

A blurred background image of a business meeting. Two men in suits are seated at a table. One man is holding a pen and pointing at a document. On the table are a glass of water and some papers with charts. The ZYCUS logo is overlaid in the top right corner.

ZYCUSTM

Pulse of Procurement 2015, Part 1



INTRODUCTION

Dear Colleague,

2015 may prove to be a watershed year for strategic procurement transformation. Since Zycus began its annual **Pulse of Procurement** research in 2011, this is the first year to show across-the-board declines in key global performance benchmarks for procurement. It is also the first year in this time period to see notably strengthening economic indicators and a distinctive shift in C-Suite attention – from defensive, internally focused postures to greater emphasis on finding new opportunities for growth, innovation, market expansion, and brand building. More spending is a key component of virtually all aggressive business growth strategies. The imperative for CPOs is to determine how their organizations will support more assertive spending – in an economic climate more favorable to inflation – without giving back all the hard-won spend discipline established over the past several years. Here in Part 1 our **Pulse of Procurement 2015** report you will find that:

- ➔ CPOs are gearing up for the challenge, focusing on process improvements – efficiency, execution, and effectiveness – and forging stronger, more engaged, and collaborative relationships with internal business partners and suppliers.
- ➔ Corporations rate procurement's value contributions highly and continue to support and fund enhancement of their procurement, sourcing, and supply management capabilities.

At Zycus, we are passionate about building solutions that combine seamless integration of sourcing and procurement processes, state-of-the-art functionality, and ease of use along with superior responsiveness from our teams to help customers achieve their ever-evolving business performance objectives. We are driven by these principles and have invested heavily in building a complete suite of integrated procurement solutions from the ground up!

We hope you find this report useful and instructive as you map your own journey to better business performance.

Aatish Dedhia
CEO, Zycus Inc.

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EXECUTIVE SUMMARY

The Zycus **Pulse of Procurement 2015** study encompasses input from more than 400 procurement executives and professionals with demographic characteristics shown on this page.

BIG OBSERVATIONS FOR PART 1 OF THIS YEAR'S STUDY:

- ➔ While the last four years have seen steadily rising performance benchmarks for procurement, the 2015 study shows backsliding virtually across the board, signifying that an important inflection point has arrived for strategic enterprise procurement. With greater global economic stability and growth will come greater pressure on procurement to control spending and defend profitability in an environment of aggressive growth strategies and rising inflationary pressures.
- ➔ In addition to traditional procurement objectives such as cost control, supplier performance, and supply-risk management, process optimization and internal relationship building are key areas of CPO focus for the coming year.
- ➔ Procurement organizations, on average, are tasked with cutting 8% from total corporate spending in 2015. High savers – procurement teams reporting the highest cost-savings delivery rates to date – report a significantly higher average cost savings objective of 12%.
- ➔ While C-Suite executives may be shifting their attention toward growth initiatives, they are still supporting procurement capabilities development. Overall, procurement budgets for 2015 are flat to rising, with only 19-24% facing reduced funding across operating, capital, and human resources budget segments.



BY REVENUE

>5 billion	36%
2 bil - 5 bil	19%
500 mil to 2 bil	25%
<500 million.....	13%
Don't know/privately held	7%

BY GEOGRAPHY

North America	68%
South America	1%
Middle East/Asia.....	5%
Europe	16%
Australia/New Zealand	4%
Other	6%

BY JOB TITLE

Executive/VP/CPO	8%
Director	23%
Manager/Category Mgr	46%
Agent/Buyer.....	19%
Other Staff.....	4%

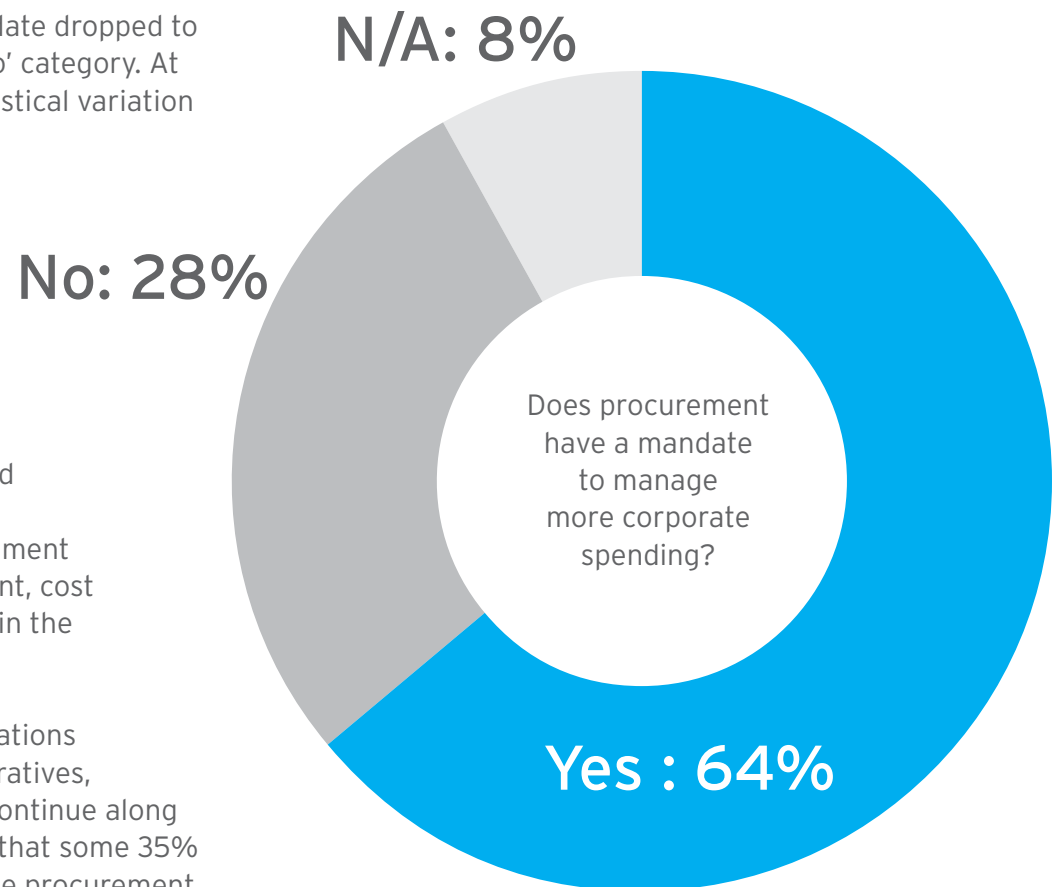
PROCUREMENT PRIORITIES FOR 2015

Is procurement losing its mojo?

