

High performance through procurement:

Accenture research and insights into
procurement performance mastery

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Contents

Introduction	3	The characteristics of procurement mastery	14
Executive summary	4	Strategy	14
Survey demographics	6	Sourcing and category management	18
Survey insights	8	Requisition to pay	20
The dimensions of procurement mastery	10	Supplier relationship management	21
		Workforce & Organization	23
		Technology	26
		Procurement mastery and high performance	28
		Contacts	30

Terminology

Note that throughout this document we refer to companies in three categories: procurement low performers, midrange performers and masters. See Figure 4 on Page 9 for a full explanation of how these categories were constructed.

Introduction

This report is part of an ongoing series of cross-industry studies in supply chain management. Its mission (consistent with previous Accenture reports focused on sourcing and procurement¹) is to tally, chart and analyze the responses of executives from companies around the world—senior decision makers whose principal roles involve procurement specifically, or procurement as a key subset of broader supply chain management responsibilities.

For this research effort, we sought to create and quantify a new term—“procurement mastery”—and then explain its relationship to high performance (the traits exhibited by those companies that consistently outperform their peers). The data and analyses contained in the report clearly show that procurement mastery does contribute to high performance. By explaining the basic dimensions of procurement mastery, followed by mastery’s relevance to four procurement processes (strategy, sourcing and category management, requisition to pay, and supplier relationship management) and two key enablers (workforce & organization and technology), we are confident that the evidence is compelling—procurement mastery is a worthy and cost-effective goal for any organization.

¹ Previous Accenture research reports include: “e-Procurement: Pioneers on the way to realizing benefits. Accenture pan-European survey” 2001; “The buying organization of the future” 2002; “Executive insights into the growing use of procurement outsourcing” 2003; “Where East meets West: Driving high performance in low-cost country sourcing” 2004; “Designed to differentiate: How procurement leaders are using supplier relationship management to achieve high performance” 2005.



Executive summary

Few corporate functions have evolved more dramatically than procurement. As recently as the 1970s, it was generally regarded as a clerical, reactive position—a cost center. At many companies, the exact opposite now is true: Procurement has become a strategic, proactive process that contributes as much as—or more than—other business functions to profitability, corporate growth and competitive advantage. But although the strategic nature of procurement has changed completely, its core goals have changed very little. Then, as now, procurement is all about obtaining high-quality goods and services for the lowest possible total cost of ownership. In net, processes and potential are what's new about procurement—new strategies, insights, partnerships and technologies applied to the singular objective of acquiring low-cost, high-quality products.

The fact remains, however, that most companies continue to undervalue and underoptimize their procurement functions. This is far more than a semantic

observation. As shown in this report, the 16 percent of surveyed organizations whose procurement achievements warrant “master” status enjoy productivity levels that are 30 percent higher than companies of lesser stature. Yet the masters' procurement organizations typically cost half as much to run. Lower cost and higher productivity are the hallmarks of procurement mastery.

In this report, Accenture has sought to shed the freshest-possible light on the art and science of procurement—to define, understand, quantify and present examples of procurement mastery. In this way, we expect to help companies understand where they reside along the path to mastery, and provide a framework for improving performance regardless of their current competence. Inputs from several hundred senior procurement executives in a dozen industries are the basis for our insights: The dimensions of procurement mastery (page 10) and the characteristics of procurement mastery (page 14).

In reviewing the dimensions of procurement mastery (examining those organizations that concurrently excel in terms of total cost of ownership; total controllable spend; the ratio between total cost of ownership reduction and procurement operating cost; leverage in new product design/introduction; and supplier management) we determined that:

Procurement masters excel across the board.

They exceed the survey average in strategy, sourcing and category management, requisition to pay, supplier relationship management, workforce & organization, and technology.

Procurement mastery is a clear predictor of high performance through procurement.

A strong link can be drawn between procurement masters and the five procurement metrics upon which survey recipients were measured (total cost of ownership savings, percentage of spend controlled by procurement, and so on).



Procurement masters achieve higher savings.

Based on controlled, normalized spend from one year to the next, procurement masters save almost 10 times as much as it costs them to operate their procurement organizations. This is more than twice the savings achieved by low performers. (See Figure 4 for a complete description of procurement masters, midrange performers and low performers).

Procurement masters face fewer organizational challenges.

And the challenges they do confront generally are less constrictive or severe than those faced by procurement organizations of lesser stature. Naturally, this implies a more effective operation—one whose structure encourages the pursuit of greater savings or increased operational effectiveness.

To meet our other survey objective—identifying the characteristics of procurement mastery—Accenture looked practically at respondent profiles as they

relate to four procurement processes (strategy, sourcing and category management, requisition to pay, and supplier relationship management) and two key enablers (workforce & organization and technology). Underpinning these six characteristics are 160 measurable queries as they relate to the two extremes of performers. In the strategy category, for example, we determined that procurement masters invariably have a clear mandate from—and a better overall relationship with—senior management. Basically, masters' strategies enjoy boardroom awareness and, consequently, boardroom support. In requisition to pay, we found that procurement masters are 10 times more likely than low performers to provide clear and documented buying channels to the end user. It's also far more common for masters to use a supply-base segmentation strategy and to log and manage contracts centrally. In fact, 100 percent of procurement masters have implemented a structure of centrally led category management.

The bottom line is that a strong and clear-cut case can be made for procurement mastery: Companies that excel in procurement still face significant challenges in their ongoing efforts to outpace the competition. These challenges are also profiled in this report. However, procurement masters have a clear advantage over the competition: Fundamentally, they operate more efficiently and effectively than companies that do not excel in procurement. Procurement masters do more with less.



Survey demographics

To understand and document the principles, practices and perspectives associated with procurement mastery, Accenture solicited procurement-related input from executives at leading companies across North America, Europe and Asia. During the summer and fall of 2006, nearly 600 responses were received. From that group, Accenture opted to undertake an extensive analysis of the 225 respondents that gave the most detailed answers to our series of questions. Insights around the dimensions of procurement mastery and the characteristics of procurement masters comprise the body of this report.

As shown in Figure 1, the aggregate rank of the survey population is exceptionally high: 82 percent of the interviewees are chief procurement officers or directors of procurement. In addition:

- 74 percent of respondents are responsible for procurement on a company wide level.
- 83 percent have at least five years of experience in procurement; 59 percent have at least 10 years.
- 50 percent represent businesses with US\$5 billion or more in annual revenue as of 2005.

Survey respondents and their organizations also hail from a wide mix of industries and geographies. As shown in Figure 2, resources and communications and high tech are the most well represented business areas. Geographically speaking, US and Canadian companies constituted 20 percent of the survey population, followed by France (14 percent); Italy (11 percent), United Kingdom and Germany (8 percent each); the Netherlands (7 percent); Latin America (5 percent); Spain (4 percent); and Belgium, Denmark, Sweden and Switzerland (3 percent each). Representation from other countries comprised the remaining 11 percent.

