

HUGE DECISIONS FOR CPOs

how they may influence performance and
where **Australia/New Zealand** procurement
groups fit in to the global mix.



ZYCUS[™]

PROCURE PERFORMANCE

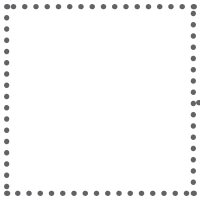
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a new report exclusively from

ZYCUSTM

PROCURE PERFORMANCE



INTRODUCTION

CPOs face countless HUGE decisions. How should we organize procurement across the enterprise? Should we invest heavily in hiring experienced procurement talent, develop internally or outsource the work altogether? Can we succeed using a service model of operation or must we be more aggressive about pursuing policies, rules, enforcement and other governance features to support our success? Who will be our most valuable allies in promoting the kinds of corporate behavioral changes we are pursuing? How quickly can we move? And, of all the potential procurement strategies and technology options out there, where should we start? What will give us the biggest bang for our bucks?

In its latest procurement performance research installment, Zycus set out to understand:

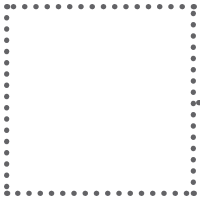
- Which key decisions CPOs are making most often,
- Whether there are substantial regional differences in CPO decisionmaking, and
- If there are any obvious relationships between key CPO decisions and the business performance improvements they have been able to achieve thus far.

While it is not possible to prove cause and effect in such a qualitatively-focused study, the research does uncover some very interesting and suggestive differences between high performers and the rest of the pack. At very least, CPOs grappling with these decisions may be convinced to consider their options more expansively after reading this report!



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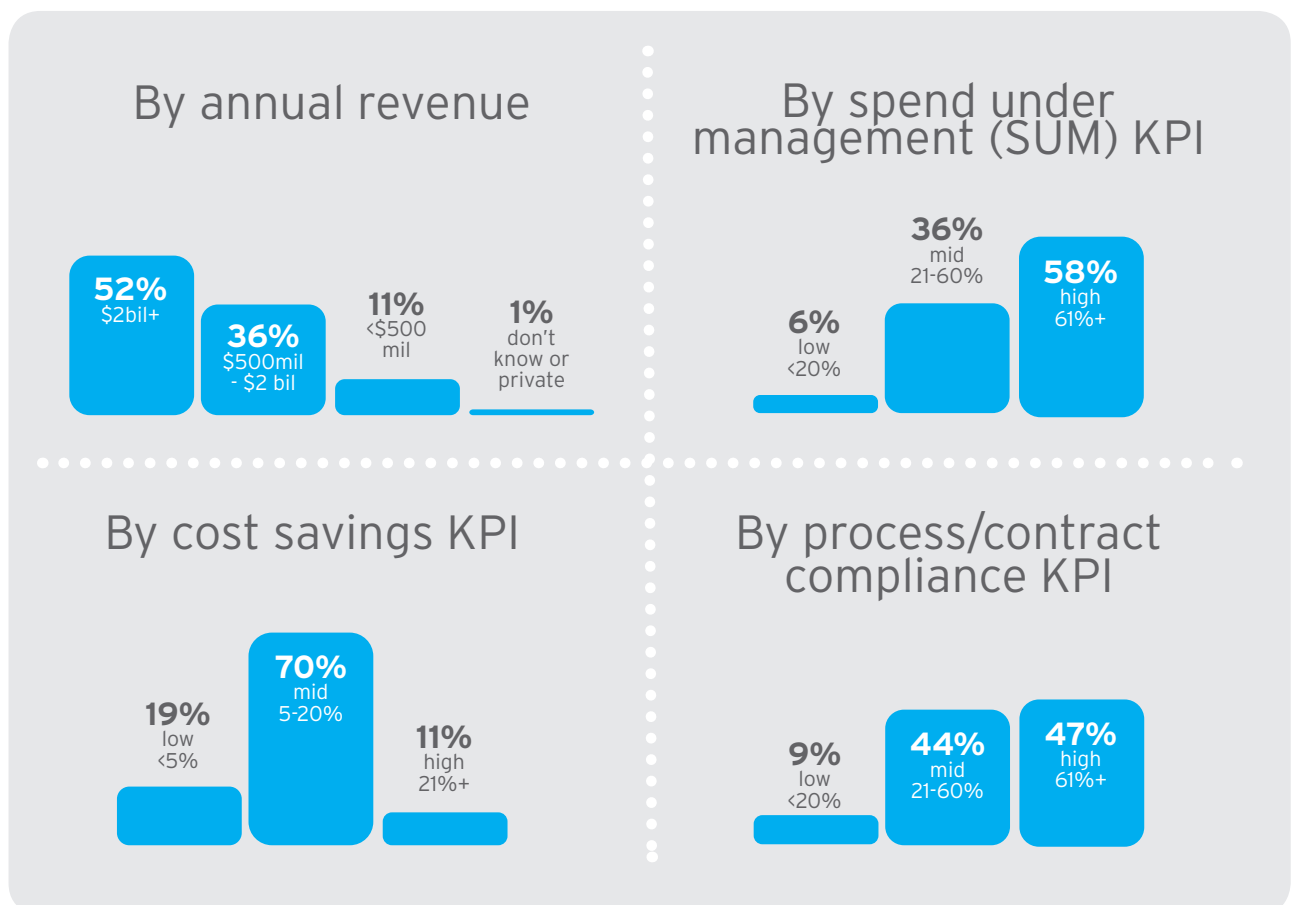