In each of the past four years, since Zycus first began its annual **Pulse of Procurement** study, the proportion of procurement professionals citing corporate mandates to take greater control of spending has remained consistent at approximately 70% – until this year, that is. In the 2015 study, the percentage claiming a spend-management mandate dropped to 64% with all of the shift migrating from the 'Yes' to the 'No' category. At least part of the decline could be a function of normal statistical variation – the survey sample changes somewhat each year. Nonetheless, the drop is mildly worrisome, especially in context of:

- ➔ Strengthening economic recovery, which is bound to have corporate leaders refocusing on growth and more expansive spending versus defensive business strategies.
- ➔ The fact that procurement's specific performance objectives remain primarily defensive and bottom-line focused (p.8).
- ➔ Notable backsliding in benchmarks for several procurement key performance indicators – spend under management, cost savings and, to a lesser extent, contract compliance – in the 2015 study (pp.13-16).

All this begs the question of whether procurement organizations might be standing at an important crossroads, where imperatives, focus areas, and activities must shift if procurement is to continue along its transformation journey. Good news in the 2015 study is that some 35% of procurement professionals believe their C-Suite views the procurement, sourcing, and supply management functions as critical to enterprise strategy



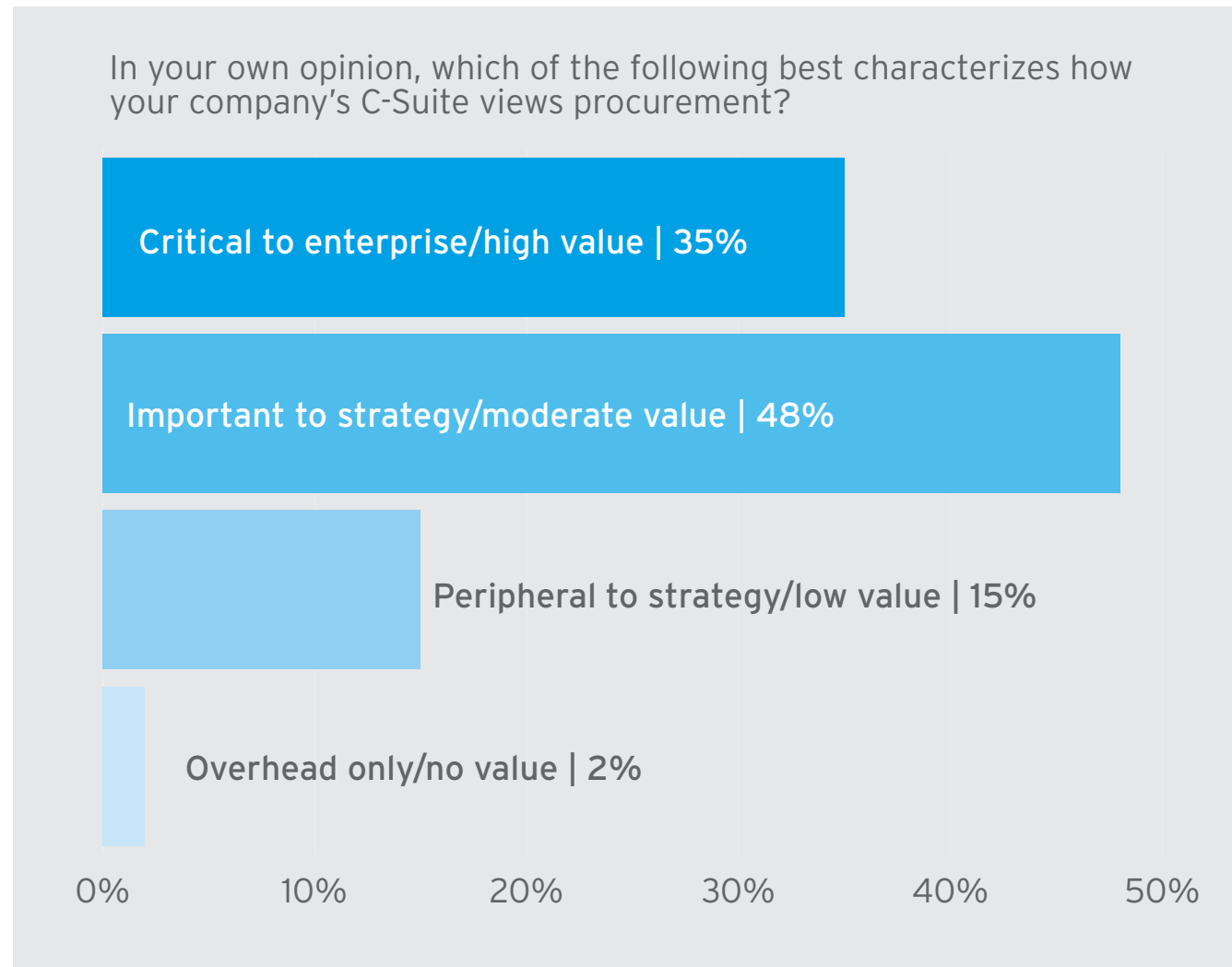
and value delivery. Another 48% say that, if not critical to strategy, procurement is at least seen and treated as an important and strategic value contributor.

