ZYCUS
COGNITIVE PROCUREMENT

The 11 Most Important KPIs to Unlock Sustained Procurement Performance in 2023

What is Sustainable Organizational Performance:

Strong financial performance by an organization by meeting the needs and expectations of its customers and other stakeholders on **a sustained long-term basis across economic cycles, and its ability to contribute to environmental & social well-being.**

Why is it important:

Sustainable organizational performance is important for several reasons.

Sustainable practices can help organizations reduce costs and minimize risk, which can contribute to long-term financial stability

Firstly, it makes perfect business sense from a financial point of view: sustainable practices can help organizations reduce costs and minimize risk, which can contribute to long-term financial stability . Consumers and investors are increasingly interested in supporting sustainable businesses, so organizations that prioritize sustainability have a competitive advantage in attracting and retaining customers and investors delivering stronger and mutually rewarding relationships.

Secondly, organizations that prioritize sustainable practices are more likely to minimize their environmental impact and contribute to the long-term health of the planet. While some companies focus on this as good corporate citizens, **there are now laws and regulations in most countries stipulating sustainable practices and standards**. Achieving sustainable organizational performance can help organizations meet these requirements.

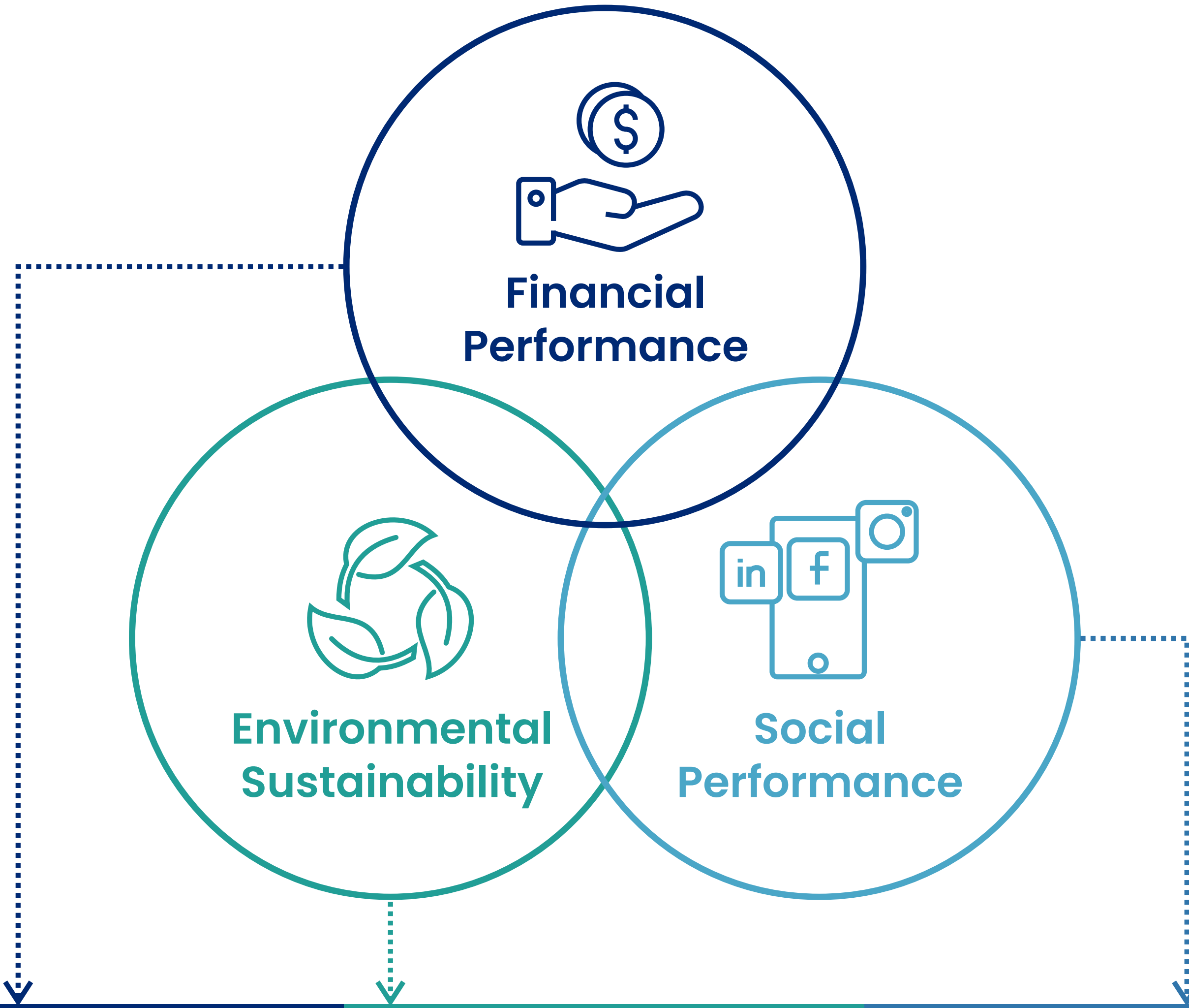
Finally, sustainable organizations often prioritize the well-being of their employees and the communities in which they operate, which improves the organization's reputation and build trust with stakeholders. Employees react well and with resilience to environmental challenges and changes **leading to high performance on all levels in the context of the organization**.