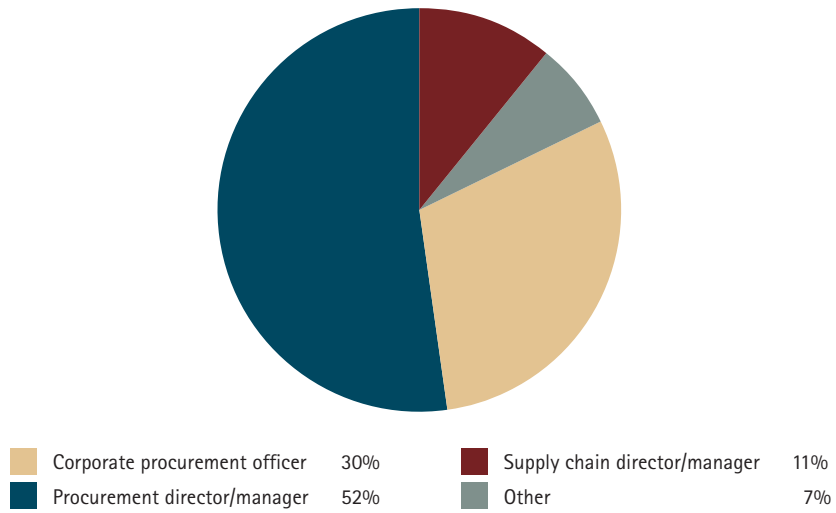


Figure 1. Survey participants by job function.

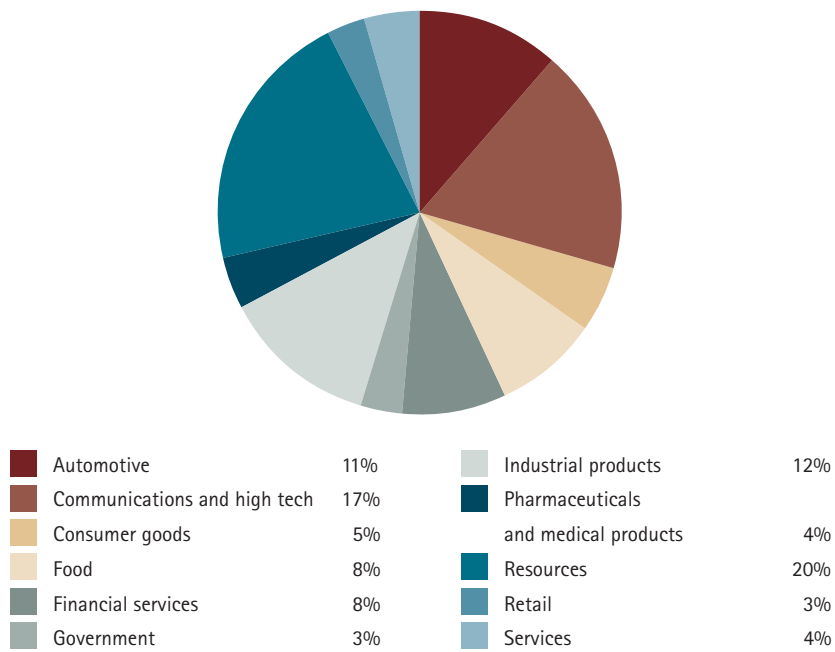


Figure 2. Survey participants by industry.



Survey insights

Through surveys and interviews, Accenture set out to build a profile of procurement effectiveness—to make clear, measurable distinctions among procurement masters, midrange performers and low performers. Using these metrics-based definitions, we then sought to measure the extent to which procurement mastery correlates with leadership across the activities most frequently associated with procurement.

The process began with Accenture's selection of four procurement processes (strategy, sourcing and category management, requisition to pay, and supplier relationship management) and two key enablers (workforce & organization and technology). These were then grouped into the six characteristics of procurement profiled later in the report and illustrated in Figure 3. For each of the six, we developed approximately 25 queries relating to respondents' procurement effectiveness, competency and sophistication. For example, in sourcing and category management, we asked about formal processes of cross-functional collaboration, focusing rigorously on total

cost of ownership (where 1=minimal, 5=extensive). For requisition to pay, we asked about the existence of a common user portal for efficient requisition processes for all categories (where 1=none, 5=fully standardized). For supplier relationship management, we asked

about partnership approach, joint process and product improvements with regular target measurement (where 1=nonexistent, 5=significant). All together, 160 measurable queries were logged for each of the survey's 225 executive participants.

- | | | |
|--|--|--|
| 1. Procurement strategy | <ul style="list-style-type: none"> • Vision, mission, core values • Operating model | <ul style="list-style-type: none"> • Performance management • Category strategic planning |
| 2. Sourcing and category management | <ul style="list-style-type: none"> • Strategic sourcing • Category policy setting | <ul style="list-style-type: none"> • Category management framework • Compliance monitoring |
| 3. Requisition to pay | <ul style="list-style-type: none"> • Transaction processing • Assisted buying | <ul style="list-style-type: none"> • Master data management • Fulfillment |
| 4. Supplier relationship management | <ul style="list-style-type: none"> • Supplier performance management • Contract management | <ul style="list-style-type: none"> • Supplier development and integration |
| 5. Workforce & Organization | <ul style="list-style-type: none"> • Having the right network of competent people | <ul style="list-style-type: none"> • Organization that facilitates working together |
| 6. Technology | <ul style="list-style-type: none"> • Technology that delivers the right information | <ul style="list-style-type: none"> • Systems cover all functions: strategy to operations |

Figure 3. The six procurement characteristics assessed for Accenture's Procurement Mastery research.

From its analysis of executives' responses, Accenture was able to create basic profiles of procurement low performers, midrange performers and masters. These categories were calculated by identifying an average score across the 225 companies (based on their 1-through-7 responses to the 160 statements). Companies within this average range were deemed procurement midrange performers. Procurement masters then were defined as organizations whose combined responses placed them one standard deviation better than the survey average. Procurement low performers went the other way— organizations whose responses place them one standard deviation below the survey average (see Figure 4).

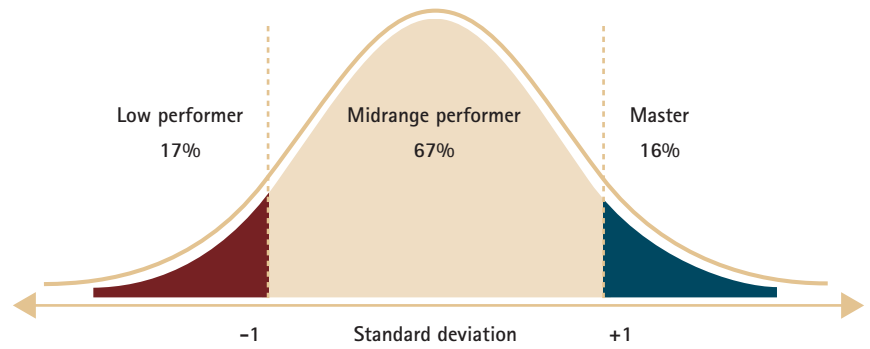


Figure 4. Research-based distinctions among participants.