What is more, verbatim commentary offered by study participants shows plenty of evidence that procurement leaders are very much aware of the shifting sands and making preparations to adjust their approaches. When asked to cite specific performance objectives for procurement aside from cost savings, responses were overwhelmingly focused on process improvement. Digging in even deeper reveals that process improvement and optimization will be multifaceted, focusing on simplification, speed, efficiency, and effectiveness in

terms of delivering positive performance results. Other focus areas for CPOs in 2015 include:

- ➔ Improving relationships and engagement with other business functions and suppliers.
- ➔ Shoring up governance structures and compliance management.
- ➔ Broadening procurement's scope to other key business performance levers, such as cash flow and inventory.

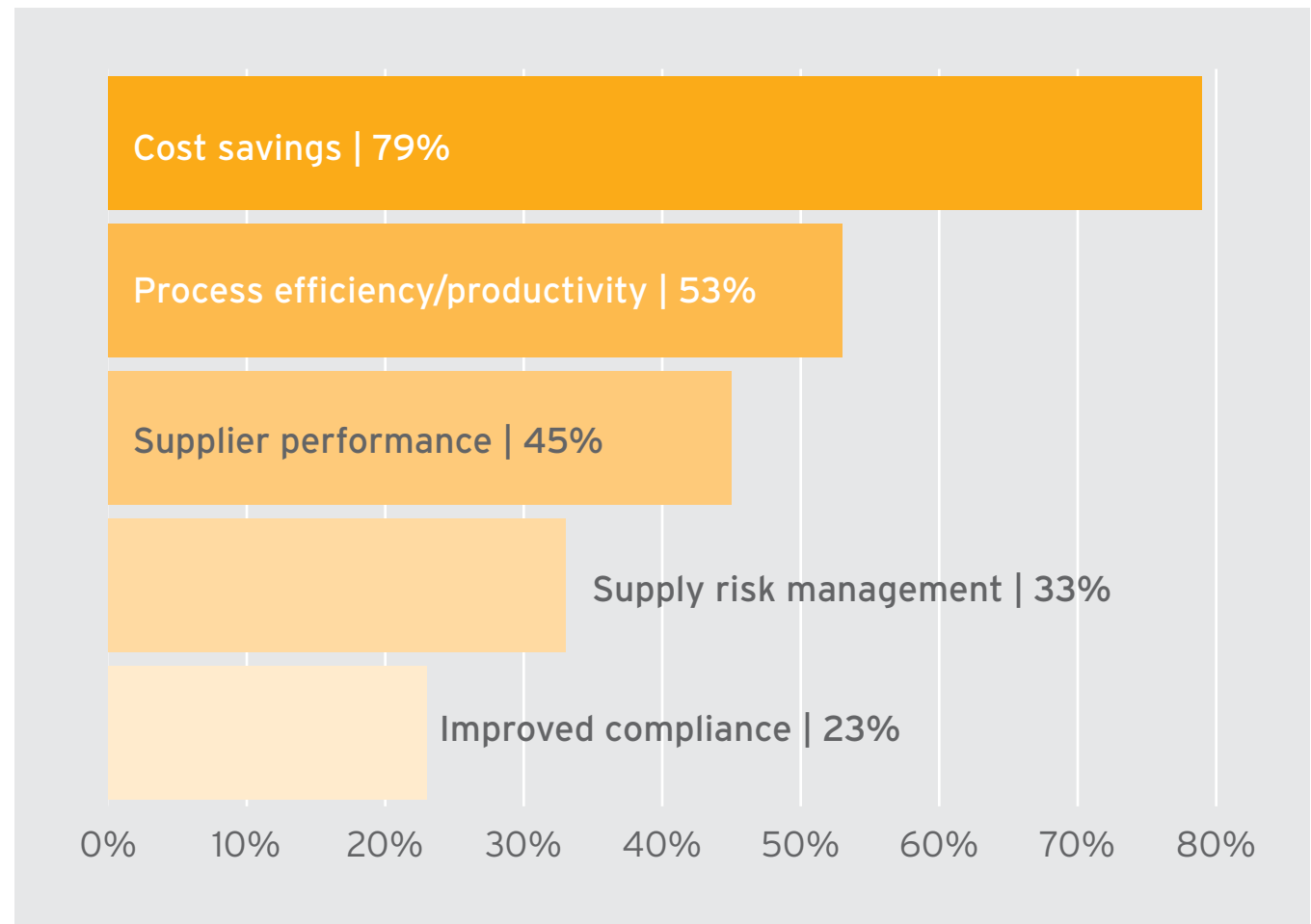
Notably sparse among the long list of procurement non-savings objectives are goals typically seen in early phases of procurement transformation, such as improving spend visibility, supply-base rationalization, addressing maverick spend, and so forth.



Top 2015 procurement objectives remain largely defensive in nature

Visionary procurement leaders attending and presenting at the Zycus annual HORIZON conference in late 2014 were very much focused on shifting and expanding procurement's scope of operation and strategic reach. They spoke eloquently of forging strong, positive relationships with strategic business-unit leaders, collaborating with suppliers to capture and drive innovation in their supply bases, sharing risk with suppliers, and re-focusing their teams on supporting business growth KPIs such as revenue, market share, cash flow, global reach, brand image, and shareholder value.

But, when it comes to hard performance objectives for procurement, the **2015 Pulse of Procurement** study paints quite a different picture. Asked to cite their top three specific performance objectives for the coming year, the clear winners are: cost savings, cited by 79%, and procurement efficiency and productivity growth (read, lower overhead burden), cited by 53%. While other objectives are certainly represented, they show far



smaller numbers (see table on this page). Innovation does come close to cracking the top five (losing to compliance improvement only as a matter of rounding). However, innovation's share of the votes is only slightly better than one in five versus nearly eight in ten for cost savings. Nonetheless, as noted on p.7, verbatim comments around

non-cost-savings objectives reveal a much richer view of how procurement leaders will be focusing their teams and efforts over the coming year. For example, one procurement leader cites this ambitious list of objectives for 2015: "Supply chain management, organizational

effectiveness, sourcing strategies for critical components, streamlined and effective P2P processes, enhanced material management processes, integrated/effective execution of contracts and scorecarding of supplier/contractor performance." Of nearly 200 write-in comments:

- Some 43% reflect some type of process improvement or internal relationship building efforts.
- Another 25% focus on other strategic performance levers such as working capital, innovation, and supplier performance.
- Only 23% might be classified as early-stage procurement transformation objectives, while the remaining 9% are a mix of 'other.'