We have identified the right set of metrics to anchor on when CPOs discuss the performance of their function with the CEOs and Boards.

Sustainable Procurement Performance:

Procurement has a crucial role in supporting sustained organizational performance. CEOs are increasingly looking at the procurement function to lead & drive multiple initiatives to support the organizational strategy.

For procurement to be effective, measuring the right metrics is the first step. It is easy to get lost in the myriad of metrics, hence we have identified the right set of metrics to anchor on when CPOs discuss the performance of their function with the CEOs and Boards.



1.1 Hard Savings

  a. Contract Compliance

  b. Sourced through Strategic Sourcing.

1.2 ROI on procurement

1.3 On time & Quality

2.1 % of spend on sustainable products & services

2.2 Supplier sustainability ratings

2.3 Year on year reduction in carbon emissions

3.1 Diversity of supplier base

  a. Percent of active suppliers that account for 80% of total spend

  b. Percent of spend with qualified socioeconomic program – 10-30%

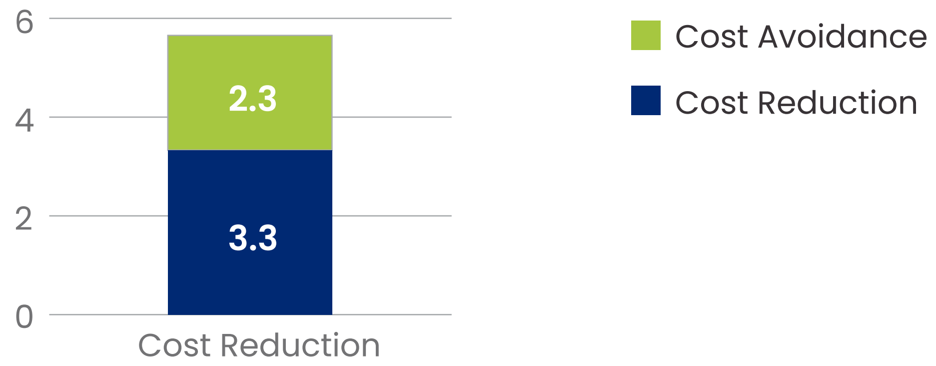
3.2 % of On-time payments / delayed payments

3.3 Number of outstanding litigations with suppliers

1. Financial performance

1.1 Hard savings generated ($ reduction in costs of comparable quantity of goods & services over a period)

Cost savings is a powerful KPI for demonstrating the value of supply management to the business. **On an average companies achieve about 3.5-3.8% of cost reduction as a % of total managed spends, and additionally about 2.2-2.8% of cost avoidance as a % of managed spends depending on the sector**.



