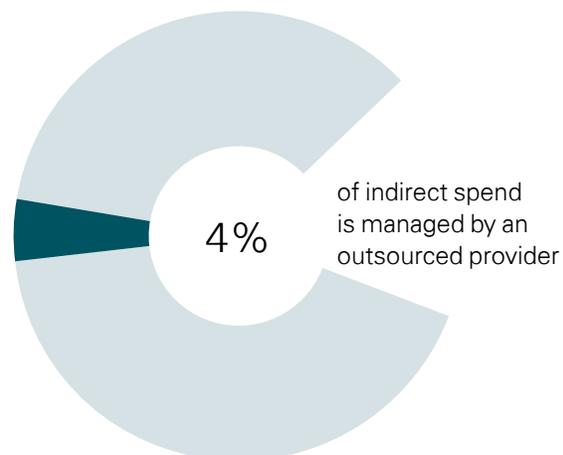
Industry sector	CPO reporting line (s)	
Agriculture	CFO	COO
Automotive	CEO	
Aviation	CEO	
Banking & Financial Services	CFO	
Business Services	COO	
Construction & Mining	CFO	
Consumer Goods, Retail & Leisure	CEO	
Defense	CEO	COO
Energy & Utilities	CEO	
Food & Beverage	CEO	
Government & Public Sector	CFO	
Logistics & Transportation	CEO	
Manufacturing & Engineering	CEO	
Media & Entertainment	CEO	COO
Oil & Chemicals	CEO	
Pharmaceuticals & Healthcare	CFO	
Technology (Software & Hardware)	COO	
Telecoms	CFO	

Insight: Outsourced procurement is an option yet to be fully explored.

Few organizations make use of outsourcing in their sourcing activities. Of the total sample, we found that only 4 percent of indirect spend was managed by an outsourced provider. Only 2 percent of direct sourcing came through a third party. (See Appendix II for more details on outsourcing per spend category.)

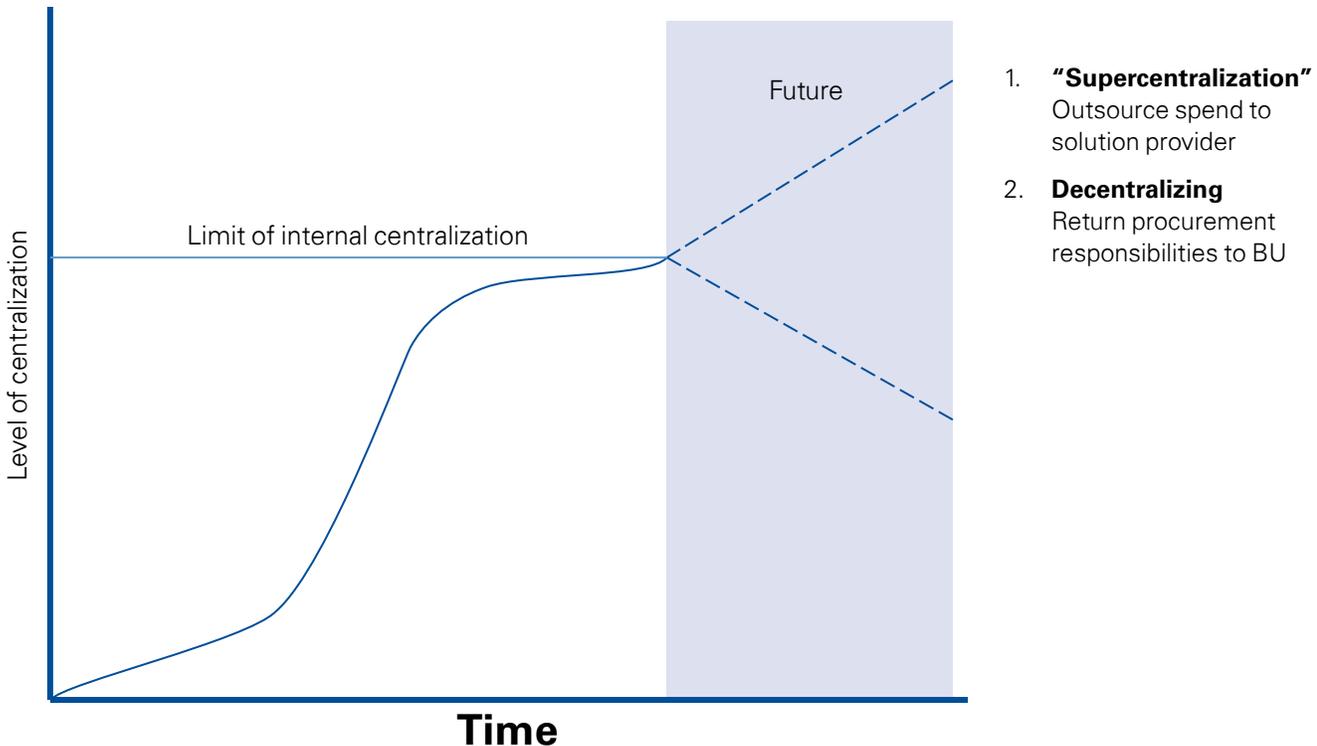
There was significant variation among the different industry sectors. The automotive sector, often regarded as among the most mature in their purchasing, actually outsources an average of 15 percent of indirect expenditure. Interestingly, however, it does not outsource any of the strategic elements, with all strategy formed internally.