In addition to cost savings, what other specific objectives does your team have?

"Process optimization and compliance."

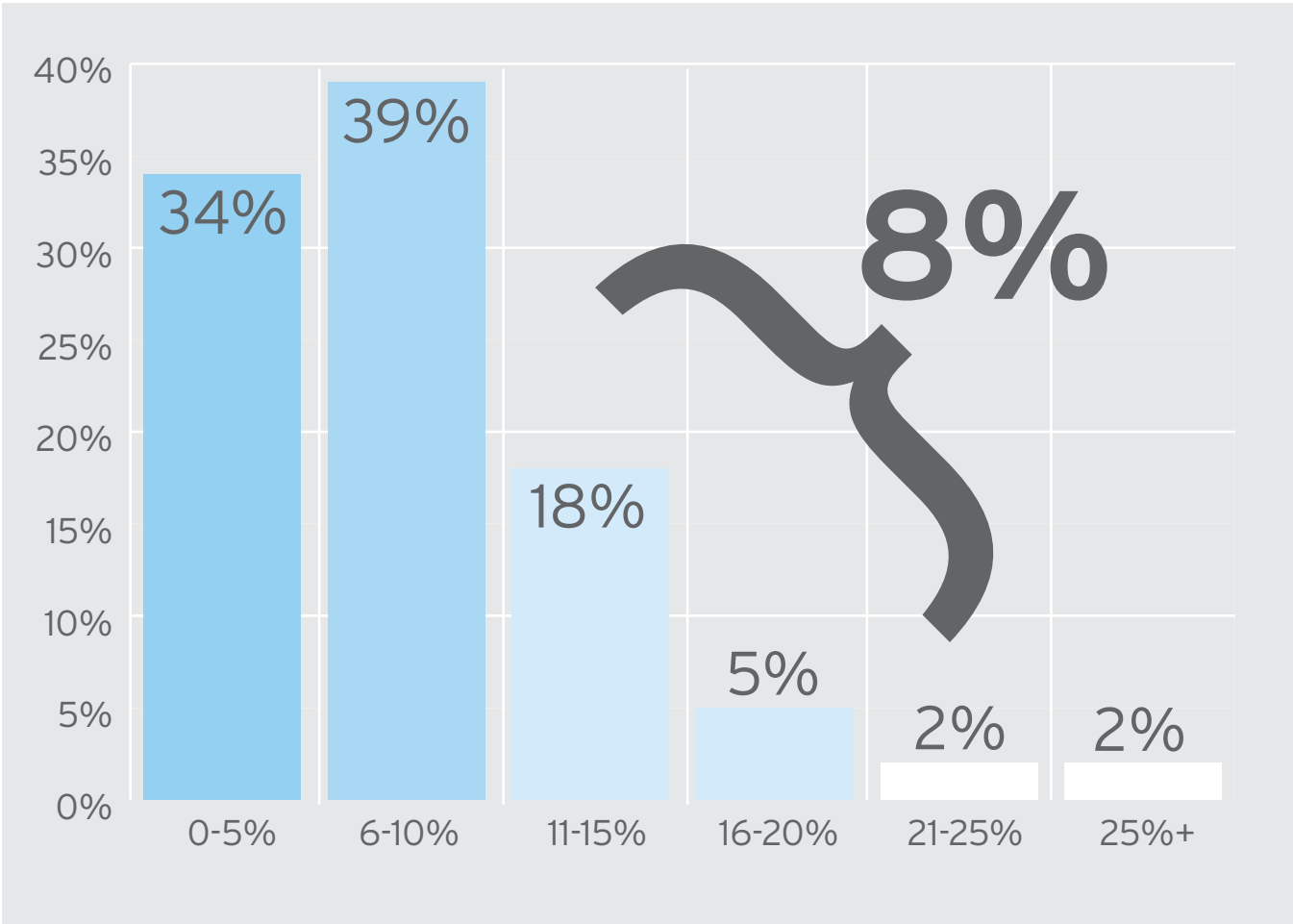
"Integrating with various business units..."

Additional procurement objectives for 2015 shown by percentage selecting as one of top three goals:

Innovation	23%	Business/market intelligence	13%
Cash flow/working capital	20%	Extended global reach	11%
Speed/cycle time reduction	20%	Outsourcing	9%
Support sales revenue/growth	18%	Support market share growth	8%

Procurement pros face uphill savings battles in 2015

No matter what other strategic objectives corporate leaders and CPOs might be setting for their procurement teams, it seems that cost savings will always top the list. And, despite an expected quickening of economic growth this year, which would typically be expected to shift market power from buyers to sellers, procurement leadership does not appear to be backing off from ambitious cost reduction goals for 2015. The weighted average cost savings goal across the global study population is 8% of total spending, with some 27% of procurement organizations aiming significantly higher.



Of note is that procurement teams most advanced in terms of savings delivered already show significantly higher cost savings goals – 12% on average (weighted). This proves the frequent lament that big procurement success often only whets executives' appetites for greater savings over time, raising the pressure on procurement to find creative ways of identifying and then delivering on actionable opportunities.