ABOUT the study

The study (promoted primarily by email) comprised 11 straightforward questions about important choices that all CPOs and their procurement teams must make plus several performance benchmarking questions focused on common procurement KPIs: spend under management (SUM), cost savings attributable to strategic procurement and compliance to procurement processes and contracts. For purposes of analysis, high performers were classified as:

- High SUM: 60%-plus
- High savings: 21%-plus (cumulative)
- High compliance: 60%-plus

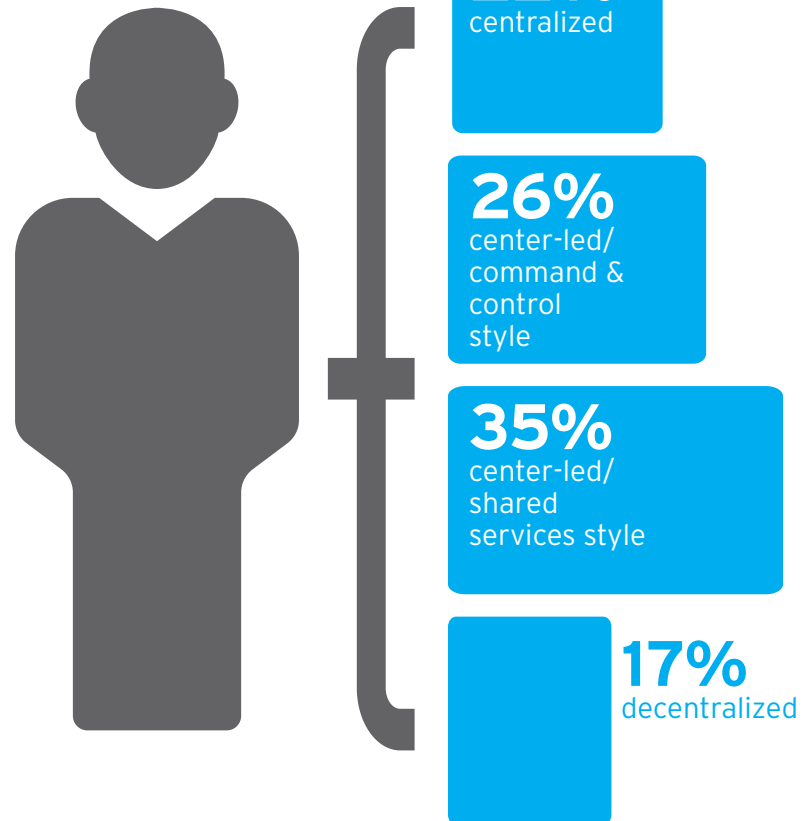
Here are the key demographic groupings for study participants:



GO FOR max control

Among procurement groups studied, there is a relatively even split in organizational styles chosen although the scale appears to be tilting toward greater CPO/procurement authority and control. **Australia/New Zealand** participants show similar distributions, but with substantially fewer (7% vs. 17%) reporting decentralized procurement structures.