Next, Accenture collected executives' responses to a select group of questions relating to companies' actual procurement performance. As shown in Figure 5, five objective measures were presented, with survey recipients asked to provide specific, numerical responses. These replies became the performance benchmarks against which the master, midrange performer, and low performer categorizations could be compared.

1. Total cost of ownership savings	Total cost of ownership saving
2. Total controllable spend	Percentage of spend controlled by procurement
3. Total cost of ownership savings / operating cost	The ratio between total cost of ownership reduction and procurement operating cost
4. New product development	Percentage of new product designs/introductions in which procurement has a material role
5. Formally managed suppliers	Share of suppliers managed through a formal process

Figure 5. Performance measures: Total cost of ownership savings refer to savings compared to "controlled, normalized spend" accounting for all costs over a complete life cycle (including price, usage and administrative costs).



The dimensions of procurement mastery

Procurement masters are different. They approach the function more strategically and holistically. They engage more fully with suppliers and frequently work to partner rather than bargain. Perhaps most importantly, procurement masters are technology leaders: They use processing power to increase efficiency; make better or faster decisions; leverage and focus internal skills; and connect with suppliers and third parties.

This pan-functional superiority is the first dimension of procurement mastery—a key finding of this research initiative. Basically, procurement masters excel across all six of the functional components that Accenture measured. As illustrated in Figure 6, a procurement master earned this label not because it exceeded the survey average in most categories, but because it exceeded the survey average in all categories. In-depth profiles of what it means to be a procurement master in strategy, supplier relationship management, technology and so on follow in the next section. But with respect to mastery's dimensions, a core

finding is that masters excel across the board and that the different processes work together to form an integrated value chain.

In addition to confirming procurement masters' edge in each of the six measured functions, Accenture noted clear superiority in overall procurement performance. As illustrated in Figure 7, procurement mastery is a clear predictor of superior performance across the five procurement metrics noted in Figure 5 (total cost of ownership; total controllable spend; total cost of ownership as a percentage of procurement operating cost; leverage in new product design/introduction; and supplier management). This finding is confirmation of Accenture's core belief that companies excelling in procurement operate more efficiently and effectively than companies that do not. Simply put, their efforts are rewarded.

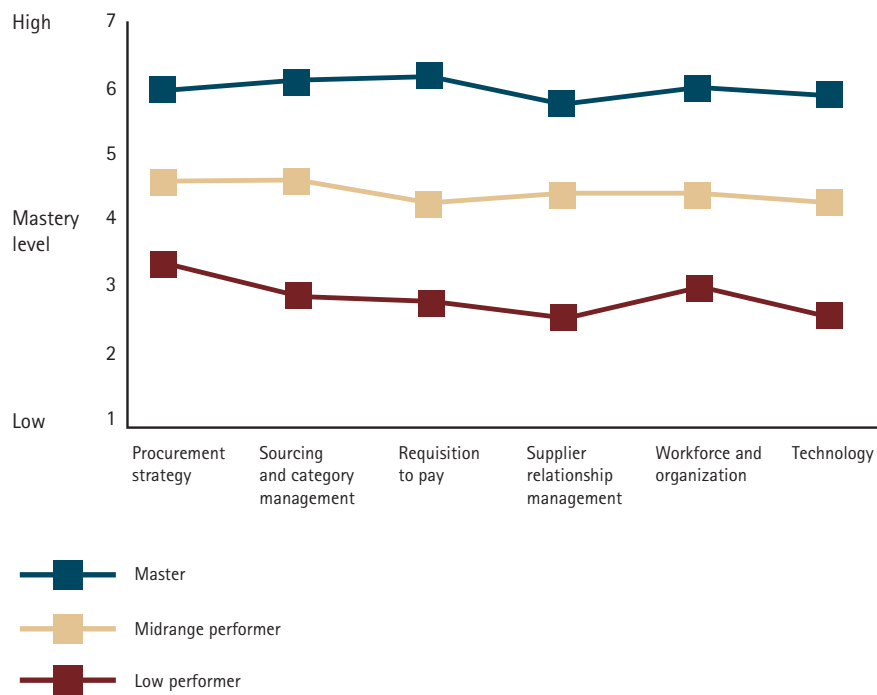


Figure 6. Procurement masters excel across the board.

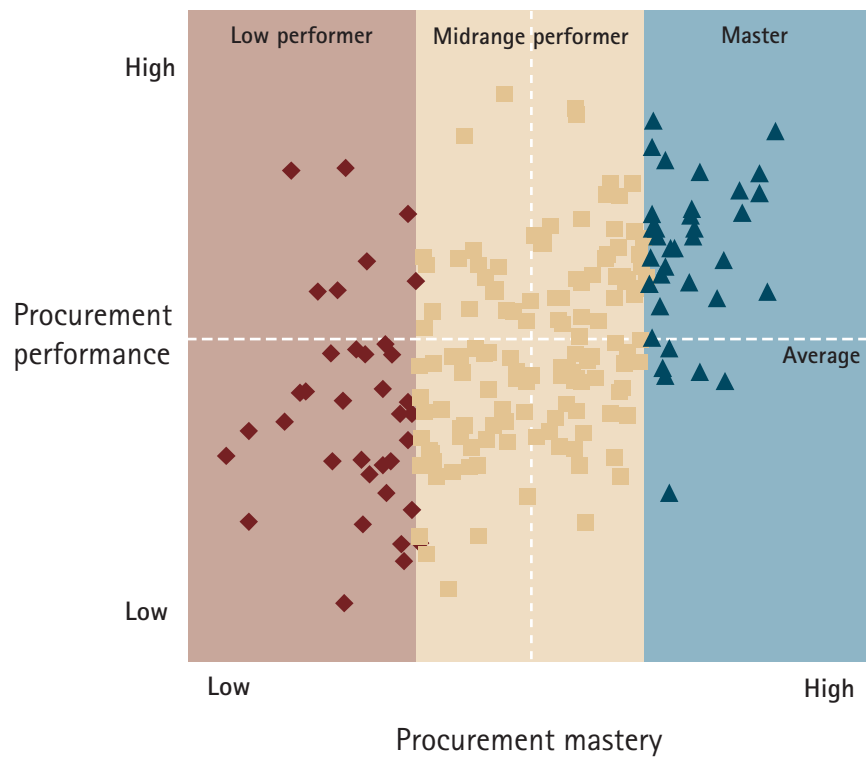
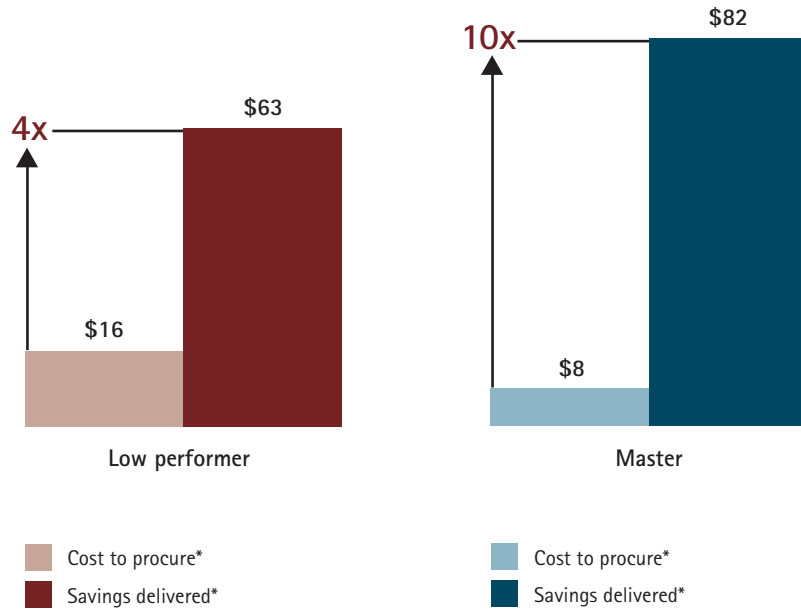