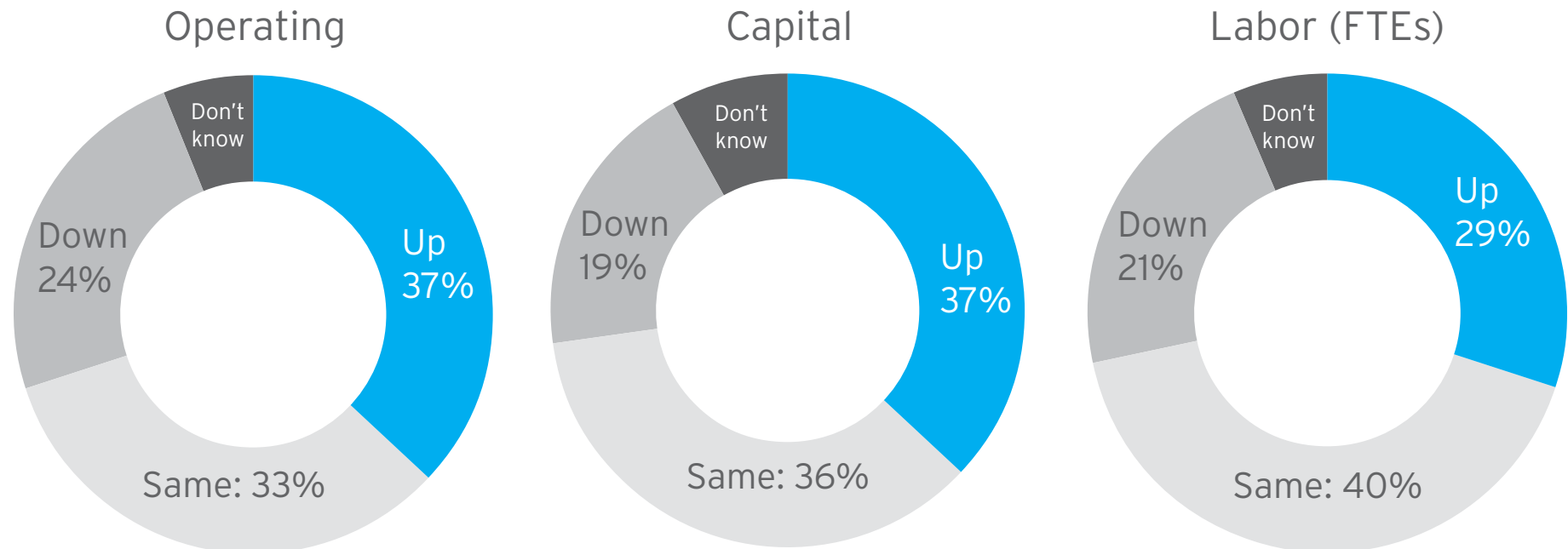
Low savers	7%
Mid savers	8%
High savers	12%

Procurement budgets are flat to rising

On balance, procurement organizations are seeing flat to increasing resource allocations for 2015. Procurement budget increases, where they are occurring, are somewhat more likely to fall into operating and/or capital portions versus adding funding for new full-time employees (FTEs). Nonetheless, nearly one third of procurement organizations are seeing increased funding for new hires. Interestingly, when asked to cite major pain points for procurement, talent and skills fall to the bottom of the list of key concerns for procurement.

Confidence about being able to source needed talent for procurement may be misplaced, however, as multiple studies show dramatically proliferating concerns among business and human resources executives around the challenges of replacing the now-retiring baby boom generation of mature, highly experienced workers. As procurement leaders will be increasingly compelled to hire less-experienced millennials, budget provisions may be needed for more dedicated mentoring and greater in-house training and development.

How are procurement budgets changing from 2014 to 2015?