Study findings suggest relatively strong relationships between degree of procurement control and ability to achieve high performance. For example, procurement groups operating with centralized control are more than 4X more likely to also report high (60%+) contract compliance rates and 1.5X times more likely to report high (60%+) spend under management. And, while organizational structure is clearly not the only factor influencing cost savings performance, some 27% of centrally-controlled groups fall into the high savings tier versus 0% of groups operating in decentralized environments.

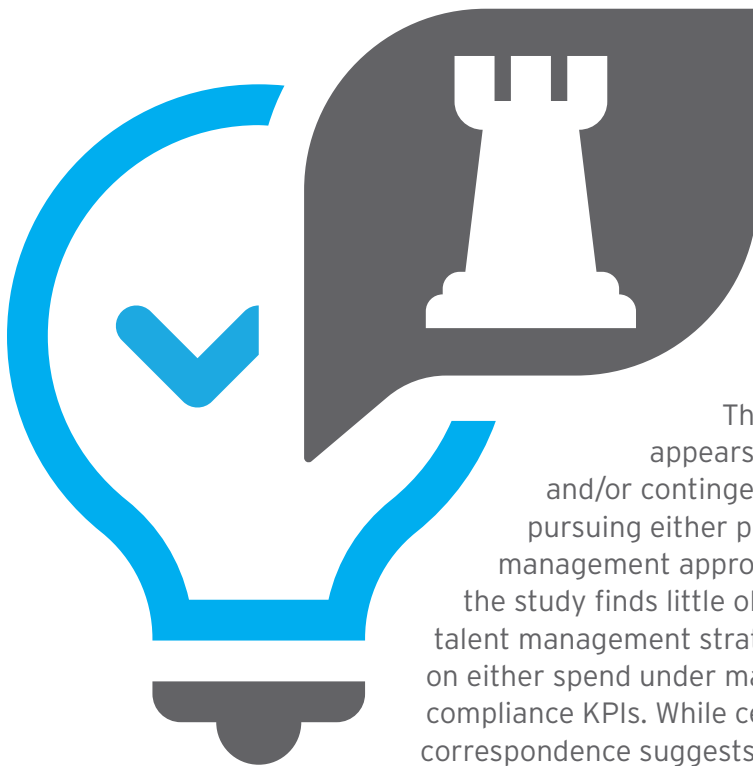


For the org models below, the table shows percentages also falling into highest performance tiers for:

	SPEND UNDER MANAGEMENT	COST SAVINGS	PROCESS/ CONTRACT COMPLIANCE
Centralized	73%	27%	72%
Center-led/command & control	54%	8%	54%
Center-led/shared services	63%	7%	40%
Decentralized	50%	0%	17%

BUILD a procurement brain trust

Overall, CPOs are more partial to hiring procurement talent than to utilizing outsourced or contingent labor for strategic procurement work. There is also evidence to suggest they are winning the needed financial backing as a majority (44%) say their preferred choice is to invest in experienced procurement talent, while a smaller percentage (31%) favors hiring less experienced talent and training/developing those people internally. A mere 3% say they emphasize outsourcing over other talent acquisition options while 22% favor a balanced mix of talent sourcing options.



The **Australia/New Zealand** region appears somewhat more open to outsourcing and/or contingent labor options with the percentage pursuing either primarily outsourced or hybrid talent management approaches rising to 35%. Of note is that the study finds little obvious correspondence between talent management strategy and procurement performance on either spend under management, cost savings or compliance KPIs. While certainly not conclusive, this lack of correspondence suggests CPOs may be able to get away with emphasizing more internal training and flexible/contingent or outsourced labor over expensive permanent hires.

[VERBATIM]

“We take a mixed approach, hiring experienced procurement talent but also hiring or promoting people who know technical [spend] areas and training them in procurement.”

“We invest in experienced talent for key roles and train and develop less experienced talent for other roles.”