Figure 7. Procurement mastery and procurement performance. NOTE: The scatter diagram was created by applying regression analysis, including typical testings; that is, on normal distribution or auto correlation.

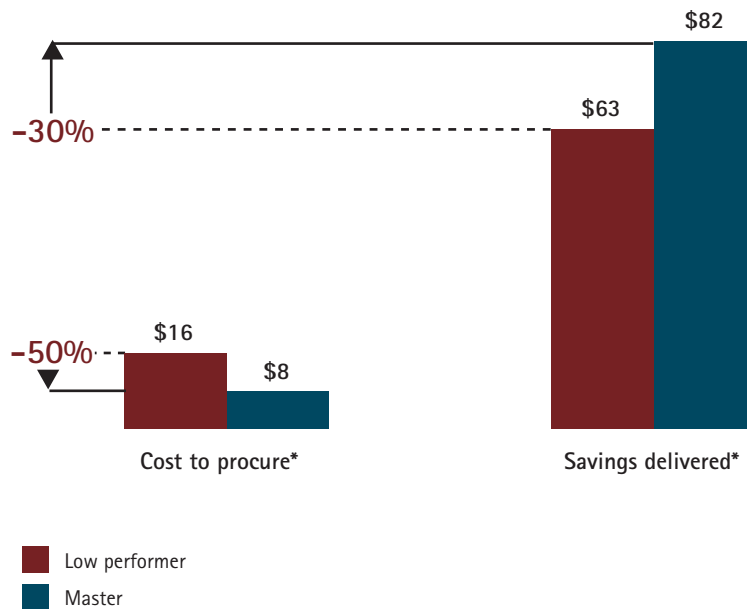
Consider the following illustration of procurement mastery's performance-improvement potential. Accenture has determined that procurement masters achieve significantly higher savings than the balance of the survey population. Based on controlled normalized spend from one year to the next, masters save almost 10 times as much as it costs them to operate their procurement organizations. According to our experience, the very best companies deliver a ratio of eight to 10 times the cost of running their procurement organizations. Ineffective organizations, on the other hand, deliver a ratio of about three to four times. The right side of Figure 8 shows that survey respondents qualifying as masters achieve savings equal to 10 times the cost of running their organizations. By contrast, the savings achieved by the procurement low performers are only four times their costs (left side of Figure 8). In effect, masters spend half as much as low performers, yet they save 30 percent more. For a company with US\$1 billion in controlled spend, this means a procurement master would incur costs of US\$8 million and savings of US\$82 million, while a procurement low performer would incur costs of US\$16 million and savings of only US\$63 million (Figure 9).

Lastly, the organizational challenges procurement masters face are often less constrictive or severe than those faced by midrange performers or low performers. Naturally, this implies a more effective operation—one whose structure does not act as an impediment to the pursuit of greater savings or increased operational effectiveness. Perhaps the most dramatic example is "lack of authority to get things done." Compared to procurement masters, low performers were almost three times more likely to cite this as a problem. Master organizations with tightly defined metrics and a clear hierarchy obviously get things done in a way that low performer organizations cannot.



* on a US\$1 billion controlled, normalized spend volume

Figure 8. Comparing cost savings: On US\$1 billion of controlled, normalized spend, procurement masters save 10 times as much as it costs them to operate their procurement organizations.



* on a US\$1 billion controlled, normalized spend volume

Figure 9. On US\$1 billion of controlled, normalized spend, procurement masters achieve 30 percent higher savings with costs that are 50 percent lower.

As shown in Figure 10, executives were asked: "As you think about where your organization is today versus where you would like it to be, what are the top three challenges that keep you from achieving your ideal?" There were several categories in which the difference in challenges was nominal. For example, companies at all procurement-competency levels noted that poorly designed organizational structures can be huge impediments to success. However, in one of the categories—excessive focus on cost—it is good that masters are more likely to perceive it as a barrier. It tells us that they are more likely than low performers to know that an acquired item's cost is only one of several determinants of a purchase decision.

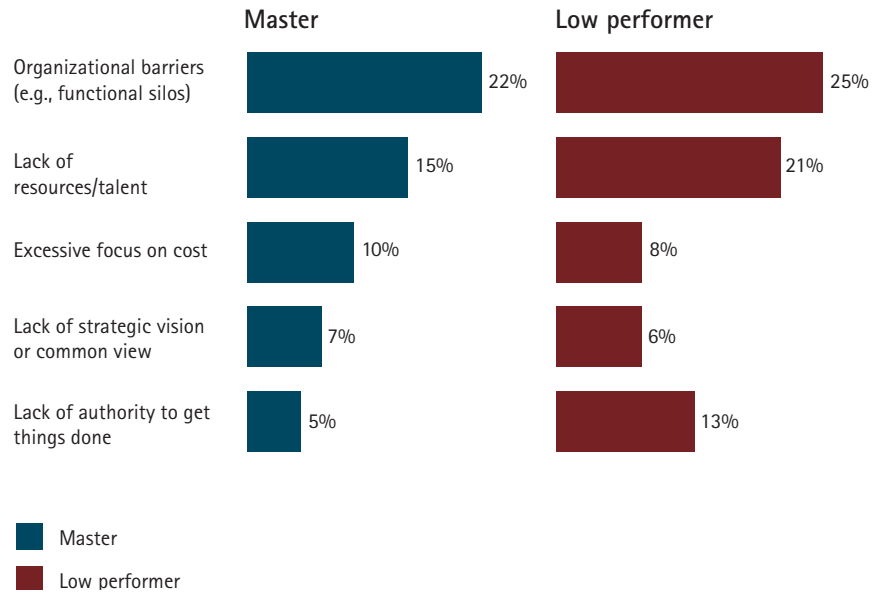


Figure 10. Top organizational challenges.