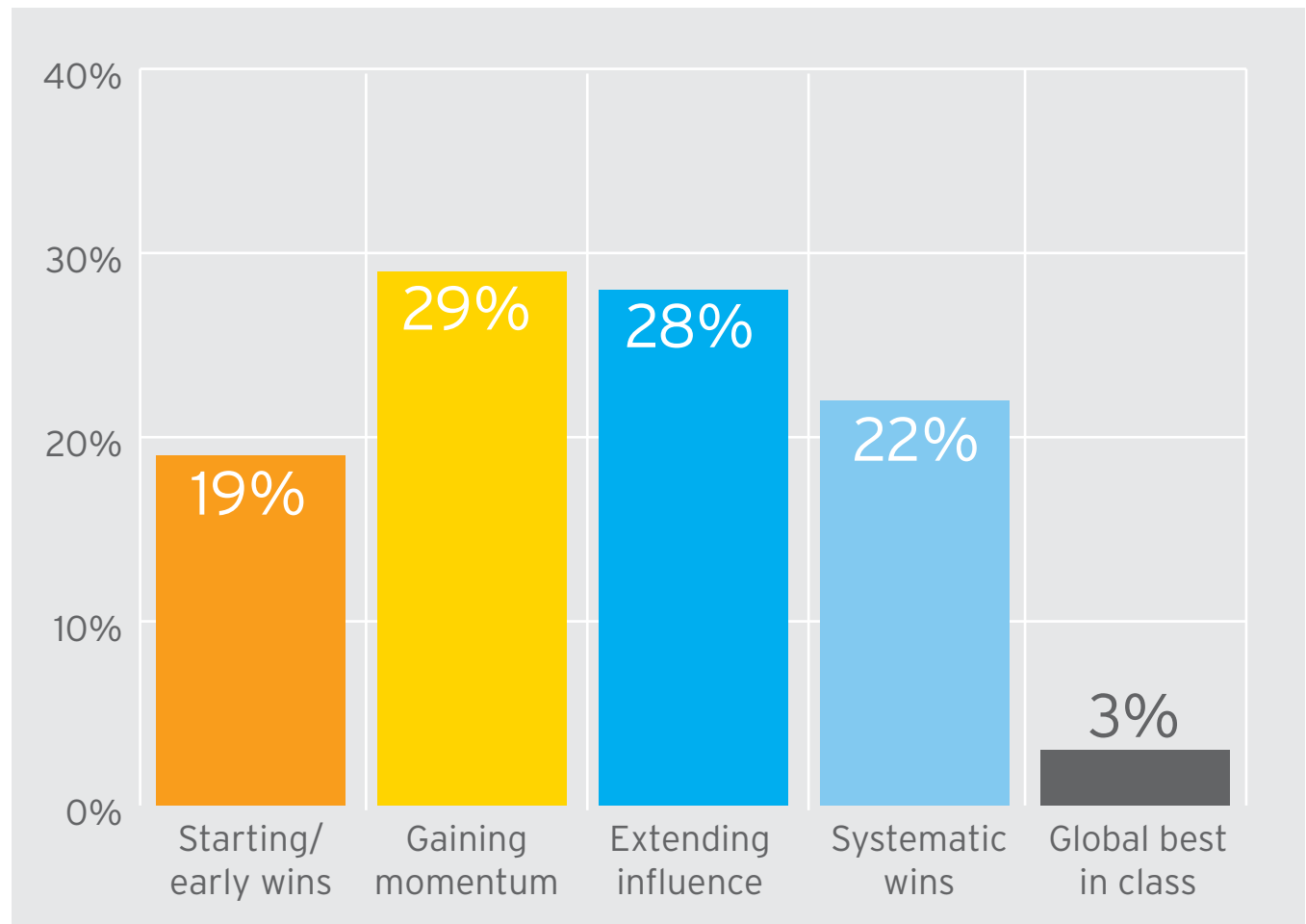
PROCUREMENT PERFORMANCE BENCHMARKS

Procurement maturity: No steps forward, big step back

Asked to self-rate for strategic procurement maturity, the **2014 Pulse of Procurement** study revealed a potential stall with the top two categories for maturity gaining only a single point between 2012 and 2014. This year, the top two categories show a dramatic 12-point decline. And, while normal statistical variation may explain some of the backslide, the trend is alarming as nearly all of the decline comes from the 'systematic wins' category. One headwind for procurement is, of course, the revving up of economic recovery. Meanwhile, a notable lack of objectives such as supply-base rationalization and purchase price standardization suggests more teams may now be struggling to break through the invisible barrier from easy wins – typically associated with poor past information, processes and management – to harder won improvements, powered by innovative analytics and initiatives.

The apparent backslide in self-assessed maturity goes a long way to explaining why so many procurement execs appear to be focusing current efforts on:

- ➔ Process improvement.
- ➔ Governance structures.
- ➔ Improving relationships with internal functional and business partners.

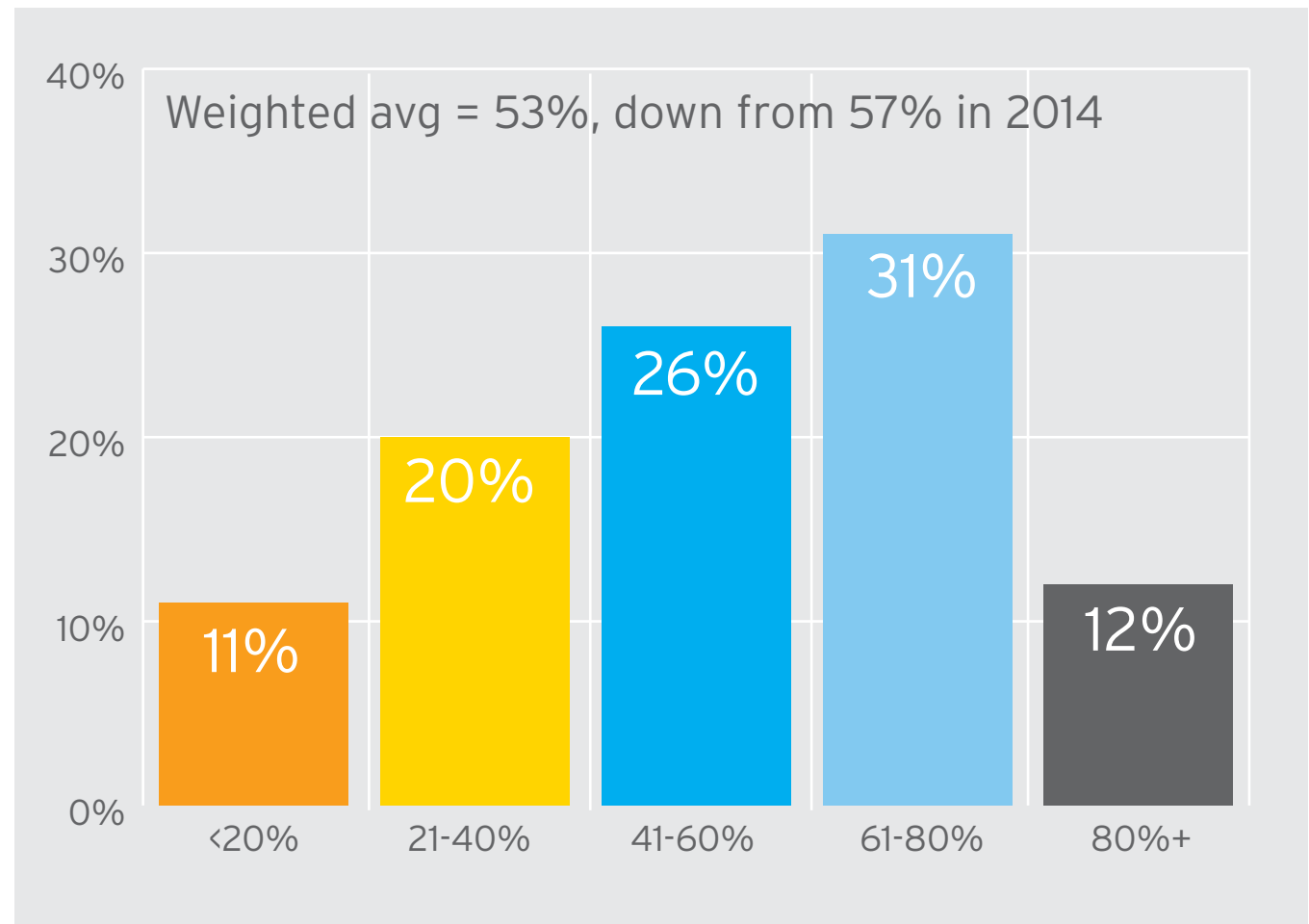


SUM: Procurement cedes hard-won control and influence over total corporate spending

The spend under management (SUM) benchmark also shows a decline in the **2015 Pulse of Procurement** study, slipping from a weighted average of 57% in 2014 to 53% in the current year. Once again, virtually all of the backslide comes from the penultimate category (61-80% of total direct and indirect spending). This suggests that business leaders and suppliers in resistant service functions – such as marketing, legal, human resources – where supplier selection, spending choices, pricing models, and so forth have not been traditionally controlled or influenced by procurement, may now be moving to regain some of the control they ceded when business conditions were less favorable and budgets were being slashed.