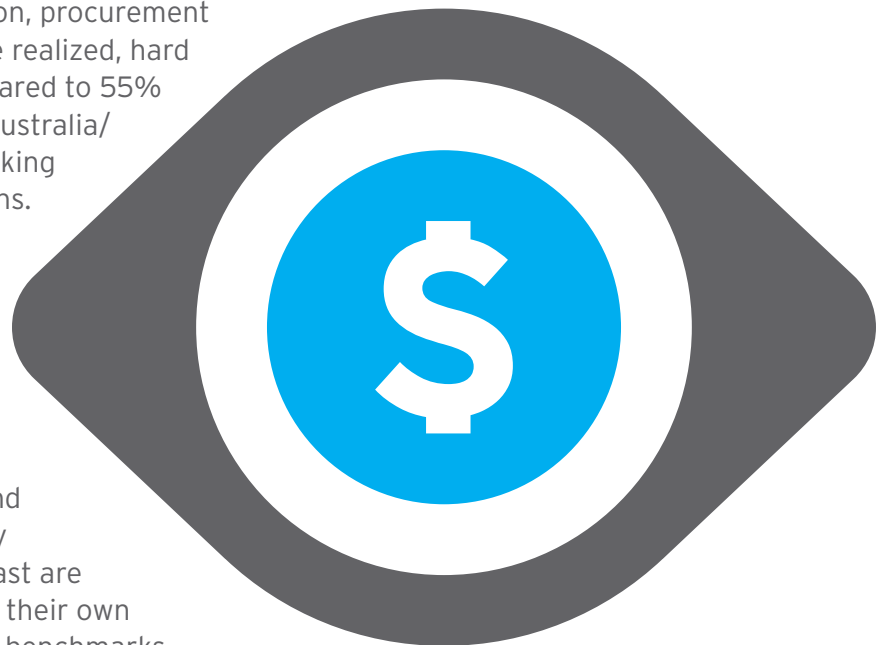
TRACK savings vs. market

CPOs, it seems, now use multiple and sophisticated methods of tracking procurement cost savings. While it was once considered acceptable to measure cost savings based on results achieved in competitive sourcing events or contract negotiations alone, some 40-60% of procurement groups now also look at:

- Realized savings based on transaction values and actual consumption (62%),
- Hard savings based on budget reductions (55%), and
- Avoidance of price/cost increases (57%).

In the **Australia/New Zealand** region, procurement groups are most likely to emphasize realized, hard cost savings (60%). However, compared to 55% in the global sample, only 40% of Australia/New Zealand companies report tracking savings through to budget reductions.

Many CPOs also stop short of evaluating their organizations' cost savings in context of market forces. Amongst the general survey pool, only 29% report comparing cost savings to external price/cost benchmarks to understand if savings have been truly earned by procurement. High savers, by contrast are nearly 3X more likely to be tracking their own savings against competitive market benchmarks. High savers are also notably less likely to expend resources tracking savings that are only anticipated based on sourcing event or contract negotiation outcomes.



[VERBATIM]

“Our method of costing and tracking savings and/or increases is fairly advanced and directly linked to end sales prices Generally we use a cost-plus model on a lump-sum, fixed-price basis.”

4

REPORT compliance data more openly

CPs are quite diverse in how they approach compliance to procurement processes and contracts. While some 80% say they track compliance, the real difference comes in what they do with the data, with one group reporting only to corporate top leadership, another reporting data privately (as needed) to relevant management and a third, somewhat smaller group reporting in some public way to ALL relevant management. For companies operating out of **Australia/New Zealand**, there is a substantially higher percentage (29%) who track but do not report compliance data while 17% do not track compliance at all. Of those that DO track and report in the Australia/New Zealand region, the favored choice is for public reporting.

The thinking behind public compliance reporting is that it takes advantage of natural

competition and image-building among corporate managers and departments. No one wishes to be seen as overtly rebellious and may even try to outdo each other in public score-boarding. Rightly so, it seems. The public reporting tactic is favored by some 40% of high performers on the compliance KPI and by 60% of procurement groups showing the highest cumulative savings rates.



25%
report only
to top corporate
leadership

32%
report privately
to all relevant
management

23%
report publicly
to all relevant
management

7% track but do not report
13% do not track

INVEST in best of breed tech and integration

So far, CPOs have had mixed success in upgrading their procurement technology infrastructures with the largest subset of study participants (33%) classifying their current setups as a mix of standalone, legacy ERP or homegrown solutions not considered best of breed. Meanwhile, some 21% have invested in a mix of best-of-breed, yet non-integrated solutions while 31% have opted to invest in end-to-end integrated procurement solution suites. Not surprisingly, integrated suites and best-of-breed solution mixes are favored among the highest performing companies on the three major procurement KPIs tested.