In the following section, the characteristics of procurement mastery, we look more closely at what it means to be a procurement master in strategy; sourcing and category management; requisition to pay; supplier relationship management; workforce and organization; and technology.

Masters spend half as much as low performers, yet they save 30 percent more. For a company with US\$1 billion in controlled spend, this means a procurement master would incur costs of US\$8 million and savings of US\$82 million, while a procurement low performer would incur costs of US\$16 million and savings of only US\$63 million.



The characteristics of procurement mastery

Characteristic 1: Strategy

Compared to midrange performers and low performers, procurement masters think, plan, operate and interact more strategically. For example, they look and think three to five years out when planning purchases for critical business categories. By closely examining future business needs and market trends, masters are better positioned to acquire the right items at the right cost at the right time. Procurement masters also have a clear mandate from top management. Masters' strategies enjoy boardroom awareness and support. In return, they frequently implement mechanisms (for example, shared services or outsourcing business models) that promote accountability across the purchasing cycle and in relationships with related business areas such as engineering, manufacturing and field service. Lastly, procurement masters do a better and often more innovative job of measuring procurement performance.

Most use a balanced scorecard approach and apply a clear definition of value across the company.

The procurement masters identified in this report also are clearly distinguishable from midrange performers and low performers. Following are the six most-dramatic differences between the various groups' strategic approaches (see Figure 11):

- **Proactive strategic category planning** refers to the ability to drive a formal process in collaboration with key business owners for all primary spend areas. Strategic planning is typically executed every three to five years and revised yearly.
- **Clear mandate** means that procurement is supported by a formal operating model that allows the organization to implement meaningful and lasting change.
- **A balanced scorecard** is used by procurement to measure performance against targets, which are cascaded down to all teams.
- **Value acceptance** means that a clear definition of value has been inculcated throughout the company. Both procurement value and bottom-line results are tracked and validated independently.
- **Benchmarking with competitors** refers to the organization's ability to fully understand and track competitors' activities, and compare performance to them.
- **Make versus buy** means that a company has made an informed decision about outsourcing all or part of the procurement value chain.

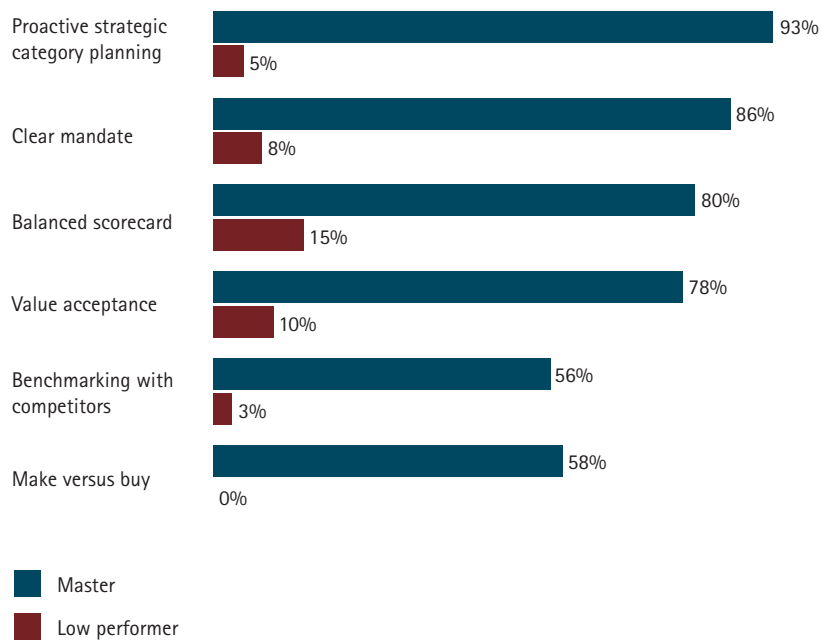


Figure 11. Percentage of survey respondents (masters versus low performers) that engage in, or perform, a specific strategy-related practice.

Outsourcing as a procurement strategy

A critically important decision confronting procurement strategists is outsourcing—deciding whether or not to transfer activities relating to sourcing, category management, requisition to pay and supplier relationship management to a third party. Outsourcing can occur on many levels: from the migration of a company's procurement infrastructure, through the more complex transfer of one or more transaction-type processes, to a third party's assumption of strategic responsibilities, such as strategic planning, sourcing management and spend optimization by category. The most frequent motivators are greater levels of cost savings and value; access to cross-company business intelligence; the opportunity to avoid future capital expenditures by leveraging existing technology platforms; the ability to leverage a pre-existing global delivery model; the ability to focus on mission-critical initiatives; increased access to supply market expertise; speed to value;

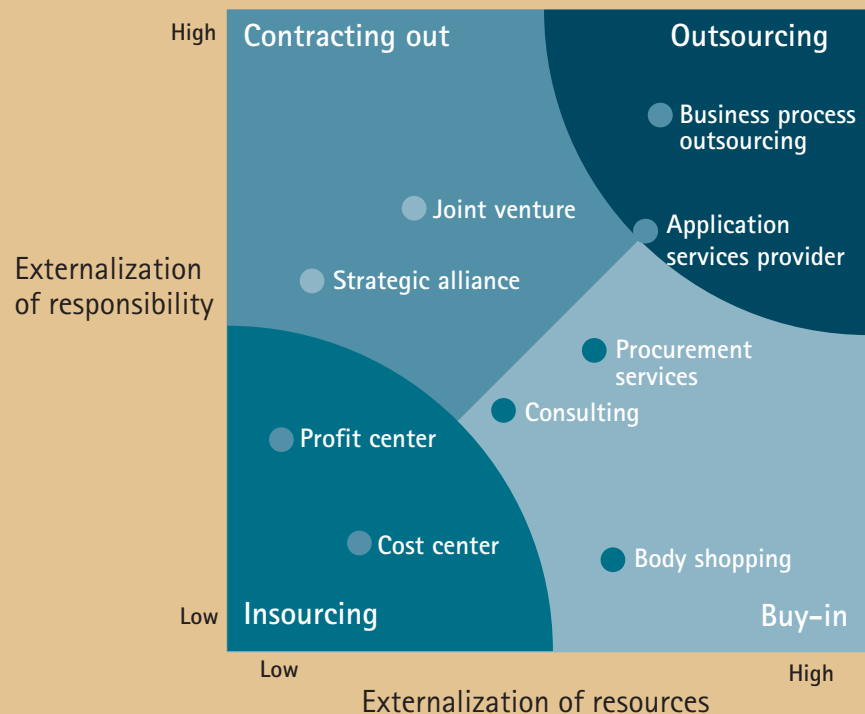
improved user experience; and certainty of outcomes. In net, outsourcing the source-to-pay process can reduce risk and increase control of inefficient or incompatible processes and technologies.