This suggests that there are significant unexplored opportunities for procurement outsourcing. We may see firms increasingly adopt more third parties in spend management. This will be especially true in the indirect domain, the outsourcing of which will free resources to focus on the categories at the core of the business.



Insight: What's next: More decentralization? More centralization?

Figure 14: Future choices for centralizing organizations



Once the limit of internal centralization has been reached (e.g., all areas of spend are subject to management by a single procurement department), organizations seeking to explore new structures to deliver savings have one of two choices:

1. "Supercentralization"

Many are exploring the possibility of breaking out of the upper limits of centralization by outsourcing categories to a third-party provider. This enables organizations to enjoy the benefits of scale and market intelligence greater than their own.

2. Decentralizing

The benefits of centralization appear to be limited by the regionalization of supply markets. There are few genuinely global markets around which organizations can construct global category strategies. Having improved their information management capabilities and standardization through centralization, moving to increased decentralization better aligns with the majority of supply markets and typically means closer stakeholder relationships. These close stakeholder relationships enable the delivery of a new level of savings.

Action points

- Most companies are in a centralizing phase. Centralization does not equal maturity; the most mature organizations aim to develop a center-led model. Even those at the cutting edge will evolve in the future.
- Greater use of global category management can improve stakeholder and senior management satisfaction.
- There is still significant opportunity for companies to explore the benefits of procurement outsourcing.
- Companies must prepare for two leading trajectories of travel: "super-centralizing" or "decentralizing".



How do we get there?

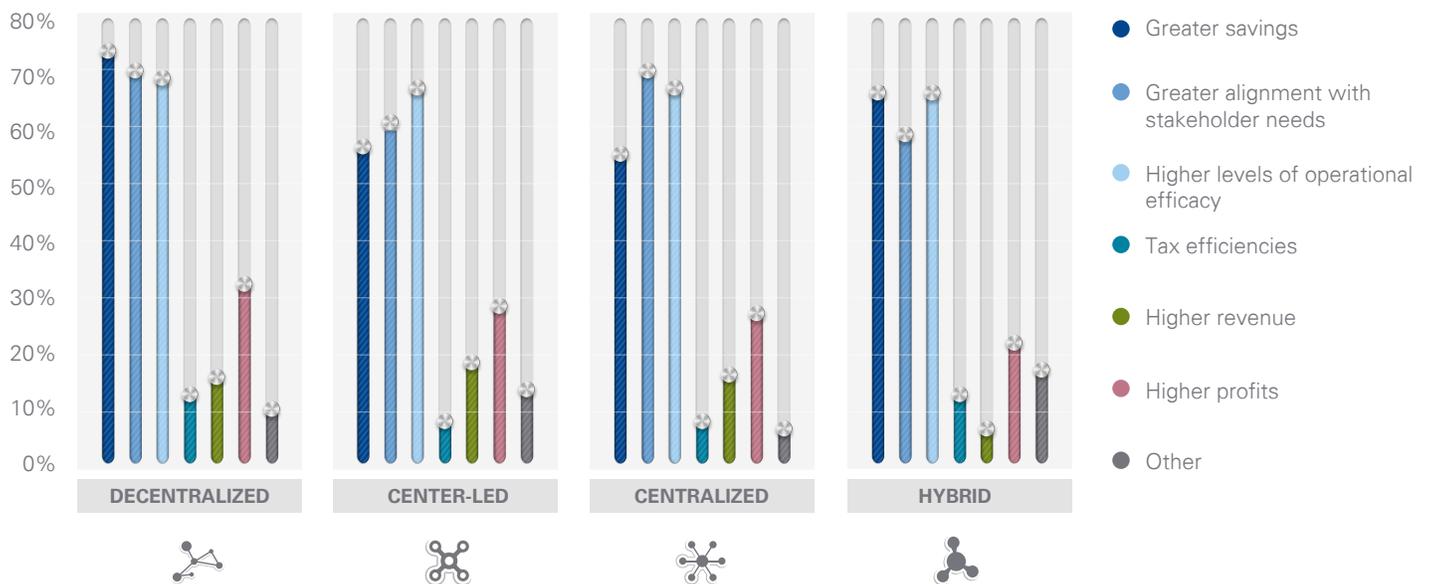
Although it is important to bear the theory in mind, there are also practical lessons that we can draw from the research. We explored the various POMs companies sought, and the required supporting projects and skills to achieve this. A key finding of this aspect of the study is the importance of aligning supporting subprojects, as well as ensuring the transition is supported by procurement’s own change management capabilities.