- Among companies reporting high (60%+) **spend under management (SUM)**, some 42% have invested in integrated suites while 23% use best-of-breed procurement solution mixes.
- Among companies reporting high (21%+) **cost savings** rates, some 40% have invested in integrated suites while 60% report mixed, best-of-breed setups.
- Integrated suites are most popular with companies reporting the highest **procurement process and contract compliance** rates, which may be a function of the greater ease with which their integrated systems enable them to measure and report on compliance.

The **Australia/New Zealand** region shows a slightly larger technology gap than the global pool, with some 36% grappling with a mix of non-best-of-breed solutions and only 20% having migrated to integrated procurement solution suites.



ENFORCE policies & rules

CPOs clearly favor strong and comprehensive corporate governance structures – policies, rules, authorities, work flows and enforcement tactics – that support what they are trying to do strategically to control and minimize corporate spending. Nearly 60% say they have opted for a strong governance/strong enforcement model versus 20% choosing strong governance/weak enforcement and 20% opting for pure service models where stakeholder participation and compliance to procurement initiatives and processes is essentially voluntary.

Procurement groups operating out of **Australia/New Zealand** are somewhat less likely to be benefiting from strong enforcement, however, as more than a third say procurement-rules enforcement remains relatively weak.



Procurement policies and rules enforcement, however, appears to be a very strong factor in driving procurement performance, with strong enforcement being reported by: 88% of high SUM companies, 100% of high savings companies and 95% of procurement groups also reporting high process and contract compliance rates. By contrast, strong enforcement

is reported by: fewer than half as many low SUM, low savings and low compliance companies.



SET aggressive time lines

Overall, CPOs appear to be setting aggressive time lines for addressing formerly unmanaged spend categories through enterprise procurement. Some 67% of the total study pool is looking at a 1-2 year horizon, with nearly half that group looking at just one year. And, while 21% have set a three-year time line, only 12% see it taking longer than three years for their organizations to gain enterprise-level or global control over all addressable spend categories. Within the **Australia/New Zealand** region, time lines are only slightly less aggressive with 58% looking at 1-2 years and 29% setting their sights on three years.

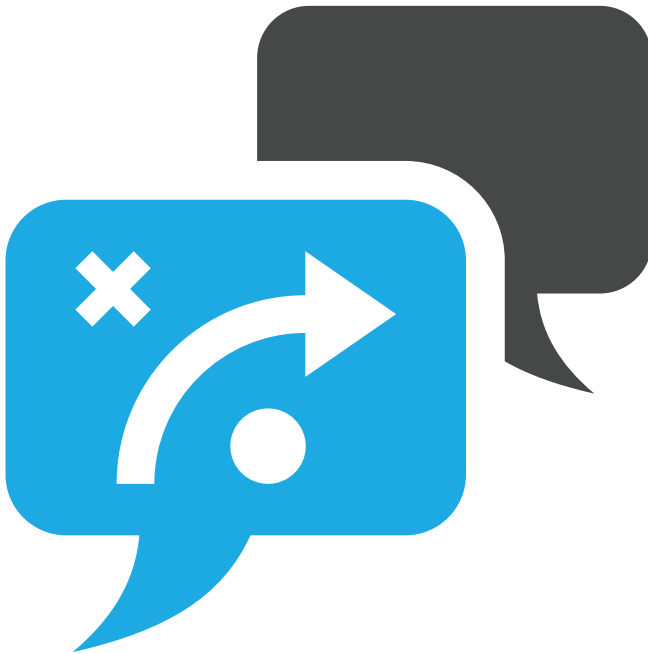
To test for realism in CPOs planned time lines, the goals were also analyzed by organizational maturity level (for example, 'just starting out', 'delivering early wins', 'gaining momentum', 'extending influence', 'systematically delivering wins' or 'global best-in-class'). If anything, the analysis shows CPOs' time lines becoming MORE aggressive as their organizations gain maturity. For example, while virtually no early-stage enterprise procurement groups cite aggressive 1-year time lines, some 30% of mid-maturity groups and 50% of high-maturity groups believe they will gain control over all formerly unmanaged, addressable spending within 12 months time.