Our survey showed that procurement masters use outsourcing business models more than low performers do. For transaction management outsourcing, 27 percent of masters use outsourcing and contracting out, compared to 8 percent of the low performers. When it comes to outsourcing the purchase of indirect goods, 34 percent of masters use outsourcing and contracting out for purchasing indirect goods while 18 percent of low performers do so.

The make or buy decision for procurement

"Make or buy" is the principal basis for a company's decision on how to work with an outside services provider. As shown (right), there are four main sourcing alternatives:

- Insourcing (procurement as a profit- or cost-center): Full operational responsibility remains in house, with few or no external resources deployed.
- Buy-in: Full operational responsibility remains in house, but external resources such as consulting, auctioning or transaction processing services are "bought" periodically.
- Contract out: The procurement organization "contracts out" to a procurement center or hub, which still belongs to the company.
- Outsourcing: A third party assumes complete operational responsibility, including human resources assigned to sourcing, transaction processing, category management, call center, application management and so forth.



With respect to indirect spend, 34 percent of the procurement masters identified in this survey either outsource (transfer their procurement resources to a third party) or “contract out” (engage third parties to manage their procurement resources). This is almost twice as high as low performers, 18 percent of which outsource the procurement of indirect materials.

Figure 12 illustrates relative outsourcing frequency for each of six activities generally associated with a third party's takeover of transaction-management responsibilities. Given these percentages, it's clear that procurement outsourcing is a “leading practice”—a strategy that is significantly more prevalent among masters than among companies in general.

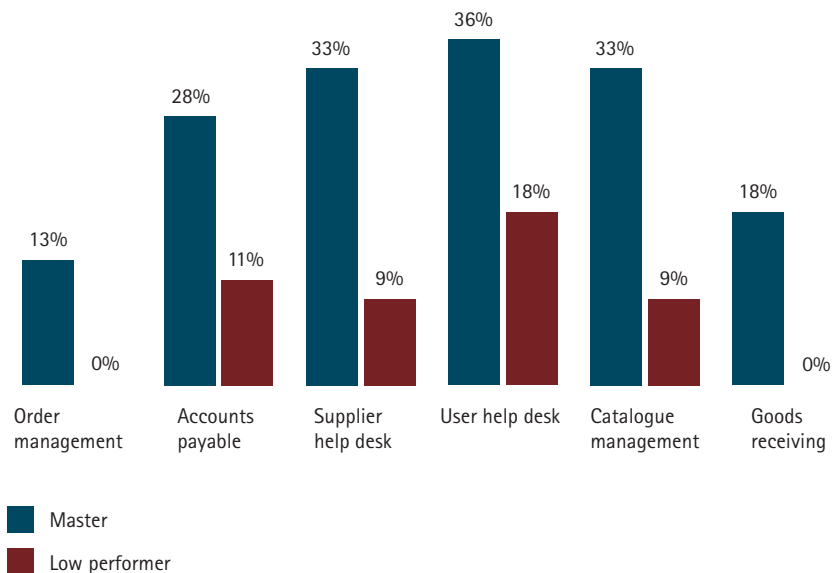


Figure 12. Percentage of survey respondents (masters versus low performers) that outsource or contract out key transaction management functions.

Case study: Outsourcing as a core procurement strategy

Prior to 2002, rapid growth from sustained, aggressive acquisitions had seriously complicated Deutsche Bank's procurement operations. The company faced decentralized purchasing, little standardization of design specifications, minimal transparency, limited availability of management information and almost no ability to leverage bulk buying power.

Deutsche Bank transitioned its core SAP procurement processing platform and rebuilt procurement solutions based on SAP software and reengineered procurement processes, undertaking ongoing innovation of all aspects of the solution—technology, processes and people. With state-of-the-art systems, tools and processes to manage Deutsche Bank's entire procure-to-pay process, the bank is now able to focus on its core competencies, make wiser procurement decisions and better control its procurement expenses.

Characteristic 2: Sourcing and category management

Among the more than 25 metrics that Accenture used to identify leading practices in sourcing and category management, the five described in Figure 13 are particularly noteworthy. For example, all companies classified as procurement masters have implemented a centrally guided category management structure that cuts across organizational entities. And almost 90 percent of masters have a "leading practice" strategic sourcing process and structure in place—one that emphasizes:

- Common processes across the company.
- Widespread use of cross-functional sourcing teams for managing projects, formulating strategies, managing supplier selection and implementing contracts.
- Activities that are formally tracked.
- A tight focus on total cost of ownership.
- An end-to-end, supply chain-wide orientation, with top-down administration from a procurement or category board. These boards typically include senior people from different technical and user departments, as well as the procurement organization and project leaders.

Procurement masters also were shown to be 16 times more likely than laggards to have a dedicated sourcing analyst pool that provides support during the sourcing and category management process. A similarly high ratio exists for companies' deployment of global sourcing methods and strategies. For masters, global sourcing is an ongoing, flexible and constantly shifting activity. But it is guided by a formal mechanism whose mission is to constantly seek new opportunities to reduce total cost of ownership.

As our survey indicates, a key differentiating practice is the way masters leverage global sourcing: They adopt a holistic approach. For 87 percent of masters, low-cost country sourcing is a key lever for value creation, not executed through ad-hoc opportunistic projects with agents, but by applying a well orchestrated set of direct sourcing projects based on total landed cost decisions. Masters review their complete spend profile in a systematic way, making sure they understand the cost structure of each of their key categories. Masters reengineer processes, cutting the lead times for switching suppliers and ensuring that logistics, quality, purchasing and engineering all cooperate effectively. They work closely with the new suppliers to make them fully aware of requirements and how to fulfill them and, when necessary, they invest in supplier development programs.

Companies must therefore take a more integrated view, bringing together their processes and practices, combining cultures and skills with well-defined roles and responsibilities. Clearly, what separates the masters from the rest is their ability to do so by executing a global sourcing plan.

By using a network of international procurement offices in key low-cost country markets, masters are able to implement and maintain local supplier relationships and achieve excellence in execution.