Further, **22.3% of sourcing & procurement employees are in a strategic sourcing role, each delivering $6.5 million in total savings on average.**

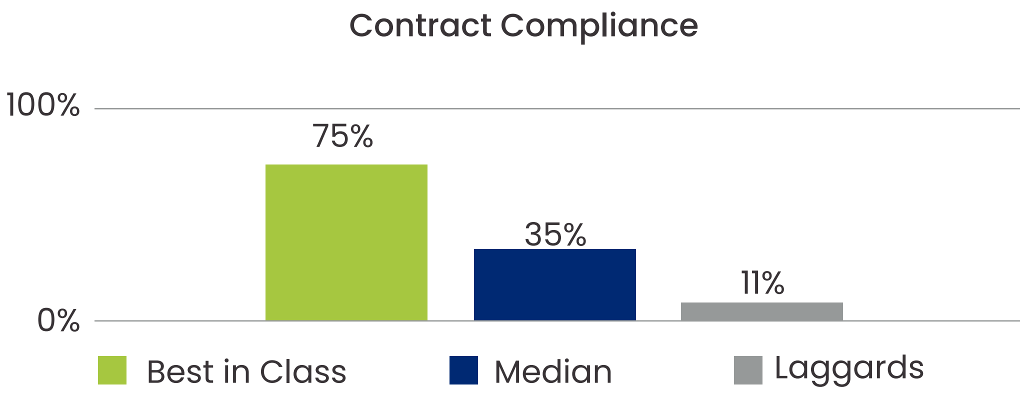
Cost savings depends on the **managed spend which is usually about 75-90% depending on the industry.** The overall spend under management has remained at about 85% across industries over the past decade.

While there are multiple metrics that support the savings metrics, we particularly like to emphasize on the following two:

a. **Contract compliance:** Measures compliant sourcing and is measured as

$$\frac{\text{Managed Spend on Contract with Approved Supplier}}{\text{Total Spend Under Management.}} \%$$

Best in class companies have about 75-80% contract compliance, while the median is about 30-40% . Naturally, this value differs by sector and also spend category.



b. **% sourced through strategic sourcing:** what % of the spend was led or managed by the sourcing team including vendor shortlist, selection and pricing negotiation.

1.2 ROI on procurement

Return on investment (ROI) is a simple way to communicate the value your supply management group delivers to stakeholders.

$$\text{ROI} = \frac{\text{Cost savings (reduction + avoidance)}}{\text{Supply management operating expenses.}}$$

The ROI varies across industries depending on the spend under management. For manufacturing industries, it ranges from 450-600% and is as high as 1000% for financial services companies.

1.3 Quality & on time availability of Goods & Services sourced

Given the recent supply chain shocks and heightened ongoing vulnerabilities, companies are increasingly adopting technology to help them pre-empt and manage these disruptions.

While 80% of the companies have either invested or are investing in risk solutions...

- 1 in 5 companies are already using AI- ML based solutions
- 33% companies are in the process of implementing AI powered solutions in 2023
- Top uses of AI include
  - Invoice Processing
  - AP Inbox Automation
  - Contract Management
  - Spend Analytics

Additionally, eProcurement and self-service of procurement is emerging as a top focus area for CPOs surveyed in Zycus' AI council.

1 in 2 companies plan to shift supply away from high-risk countries to address logistical and geopolitical risks.

2. Environmental performance

Purchasing has always focused on cost management, but cost reduction does not have to conflict with greater sustainability. Sitting at the beginning of the supply chain, purchasing is uniquely positioned to involve suppliers in sustainable operations and ESG/CSR initiatives.

As you set up robust ESG practices within procurement, you should include the following 3 metrics to measure the progress.

2.1 % of spend on sustainable products & services i.e. % of spends on certified sustainable products/ services over total spends

While many companies aim to replace their conventional materials by sourcing environmentally friendly ones such as recycled plastic, recycled steel, green steel and others as part of their climate commitments, buying green is not as easy.

2.2 Supplier sustainability ratings

76% of companies contractually require their suppliers to meet corporate sustainability standards and performance obligations,

76% of companies contractually require their suppliers to meet corporate sustainability standards and performance obligations, to be mindful of people, profit, and planet; however, overall governance and validation of the supply base is not as widely practiced.

Of this, the assessments on environmental sustainability is relatively better as compared to social responsibility though surprisingly, GHG emission data is missing in most cases!

Over the past 2 years, there has been a much stronger focus on demanding supplier disclosures on anti-child labor and anti-human trafficking measures & practices. However it is still on a self declaration basis without external, independent verification.

2.3 Year on year reduction in carbon emissions.

Procurement leaders would particularly be focused on Scope 3 emissions

The CDP estimated that Scope 3 emissions (emissions from upstream and downstream activities of a company) account for an average of three-quarters of a company's emissions. But the importance of **Scope 3 emissions varies considerably by sector with 50-80% of world's GHG emissions for many sectors**. Scope 3 emissions from energy-intensive industries are increasing faster than their Scope 1 and 2 emissions.