Insight: Transformational change is a holistic process, requiring a range of complex supporting subprojects.

Interestingly, we find that different POMs yield differing expected benefits. The purpose of centralizing the organization, for instance, lies chiefly in improving alignment with stakeholder needs. Decentralizing is expected to increase savings, and center-led models improve operational efficiency.

The lesson here is where organizations are plotted on their procurement journey: as the function matures, the relative importance of savings diminishes. The so-called “low-hanging fruit” diminish in availability and buyers seek projects with broader “value add.” Finding the appropriate model must reflect a function’s current level of capability as well as its intended destination.

Figure 15: Benefits of a POM



The work of changing the POM is difficult, requiring significant resources in time and effort on the part of procurement staff and those working outside the function. However, transformations are complex because they involve many facets, which must work in unison if the over-arching project is to succeed.

Interestingly, we find that despite the rather intrusive nature of organizational redesign, CPOs commit significant resources towards managing suppliers. This is realized through collaborative partnerships with strategic suppliers, or implementing new vendor management systems. This reflects the crucial role that suppliers have with the organization moving forward. The management of suppliers must be of upper-most consideration when altering the purchasing structure.

In terms of POMs, organizations deploy a different array of supporting projects to enhance supplier relationships. Those aiming to construct a centralized structure, start at the supply base and are engaged in supplier relationship management (SRM) or supplier collaboration. This shows that, if organizations aim to centralize, they must take their suppliers with them. One global technology firm, for instance, intends to possess four to five suppliers to service its global needs for each category. Where suppliers do not hold this capacity, that firm encourages strategic partnerships.

Companies seeking to forge more center-led structures, on the other hand, are refining their pre-existing structures. Category-specific projects lead the transition phase, as organizations seek to right-size their strategies and match their categories to the market.

Figure 16: Supporting projects required for changing POMs

Project	Number	Staff required	Duration
SRM/Supplier collaboration	19	5.3	15.5
Enhance R2P	18	64.3	19.2
Introduce/upgrade e-procurement	18	3.5	12.6
Introduce category management	17	6.3	14.1
Category-specific project	16	6.0	11.4
Globalize procurement operations/staff	14	25.1	14.0
Creating an alternative/more efficient procurement process	9	19.3	15.8
Developing a shared service	9	10.1	12.9
Organizational alignment	9	5.6	8.0
Company-wide transition	8	12.8	24.3
Spend analysis	7	3.4	6.8
Improve contract management	5	4.6	6.3
Enhance demand forecasting and planning	4	2.5	13.0
Improve risk management	4	6.5	19.0
Develop commodity strategies	3	11.7	17.0
Talent	3	50.0	22.0
Value engineering	3	6.0	16.0
Changing governance structures	2	6.5	6.0
Consolidate supplier base	2	5.0	12.0
Decentralize procurement	2	5.5	15.0
Training of staff	2	1.5	9.0
Other	32	13.9	16.7
Total/Average	206	13.5	14.6

Insight: Change management capabilities are vital in implementing POMs and adjusting to the continual change.

The main challenge to the implementation of a new POM was not a technical aspect relating to technology or sourcing methodology, but the capability of the organization to change itself. Cultural resistance is a major impediment to transitioning to a POM.

Successful transition, therefore, would place importance on the skills of leaders to persuade skeptical stakeholders on the benefits of a new structure. This is illustrated by the two quotes from the research found at right.

Repeatedly we see that many procurement professionals are struggling under competing organizational priorities (coded under the phrase “lack of organizational alignment”). This describes competing sets of KPIs within the same organization. A level of company-wide transition is required, needing strong persuasion and interpersonal skills led by procurement to navigate through this difficult stretch where there is no top-down support defined by specific objectives.