Procurement leaders, for their part, appear to be fighting back, seeking to maintain and advance their progress by:

- ➔ Offering faster, simpler procurement and contracting processes.
- ➔ Upgrading analytics and supplier performance management capabilities.
- ➔ Diversifying and better documenting procurement value delivery.



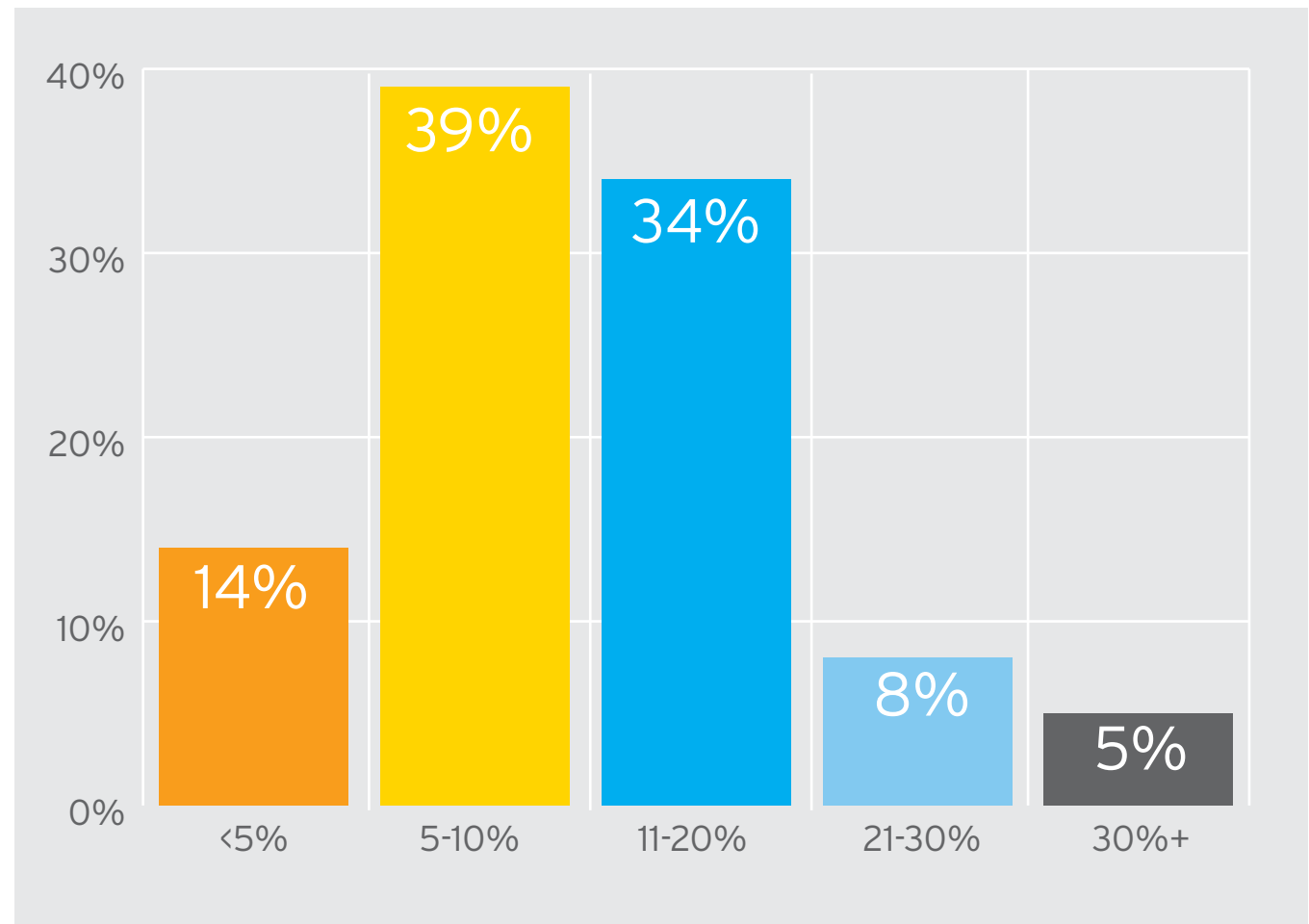
Slippage in cost savings benchmark suggests over reliance on market forces to deliver performance wins

Consistent with every other key performance indicator (KPI) tracked in the annual **Pulse of Procurement** study, cost savings lost significant ground in the past year, with the percentage of organizations occupying one of the top two categories sliding from 27% in 2014 to just 13% in the current year. In some respects, this backslide might be expected as suppliers, now regaining market leverage, seek to recoup price and margin concessions made since the global economy first plunged into deep recession in 2008-2009.

A critical takeaway for CPOs is that their teams need to be focusing more assiduously on collaborating with suppliers to permanently remove costs and risks from supply chains, rather than pursuing only short-term, market-driven opportunities to shift costs, risks and other burdens – such as inventories and extended payment terms – to suppliers.

Key questions to be exploring at present include:

- ➔ How important are X and Y specifications and might they be altered to reduce total supply-chain costs?
- ➔ How might our own processes and policies be driving up suppliers' costs?