While collating data & calculating Scope 3 emissions is difficult, thousands of companies are already disclosing their Scope3 emissions with about 5-6 categories of Scope3 emissions being reported on an average.

3. Social performance

3.1 Diversity of supplier base, suppliers from specific community / region

Diversity has become a top priority for large companies in recent years. Methods for identifying diverse supplier status include internal due diligence, third-party services, and supplier self-identification. Despite the importance of the diversity information collected, supplier diversity managers represent a small fraction of total supply management employees. Typically, 1 or 2 FTEs are employed for this task even in large enterprises. The Financial services sector has relatively better supplier diversity programs, possibly due to specific regulations across different countries.

a. **Percent of active suppliers that account for 80% of total spend:** This typically ranges from 8-15% of suppliers across most companies. i.e spend is usually very concentrated with a few suppliers and then there is a long tail of spends spread across many small suppliers.

b. **Percent of spend with a qualified socioeconomic program** – 10-30% depending on industry / country. However, this is based on a limited study.

3.2 % of On-time payments / delayed payments

Ontime payments is crucial to ensure effective working capital management of suppliers. Approximately 66% of the payments carry a net 45 days term. However, during the pandemic and even post that, the payment terms got

Counterintuitive strategies suggest that large enterprises should make their payment terms more favorable during recessions and economic stress

extended to 60-90% with less than 50% of payments happening within 45 days. Counterintuitive strategies suggest that large enterprises should make their payment terms more favorable during recessions and economic stress to support their vendors and build longer term mutually beneficial relationship.

3.3 Number of outstanding litigations with suppliers

Companies with advanced procurement functions realize that the long-term value from indexing purely on cost negotiation is negative. When buyers and vendors collaborate, they generate greater mutual value. A McKinsey survey of 100 companies across sectors indicated that companies that regularly collaborated with vendors produced a significant quantifiable delta on growth & operating profits. Despite the value at stake, the benefits of supplier collaboration have proved difficult to access.

Hence, we recommend tracking the number and value at stake of the outstanding litigations (or disputes) that you have across your supplier base. This in some sense reflects the cultural mindset of the organization. There are naturally no best-in-class benchmarks, and one cannot expect to have Nil disputes but tracking this, reviewing the supplier base and internally practices will help build a culture of collaboration versus litigation.

- https://sig.org/docs2/WS08_Analyze_This_Procurement_Metrics_That_Matter_The_Hackett_Group_Zycus_2014_10_09.pdf
- https://www.wri.org/update/trends-show-companies-are-ready-scope-3-reporting-us-climate-disclosure-rule

ZYCUS horizon
Virtual | 14–16 March, 2023

In Focus

Sustainable Performance

The global conclave for procurement, legal and accounts payable professionals

Horizon has built a legacy of solving the most pressing and pertinent problems for the procurement, legal and accounts payable communities for the past 10 years.

Here's a glimpse of the issues we have brought to the forefront in the past few editions through a healthy mix of customer transformation stories, analyst industry outlooks and thought leader market insights:

Deliver More with Less: Unlocking Bandwidth for Strategic Initiatives

AI's Analog: Re-Shaping Industries in Revolutionary Ways

Empowering teams: Adoption, Compliance, Collaboration

Resilient Supplier Collaboration: A Team Sport

Cornerstone of Value Realization: Implementing Right & Managing Change

Register Now

Zycus is the pioneer in Cognitive Procurement software and has been a trusted partner of choice for large global enterprises for two decades. Zycus has been consistently recognized by Gartner, Forrester, and other analysts for its Source to Pay integrated suite.

Zycus powers its S2P software with the revolutionary Merlin AI Suite. Merlin AI takes over the tactical tasks and empowers procurement and AP officers to focus on strategic projects; offers data-driven actionable insights for quicker and smarter decisions, and its conversational AI offers a B2C type user-experience to the end-users.

Zycus helps enterprises drive real savings, reduce risks, and boost compliance, and its seamless, intuitive, and easy-to-use user interface ensures high adoption and value across the organization.

Start your #CognitiveProcurement journey with us, as you are #MeantforMore.