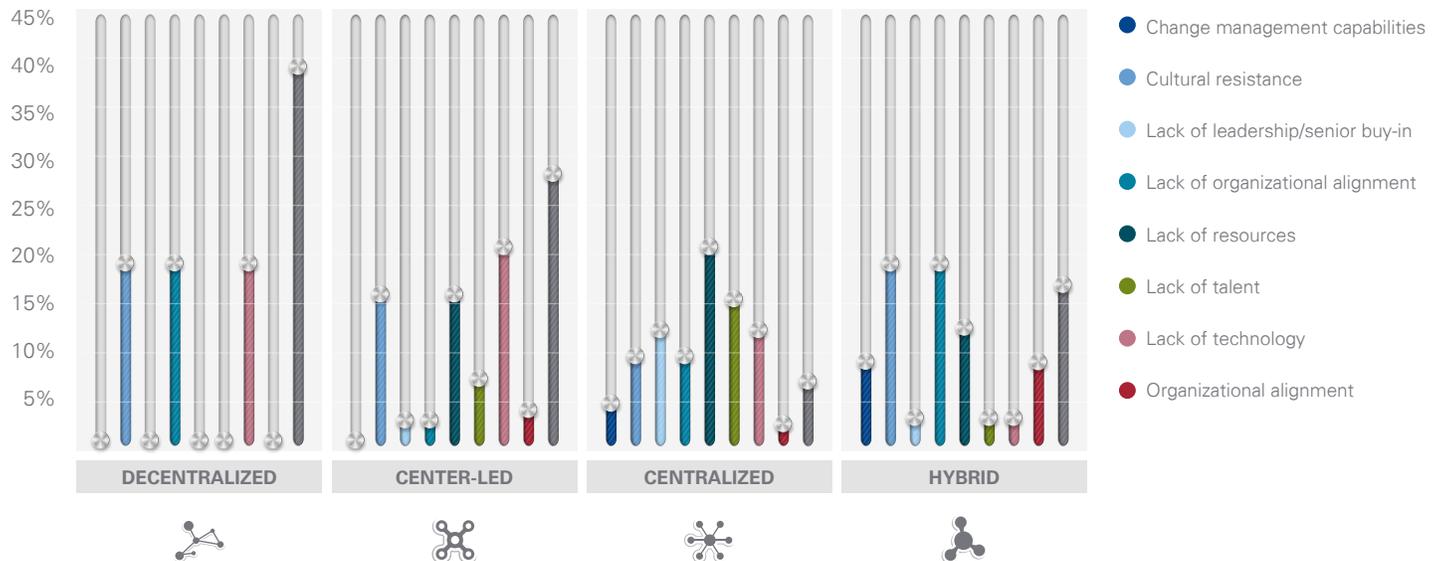
“Industrial procurement tasks usually touch emotional areas for individuals or even clash with individual expectations by some elements (mostly high-ranking executives).”

(CPO from a Germany-based publishing firm)

“Resistance to change, particularly with regards to control and reporting lines [is a major impediment]. It is very much a journey that the organization needs to be taken along on, to understand the needs and benefits for the change.”

(Head of procurement from a South Africa-based construction company)

Figure 17: Hindrances to implementing different POMs



Insight: Despite the need for continual change, CPOs must be mindful of the costs of excessively fast change.

As with all types of change, moving to a new operating model can be a complex and costly process. Although there are many stated benefits to implementing a new POM, organizations undergoing transformation must be aware of associated costs. The main threat can be moving too quickly. The role of the CPO can be partly to control the speed of implementation (see box right).

Not surprisingly, most of these costs are borne in the disruptions to the overall management of the department. In addition to the significant time commitments that such reorganizations demand of individual staff members on special projects (as we saw in the above section), there is the impact on purchasing efficiency, especially for leaner procurement departments.

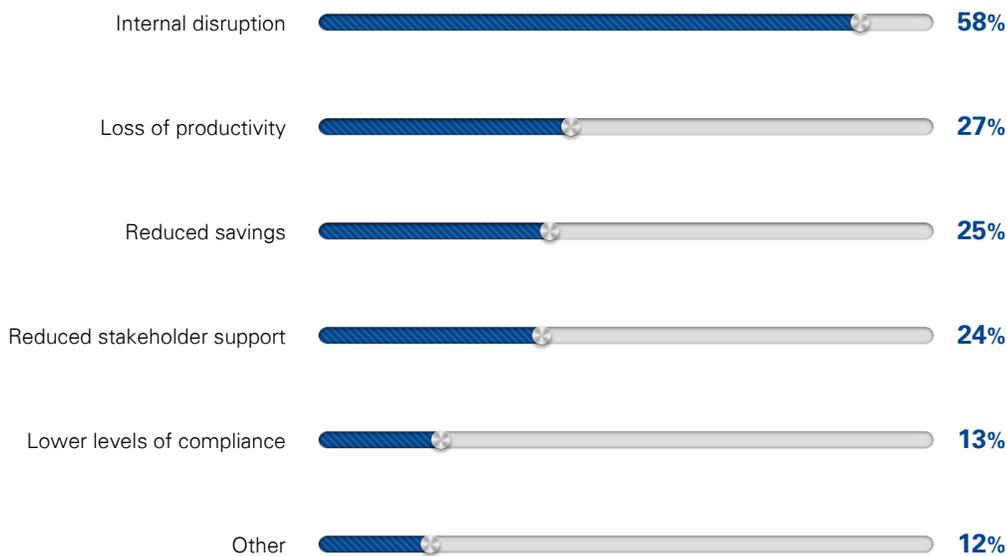
However, there may be more serious consequences to these moves. A quarter of our sample report that implementing a new structure actually resulted in reduced savings. Indeed, in the short term, large scale transitions may not only disrupt the working climate, but may also negatively impact procurement's

“Patience of purchasing staff [is a key success factor], all are keen to move forward but need to pace change to ensure full implementation, minimize lost opportunities, and avoid gaps in primary processes.”

(Head of procurement from a South Korea-based manufacturing company)

core task: cost savings. Furthermore, another quarter state worsened stakeholder relationships, undermining buyers' abilities to do business within the organization, and this may yield a long-term impact upon the function's capacity to add broader value to the business.