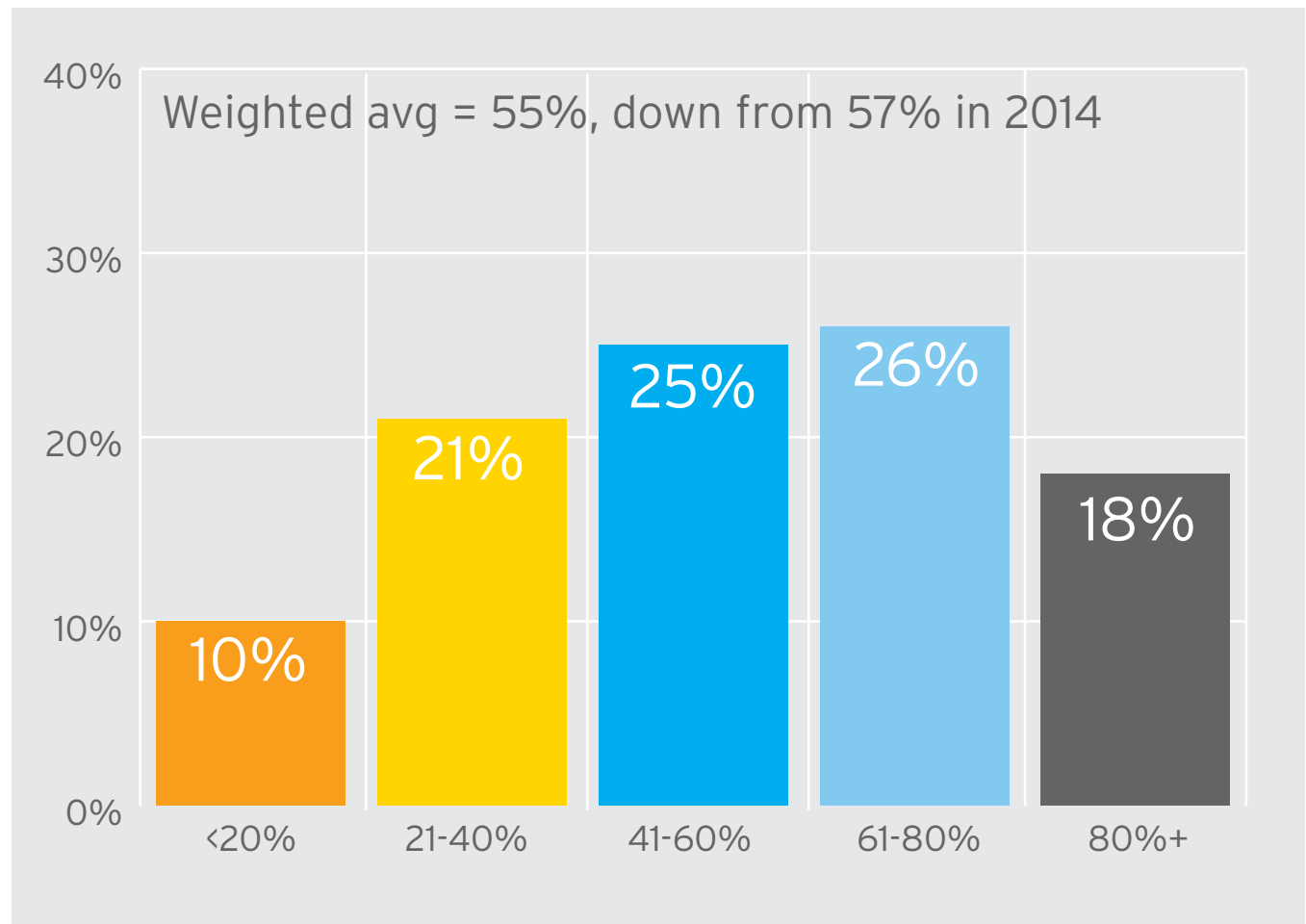
Contract compliance benchmark holds its ground in 2015

After rising steadily for a 14-point total gain between 2011 and 2014, the global benchmark for contract compliance slipped two points in the current year to a weighted average of 55% compared with 57% last year. Unlike other benchmark KPIs, however, the percentage of procurement organizations occupying the top two performance tiers was completely stable at 44%. As compliance is very much an internally controlled metric, this relative lack of slippage underscores the influence of external market and economic forces in the 2015 declines witnessed elsewhere.

Past **Pulse of Procurement** studies have shown that winning and maintaining compliance is frequently a function of:

- Ensuring that compliant choices are both fastest and easiest to accomplish.
- Having capabilities in place for measuring and reporting on compliance in ways that are broadly accepted as both valid and accurate.

New questions and analysis added to the **2015 Pulse of Procurement** study reveal just how big a role state-of-the-art procurement technology may be playing in accomplishing these capabilities (see pages 22-33 for more details).



Stay tuned for Part 2 of our report, in which we look at how...

- ➔ Technology enablement for procurement continues to expand rapidly.
- ➔ State-of-the-art procurement technology coincides with substantially higher reported performance levels – for cost savings, spend under management (SUM) by procurement, contract compliance, and procurement technology adoption.
- ➔ Procurement organizations have progressed in terms of technology adoption, use, and utilization rates.
- ➔ And what procurement professionals really want from their procurement technology solutions (hint: simplification and integration).





Zycus is dedicated to positioning procurement at the heart of business performance. With our spirit of innovation and a passion to help procurement create even greater business advantages, we have evolved our portfolio to a complete Source-to-Pay suite of procurement performance solutions which includes – Spend Analysis, e-Sourcing, Contract Management, Supplier Management, Financial Savings Management, and Procure-to-Pay.

Behind every Zycus solution stands an organization that possesses deep, detailed procurement expertise and a sharp focus on being responsive to customers. We are a large – 600+ and growing – company with a physical presence in virtually every major region of the globe. We see each customer as a partner in innovation and no client is too small to deserve our attention. With more than 200 solution deployments among Global 1000 clients, we search the world continually for procurement practices proven to drive competitive business performance. We incorporate these practices into easy-to-use solutions that give procurement teams the power to get moving quickly – from any point of departure – and to continue innovating and pushing business and procurement performance to new heights.

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