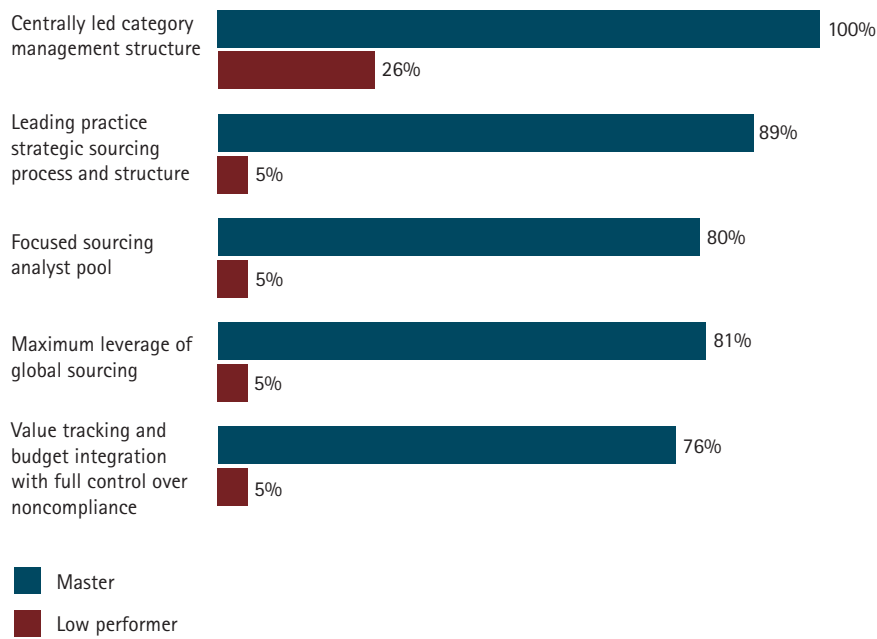


Figure 13. Percentage of survey respondents (masters versus low performers) that engage in, or perform, specific sourcing and category management capabilities.

Case study: Sourcing and category management

An international electronics manufacturer worked intensively to involve the finance function in its recent launch of a new companywide global sourcing process. Toward this end, each global sourcing project was assigned a benefit target—stated in terms of spend reduction, working capital reduction, process savings and so on. With finance’s input, clear definitions and measures became part of the process.

A new value-tracking tool helps each member of the cross-functional sourcing team capture and log financial and other project-related information. When a team agrees on a sourcing strategy for a given category or project, the value-tracking tool is updated with savings estimates that become part of the budgeted savings. From that point on, the teams concentrate on updating forecasts and actuals, with all numbers tied directly to financial reporting. The difference between project value created and actual bottom-line cost savings is handled by a monthly financial-bridging exercise that addresses the impact of volume, market prices, and so on.

The end result was a highly successful chief procurement officer-led procurement transformation, with the value-measurement process affording the cross-functional teams full credit for a 10 percent reduction in cost of goods sold.

Characteristic 3: Requisition to pay

Requisition to pay is shorthand for an integrated procurement process. Defined and practiced by procurement masters, it implies an end-to-end perspective, with activities bound to each other by transparency, common goals and common metrics. Requisition to pay is all about integration, visibility and standardization. Superior practitioners in requisition to pay were found to share numerous characteristics, and to differ widely from the approaches of procurement midrange performers and low performers. Five examples are illustrated in Figure 14. First and foremost, 83 percent of procurement masters and only 8 percent of procurement low performers excel at providing clear and documented buying channels to the end user. Unlike low performers, masters' category-specific processes are carefully defined and consolidated through buying portals. Similarly dramatic disparities exist across the other four categories.

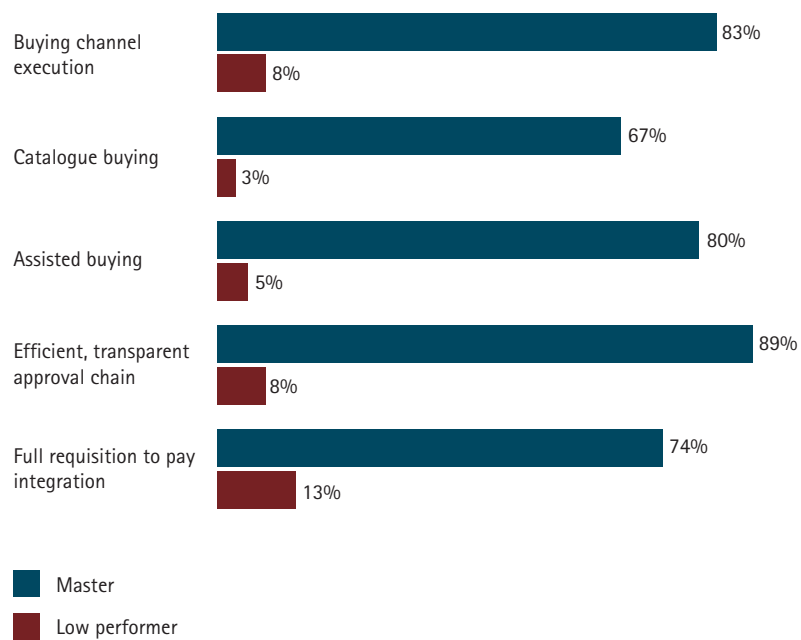


Figure 14. Percentage of survey respondents (masters versus low performers) that engage in, or perform, specific requisition to pay capabilities.

Case study: Requisition to pay

Industrialization, automation and integration were key to the successful transformation of the requisition to pay process at a leading financial services company. Prior to the transformation, the procurement organization was weighed down by fragmented, inefficient processes; misaligned procurement and payment procedures; an inconsistent information technology landscape; and complex approval hierarchies. Technology and process redundancy and insufficient standardization also were problems in many of the regions where the company operates.

The organization's chief procurement officer responded with a program geared to clarifying and increasing awareness of buying channels; streamlining approval flows by redesigning processes and increasing automation; and fully aligning the company's order management and accounts payable functions in a transaction center layout. The project increased requisition to pay efficiency by nearly 30 percent.

Characteristic 4: Supplier relationship management

In no other category are the disparities between master and low performer greater than in supplier relationship management. In fact, the simple size of the gap suggests that supplier relationship management is a leading practice in itself—that the intelligent, aggressive practice of supplier relationship management is readily indicative of high performance through procurement.

As previous Accenture research² has shown, there is a tangible prize for supplier relationship management leaders; they achieve 5 percent savings from both sourcing and post-contract activities against total procurement operating spend, compared to 3 percent savings for the remaining survey respondents and they realize a threefold increase in benefits.

Looking closely at four of the most illustrative differences (Figure 15), it is clear that masters excel by using a supply-

base segmentation strategy that aligns approaches and types of relationships with specific supply markets and supplier characteristics—including relevant strengths and weaknesses, product complexities, and geographies. It is this proficiency that abets other capabilities, such as forging deeper relationships with key suppliers, establishing long-term partnering agreements, and even developing joint operations based on knowledge sharing, seamless processes and mutually beneficial product improvements. A partial exception among these advancements is formal risk/reward-sharing programs, which have been implemented by only 46 percent of procurement masters but barely 3 percent of procurement low performers. Perhaps most important, research results show that procurement masters are three times more likely than low performers to have a formal program for managing their supply base.