Figure 18: The costs of implementing a new POM





Action points

- Supporting projects must be aligned with the POM, but must also be consistent with the organization's current capabilities and level of maturity.
- Procurement's change management capabilities must be developed and honed to deliver the transition.
- CPOs must be mindful of the costs of excessively fast transition. In the short term, it can seriously affect operations and profitability.





Conclusions and key learning points

We can see in this research that POMs are tightly aligned to the evolution of the procurement function. From a past where the function was very much dispersed and disconnected, purchasing now emerges as a key influencer impacting business. This transition was accompanied by centralizing activities of buyers as procurement assumed more responsibilities.

As transition to a new model matures, the achievable savings dry up, forcing buyers to explore other avenues with which to deliver sustained value to the business. The key lessons of this study for procurement are the following:

1. Definition.

Although labels are helpful guides, they are not as important as the underlying complexity of POMs. Purchasing structures operate upon a spectrum, which needs to be aligned with a company's strategic goals and position.

2. The procurement journey.

Most organizations begin with a decentralized model, and centralize as the function matures. There are indications of a second phase of *decentralizing* as an organization evolves to a center-led model. Significantly, despite these phases, the benefits of past models are retained in the current.

3. POMs do not deliver savings, but *changing the model does*.

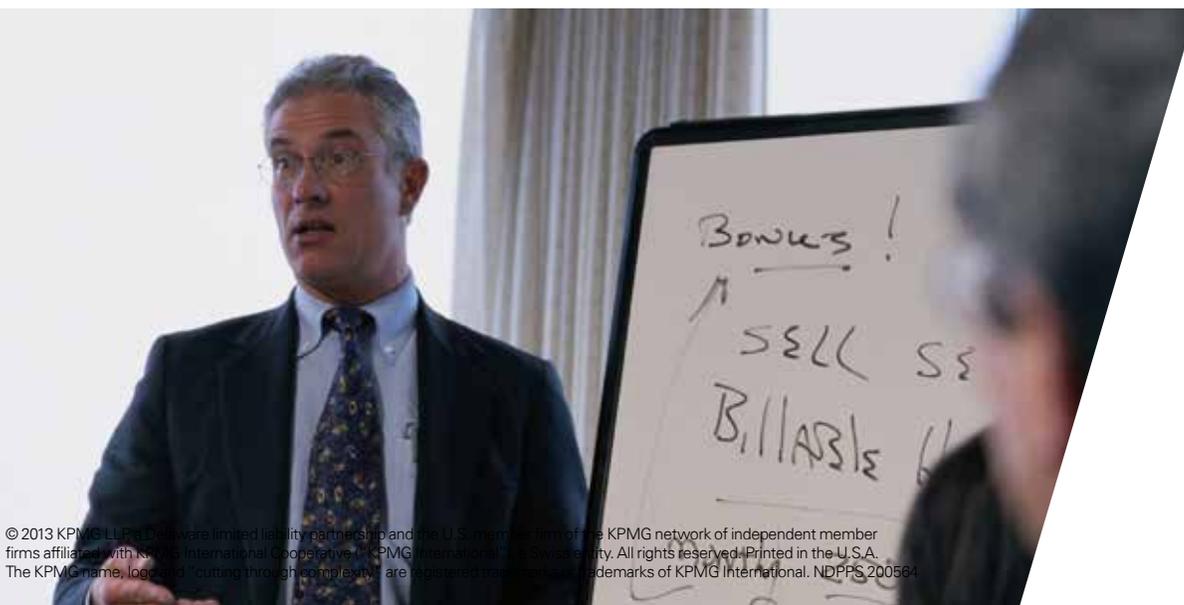
We found that the change in itself delivered sustained impact, as the savings and value generated by current models are equivalent. There is no endpoint for either POMs or companies, but rather a continuing search for value.

4. Current situation and dominant structures.

Currently, most organizations are seeking to centralize their structures, although this is not the case for the most mature, which are pursuing a more center-led model. We find that the benefits of outsourced procurement are unexplored by the overwhelming majority of organizations, which may lead companies into "super-centralization" in the future.

5. How do we get there?

Transformation is a complex process, requiring a broad range of supporting subprojects to support the function at its current stage of development. A key success factor, however, is the pace of change, which must be appropriate and calibrated to the culture of each business.





Appendix I: About the research

A total of 405 procurement professionals took this survey, which was conducted in Q4 2012. These were sampled from a range of positions, sectors, and geographies, as detailed by the graphs below.