DON'T shy away from standardization & change

Nearly across-the-board (no matter how study data are sliced), the number-one strategic entry point for enterprise procurement groups is using spend analysis to identify opportunities for competitive sourcing or re-sourcing of spend categories. The big exception is companies reporting either high (21%+) or very high (30%+*) cost savings rates attributable to strategic procurement. High savers are 2X more likely to put early focus and energy into standardization - identifying approved items for purchase, implementing preferred suppliers and so forth. Very high savers are 6X more likely to emphasize standardization before focusing on competitive sourcing/re-sourcing, re-negotiation, supply base rationalization or other procurement strategies.

Within the **Australia/New Zealand** region, there appears to be a slightly greater reluctance to ruffle corporate feathers by changing the status quo too quickly. Some 23% of procurement groups in this region say they have opted to start by re-negotiating for better terms with incumbent suppliers compared to 19% in the overall survey pool. Only 15% of ANZ companies have started with standardization compared to 17% in the total survey pool and 40% among high savers.



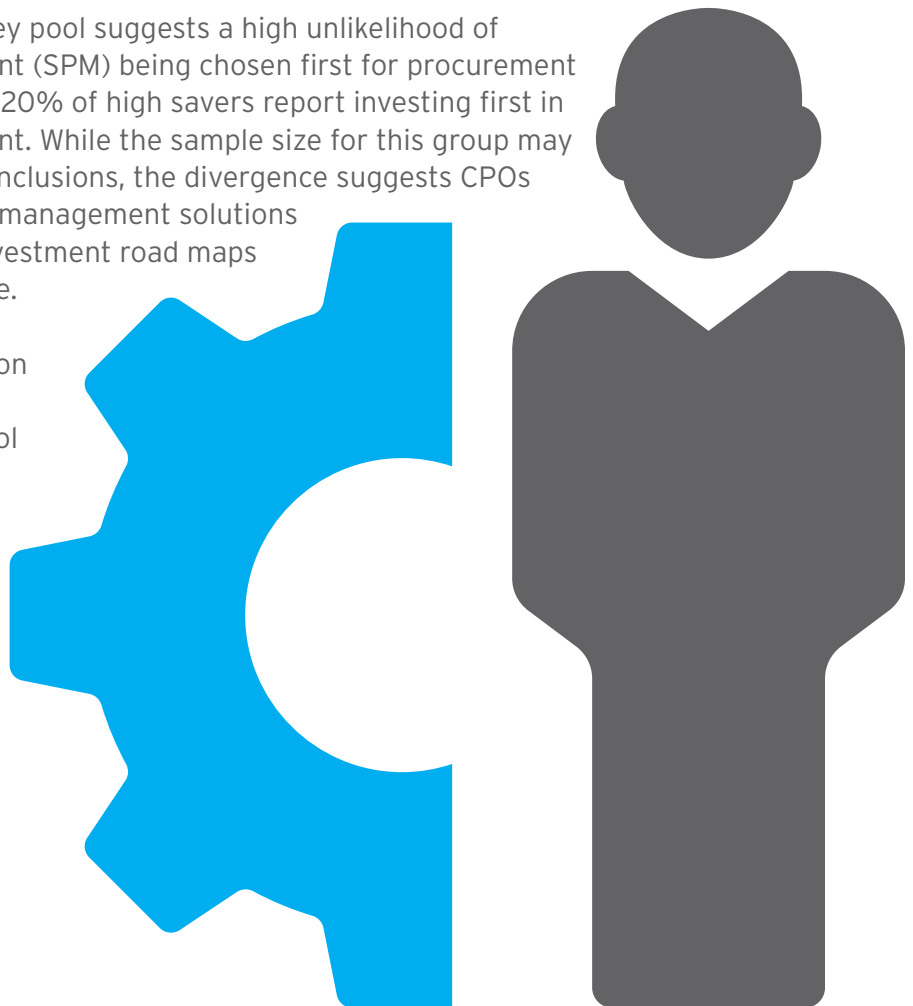
**Small sample size; interpret results with caution.*

PAY MORE attention to supplier performance

Few enterprise procurement groups have the luxury of being handed investment money for all the technology tools and systems they might need to deliver major performance improvements to a business enterprise. More often than not, CPOs must choose one technology entry point and procure-to-pay (P2P), according to the study, is the number-one choice (34%) with spend analytics earning second place (26%). The relative popularity of P2P suggests a majority of procurement groups may be grappling with spend data that is insufficient for actionable spend analytics and need to lock down spend work flows to generate better information moving forward.