Figure A1: Respondent by job title

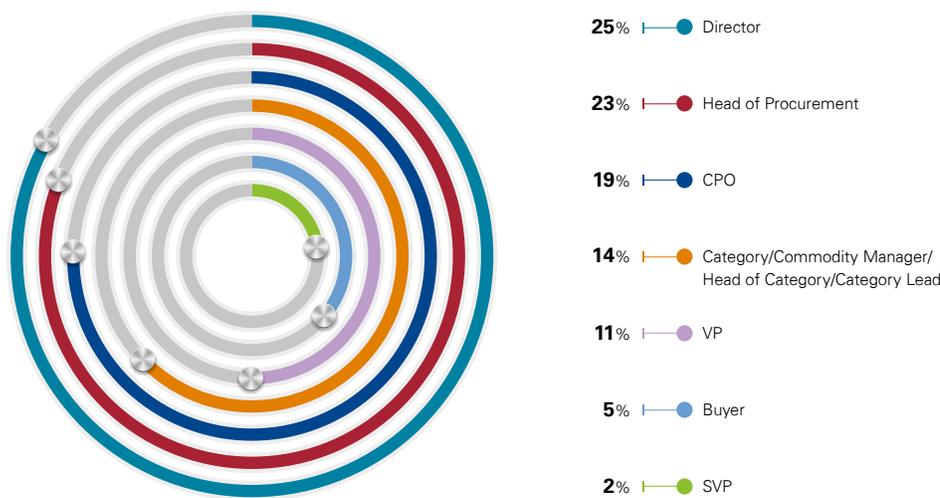


Figure A2: Respondent by country

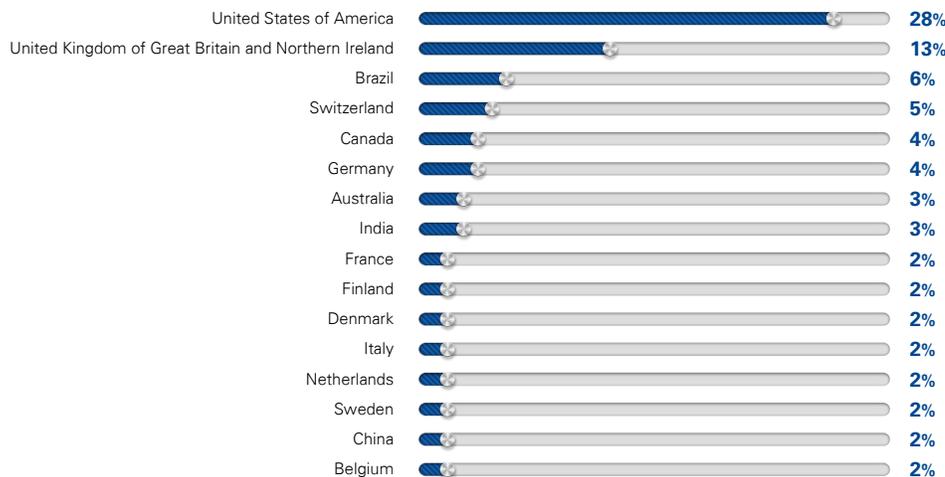
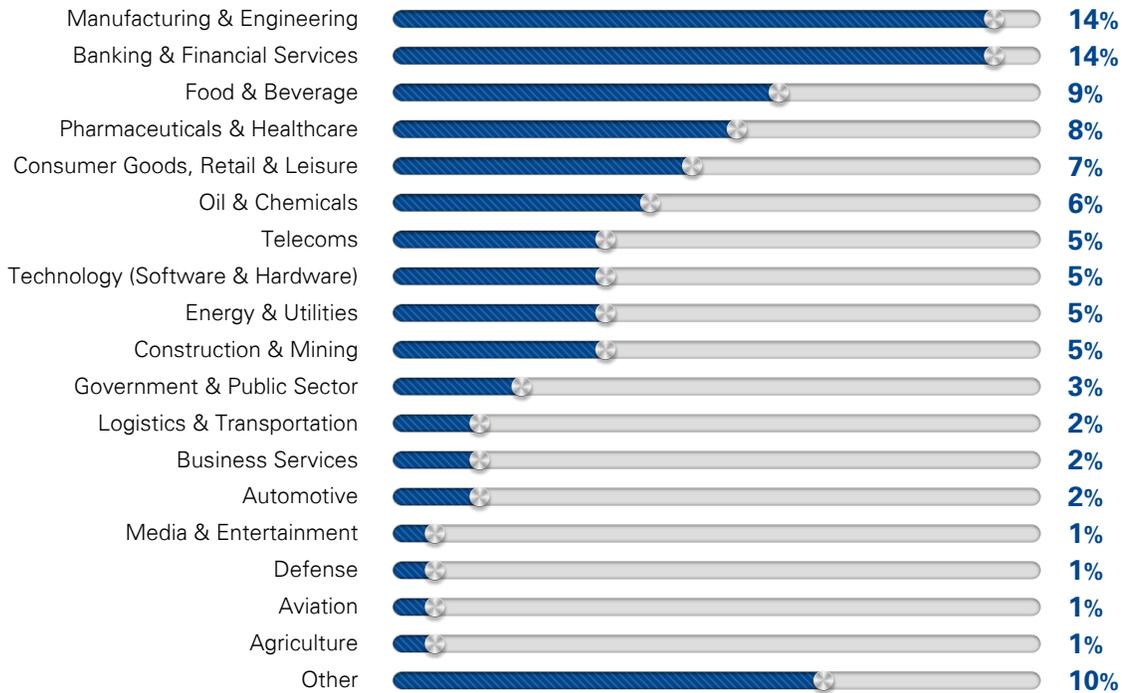


Figure A3: Respondent by Sector



Appendix II: Procurement operating models by category

Figure A4: Execution of direct category management

Category	Central global team	Shared service center	Local or business unit procurement team	Outsourced
Average	70%	2%	25%	3%

Figure A5: Execution of indirect category management

Category	Central global team	Shared service center	Local or business unit procurement team	Outsourced
Energy & Utilities	39%	9%	49%	3%
Facilities Management	33%	10%	50%	7%
HR	40%	15%	43%	2%
IT	68%	16%	15%	2%
Logistics	48%	7%	41%	3%
Marketing	46%	9%	44%	1%
Maintenance, Repair & Operations (MRO)	30%	7%	59%	4%
Print & Packaging	51%	7%	37%	5%
Professional Services	51%	11%	34%	4%
Telecommunications	59%	14%	23%	4%
Travel & Fleet	57%	13%	23%	7%
Average	48%	11%	38%	4%



Appendix III: Procurement operating models by industry sector

Figure A6: Governance indicators by different sectors

Industry sector	Direct	Influence		
	Proportion of spend on direct goods/ services	No influence	Influencer	Budget holder
Agriculture	37%	26%	59%	15%
Automotive	83%	16%	35%	48%
Aviation	55%	30%	55%	15%
Banking & Financial Services	30%	32%	63%	5%
Business Services	64%	25%	73%	2%
Construction & Mining	58%	32%	48%	20%
Consumer Goods, Retail & Leisure	55%	23%	53%	24%
Defense	81%	25%	70%	5%
Energy & Utilities	68%	26%	65%	10%
Food & Beverage	60%	20%	51%	29%
Government & Public Sector	45%	35%	61%	4%
Logistics & Transportation	71%	33%	38%	28%
Manufacturing & Engineering	65%	17%	48%	35%
Media & Entertainment	52%	33%	51%	16%
Oil & Chemicals	73%	17%	62%	22%
Pharmaceuticals & Healthcare	41%	29%	60%	11%
Technology (Software & Hardware)	61%	23%	61%	16%
Telecoms	72%	22%	65%	13%
Average	56%	25%	55%	20%

Industry sector	Direct			
	Central global team	Local or business unit procurement team	Shared service center	Outsourced
Agriculture	45%	47%	8%	0%
Automotive	59%	38%	1%	1%
Aviation	57%	40%	2%	0%
Banking & Financial Services	50%	33%	11%	6%
Business Services	34%	62%	4%	0%
Construction & Mining	42%	53%	3%	2%
Consumer Goods, Retail & Leisure	71%	27%	1%	1%
Defense	50%	36%	13%	2%
Energy & Utilities	38%	38%	19%	5%
Food & Beverage	76%	22%	2%	0%
Government & Public Sector	48%	46%	7%	0%
Logistics & Transportation	65%	29%	5%	1%
Manufacturing & Engineering	54%	39%	5%	2%
Media & Entertainment	50%	50%	1%	0%
Oil & Chemicals	53%	41%	5%	1%
Pharmaceuticals & Healthcare	56%	31%	9%	5%
Technology (Software & Hardware)	49%	43%	4%	5%
Telecoms	55%	34%	9%	2%
Average	55%	36%	6%	2%

Figure A6: Governance indicators by different sectors (contd.)

Industry sector	Indirect			
	Central global team	Local or business unit procurement team	Shared service center	Outsourced
Agriculture	19%	61%	17%	3%
Automotive	40%	35%	10%	15%
Aviation	53%	43%	0%	4%
Banking & Financial Services	50%	33%	11%	5%
Business Services	20%	64%	16%	0%
Construction & Mining	38%	53%	7%	2%
Consumer Goods, Retail & Leisure	45%	45%	1%	9%
Defense	60%	25%	15%	0%
Energy & Utilities	43%	37%	16%	4%
Food & Beverage	49%	40%	7%	4%
Government & Public Sector	39%	30%	31%	0%
Logistics & Transportation	33%	50%	12%	5%
Manufacturing & Engineering	36%	51%	7%	6%
Media & Entertainment	54%	43%	1%	3%
Oil & Chemicals	33%	49%	17%	2%
Pharmaceuticals & Healthcare	45%	44%	9%	4%
Technology (Software & Hardware)	60%	34%	6%	0%
Telecoms	50%	36%	12%	3%
Average	43%	43%	10%	4%