Interestingly, while the total survey pool suggests a high unlikelihood of supplier performance management (SPM) being chosen first for procurement tech investment (only 5%), some 20% of high savers report investing first in supplier performance management. While the sample size for this group may be too small to draw definitive conclusions, the divergence suggests CPOs may be wise to consider supplier management solutions somewhat earlier in their tech-investment road maps than they have been doing to date.

The **Australia/New Zealand** region shows a very different profile compared to the overall study pool with some 31% choosing contract management as an entry point for procurement technology investment versus 27% for spend analytics, 23% for P2P and just 4% for supplier performance management.



COURT the boardroom

Of all major corporate process flows, strategic procurement and spend management requires participation and cooperation from virtually everyone. CPOs, if they wish to succeed in driving true business performance improvement, are tasked with cultivating close working relationships with corporate leaders across-the-board. But is there a subset of corporate leadership that matters more, deserves more attention than the rest? According to the study, Strategic Business Unit (SBU) leaders are the collaborators most commonly cultivated by CPOs with 38% citing this group when asked who they court most assiduously. Executive leadership/boardroom, however takes a close second place, earning 34% of the votes. Finance leadership takes third place (20%) followed distantly by IT and legal (4% each) while virtually no one sees HR execs as their most important internal allies.

Procurement groups operating in the **Australia/New Zealand** region are even more likely to focus on cultivating SBU leadership (40%) versus 32% courting the C-Suite/boardroom and 16% focusing mainly on finance.

Slicing by major procurement KPIs, an intriguing split emerges with high SUM and high compliance procurement groups being notably more focused on cultivating SBU leadership versus high savers who are 2X more likely to be cultivating executive/boardroom support and equally likely to be cultivating finance compared to courting SBU leadership.



LOSE the arms' length supplier relationships

A final question addressed in the study focused on potential for performance impacts in how enterprise performance groups choose to approach relationships with suppliers. Only 14% of the overall study pool continues to pursue primarily arm's length relationships with their suppliers, characterized by minimal information and systems integration and little to no co-development or risk sharing. Still, nearly as few (only 16%) have gone to the opposite extreme, building supplier relationships with very high degrees of information and systems integration, co-R+D and equal risk sharing. The vast majority cite



typical supplier relationships falling somewhere in between the two extremes, classifying as collaborative, yet moderate in terms of information, intellectual property or risk sharing.

Looking by major procurement KPIs, the most notable differences show up in the arm's length supplier relationships category: zero percent of high savers cite this as their major approach to supplier relationships while only 5% of procurement groups achieving high process and contract compliance claim the same.

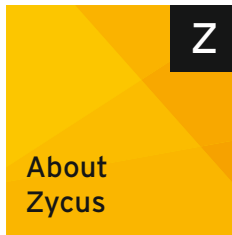
While collaborative supplier relationships are most popular with some 80% of **Australia/New Zealand** procurement groups, some 12% still report arm's length as their key approach to suppliers with only 8% going to the opposite extreme and pursuing more partnership-style arrangements.

Want procurement technology solutions that are **best of breed** AND **fully integrated**?

Reach out to Ankit Aggarwal
(Ankit.Aggarwal@zycus.com) today
to set up an exploratory
solutions workshop that can be individualized
for your enterprise and/or industry segment.

ZYCUSTM

PROCURE PERFORMANCE



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We believe our deep, detailed procurement expertise and a sharp focus on being responsive to our customers has reflected in us being positioned as a 'Leader' in the '2013 Gartner Magic Quadrant' for Strategic Sourcing Application Suites. We continue to see each customer as a partner in innovation and no client is too small to deserve our attention.

We are a 600+ company with a physical presence in virtually every major region of the globe. 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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