Figure A7: Geographic location and industry sector

Industry sector	Reporting line			
	Global headcount	Direct report to global procurement function	Report to business unit, with dotted line to global procurement function	Report to business unit
Agriculture	238	60%	10%	30%
Automotive	379	46%	50%	4%
Aviation	131	40%	5%	55%
Banking & Financial Services	80	65%	15%	21%
Business Services	52	49%	51%	-
Construction & Mining	151	33%	35%	32%
Consumer Goods, Retail & Leisure	215	64%	23%	12%
Defense	174	55%	41%	5%
Energy & Utilities	188	51%	32%	17%
Food & Beverage	277	60%	20%	20%
Government & Public Sector	65	68%	18%	15%
Logistics & Transportation	16	59%	36%	6%
Manufacturing & Engineering	245	51%	24%	25%
Media & Entertainment	88	80%	6%	14%
Oil & Chemicals	616	63%	16%	21%
Pharmaceuticals & Healthcare	407	65%	25%	12%
Technology (Software & Hardware)	404	58%	30%	12%
Telecoms	650	58%	16%	26%
Average	407	57%	24%	19%

Figure A7: Geographic location and industry sector (contd.)

Industry sector	Geographic location			
	Central global team	Local or business unit procurement team	Shared service center	Outsourced
Agriculture	10%	70%	20%	-
Automotive	30%	67%	3%	1%
Aviation	37%	63%	-	-
Banking & Financial Services	47%	47%	5%	1%
Business Services	42%	50%	8%	-
Construction & Mining	32%	67%	1%	
Consumer Goods, Retail & Leisure	47%	48%	2%	3%
Defense	53%	41%	7%	-
Energy & Utilities	39%	42%	18%	2%
Food & Beverage	55%	41%	1%	2%
Government & Public Sector	44%	44%	12%	-
Logistics & Transportation	64%	31%	4%	-
Manufacturing & Engineering	34%	61%	3%	2%
Media & Entertainment	70%	28%	-	1%
Oil & Chemicals	32%	63%	5%	
Pharmaceuticals & Healthcare	39%	49%	8%	4%
Technology (Software & Hardware)	40%	48%	12%	-
Telecoms	60%	35%	2%	3%
Average	43%	50%	5%	2%

Figure A8: Commercial model and industry sector

Industry sector	Category Management		
	Spend under global category management	Spend under local or regional category management	Spend not subject to category management
Agriculture	40%	33%	27%
Automotive	28%	56%	16%
Aviation	34%	29%	37%
Banking & Financial Services	42%	32%	26%
Business Services	14%	46%	40%
Construction & Mining	36%	40%	24%
Consumer Goods, Retail & Leisure	59%	22%	19%
Defense	43%	16%	42%
Energy & Utilities	47%	27%	25%
Food & Beverage	59%	22%	19%
Government & Public Sector	58%	10%	31%
Logistics & Transportation	31%	20%	48%
Manufacturing & Engineering	49%	31%	19%
Media & Entertainment	43%	9%	48%
Oil & Chemicals	55%	31%	14%
Pharmaceuticals & Healthcare	51%	31%	18%
Technology (Software & Hardware)	55%	18%	27%
Telecoms	63%	21%	16%
Average	48%	28%	24%

Figure A8: Commercial model and industry sector (contd.)

Industry sector	Strategy			
	Central global team	Local or business unit procurement team	Shared service center	Outsourced
Agriculture	47%	46%	7%	-
Automotive	39%	58%	3%	1%
Aviation	62%	35%	-	4%
Banking & Financial Services	55%	35%	6%	4%
Business Services	46%	50%	4%	
Construction & Mining	61%	35%	1%	3%
Consumer Goods, Retail & Leisure	68%	30	2%	
Defense	57%	28	16%	-
Energy & Utilities	47%	34	17%	2%
Food & Beverage	67%	27	4%	2%
Government & Public Sector	60%	29	10%	1%
Logistics & Transportation	67%	23	10%	-
Manufacturing & Engineering	64%	32	2%	2%
Media & Entertainment	77%	21	2%	1%
Oil & Chemicals	61%	37	1%	1%
Pharmaceuticals & Healthcare	59%	32	9%	2%
Technology (Software & Hardware)	60%	33	6%	-
Telecoms	61%	32	7%	
Average	60%	33	5%	2%







PROCUREMENT LEADERS

Global intelligence network

Founded in 2004 and headquartered in London, Procurement Leaders is a global membership network serving procurement, sourcing, and supply chain executives in major corporations. We provide independent procurement intelligence, professional development, and peer to peer networking via our award winning online information resource, events, and training solutions. Our unique insights, research, and data enable executives to rapidly deliver more value to their businesses, equipping them with expert practices that deliver greater savings faster, reduce risks, and transform functional performance.

Our membership connects, informs, and inspires a community of over 600 leading corporations and thousands of executives to enhance the contribution procurement makes to the business each day. For more information, visit www.procurementleaders.com

Contact Us

Samir Khushalani

US Practice Leader, Procurement Advisory

Strategy and Operations

T: 1 (713) 319-3570

E: skhushalani@kpmg.com

Femi Obi

Director, Procurement Advisory

Strategy and Operations

T: 1 (617) 988-1035

E: femiobi@kpmg.com

kpmg.com

To learn more, visit: www.kpmg.com/us/procurement.