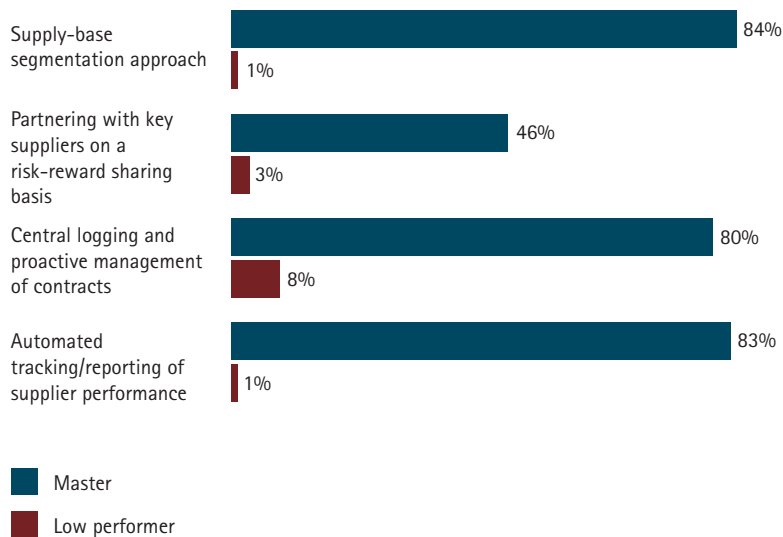


Figure 15. Percentage of survey respondents (masters versus low performers) that engage in, or perform, specific supplier relationship management capabilities.

² "Designed to differentiate: How procurement leaders are using supplier relationship management to achieve high performance," Accenture, 2005.

Case study: Supplier relationship management

A global industrial conglomerate in aerospace, food-manufacturing equipment and technical services has been working to master procurement processes such as strategic sourcing, contract management and compliance management. It now is focusing on developing and sustaining long-term relationships with key suppliers, and achieving mastery in the monitoring and management of supplier performance.

Three stages comprise this effort. First is the establishment of a formal supplier-development process and a consistent set of key performance indicators for measuring supplier performance. Forty-four key performance indicators were established across four main categories: quality, logistics, technology and cost. Each key performance indicator includes specific descriptions and measurements.

The second phase emphasizes the deployment of these two capabilities. The third phase involves an information technology solution that automates the entire process. Key to these phases are "improvement action plans" that transform key performance indicator results into clearly defined business cases for the implementation of specific improvements.



Characteristic 5: Workforce & Organization

According to Accenture research, procurement masters excel at building results-focused procurement processes, as well as results-oriented procurement organizations. The clearest evidence is the first item in Figure 16, which shows that 100 percent of masters follow a management-by-objective approach, compared to only 15 percent of low performers. Clearly, procurement masters are more committed than most to improving communication and visibility, and helping employees understand company goals and the contributions they make to those goals.

set of strategic projects. But success in sourcing and category management also requires specialized category and process knowledge. Procurement masters manage this tradeoff by dynamically matching sourcing specialists to prioritized projects (such as implementing a scheduling mechanism), while encouraging specialization within given processes and categories. At the same time, they strive to avoid rigid category specialization, often by having people work for three to five years in a given category and then moving them to another area. Too few years working within a given category prevents people from building necessary skills. Too many years can erode their will to change and/or their desire to question existing practices.

One hundred percent of procurement masters have implemented a structure of centrally led category management. A strong majority—76 percent—also have worked to accommodate the evolutionary nature of those structures. Certainly, a workforce consisting largely of generalists can easily be matched to a wide-ranging

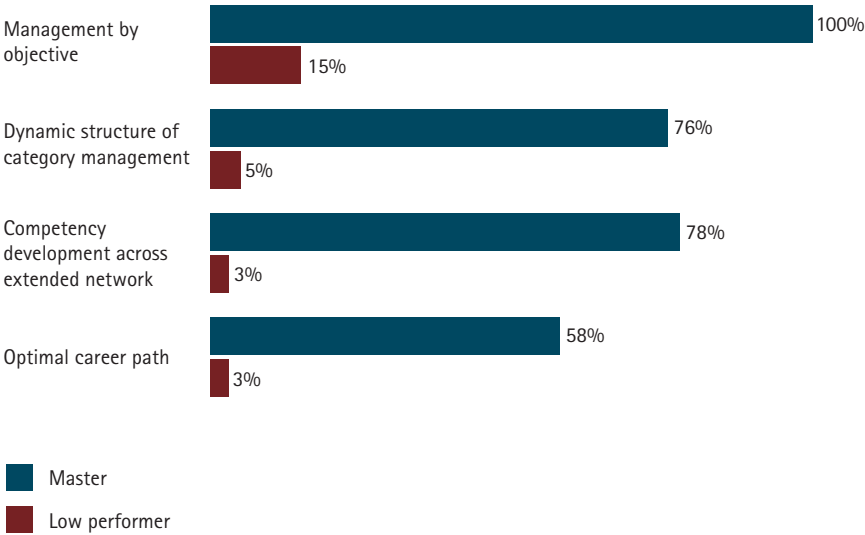


Figure 16. Percentage of survey respondents (masters versus low performers) that engage in key workforce-management practices.

Acquiring and building the right competencies

In procurement, buyer skills are particularly important. Recognizing this fact, Accenture researchers looked closely at the principals of competency development. As Figure 16 shows, we found that 78 percent of masters but only 3 percent of low performers excel in this area by:

- Objectively measuring existing competencies.
- Making frequent adjustments to organizational skills so that they always align with procurement strategy.
- Emphasizing ongoing training and linking it to performance metrics.
- Blanketing competency development strategies across the procurement network of users, technical people, suppliers and partners.

We also found that 86 percent of masters but only 50 percent of low performers use variable pay schemes, and that 58 percent of masters but only 3 percent of low

performers aggressively chart their employees' career paths. The message here is that most organizations, including some masters, could do a better job of defining people's career evolution, advancing their motivation and reward strategies, and even addressing employees' entry and exit points relative to other departments.

Lastly, Accenture found that the skills makeup of masters' organizations is significantly different from those of our survey's low performers. As shown in Figure 17, masters accomplish more with a smaller percentage of managers. They also employ a smaller percentage of people to perform basic transaction management—probably because they have implemented more sophisticated technology support mechanisms and/or because they work more frequently and effectively with third parties. And instead of relying on large numbers of transaction-focused employees, they stock up on strategic sourcing skills—people focused on the development and enhancement of win-win relationships with vendors. Accenture defines strategic

sourcing as a methodology for identifying, selecting and shaping supplier value propositions. Its key practices are identifying the widest range and mix of suppliers on an ongoing basis; mapping sourcing processes; rationalizing the current supplier base; negotiating or renegotiating contracts to improve efficiency and save money; and tightening relationships with key suppliers to maximize collaboration and ensure mutual benefit.

Workforce skills	Master	Low performer
Management	11%	13%
Strategic sourcing	46%	20%
Transaction management, operations	43%	67%

Figure 17. Workforce skills comparison.

Case study: Workforce & Organization

One of the world's largest industrial equipment manufacturers launched an innovative program for strategic competency building. The first step was to develop a vision of what the 1,400-member organization's competencies ought to be in the future. Working with stakeholders, business partners and suppliers, the chief procurement officer's project team then built a competency model describing, by job, the most desirable skills and associated behaviors.

Next, all buyers were put through a self- and supervisor-assessment process. Gaps between current and idealized or future competencies were then mapped. The gaps became the basis of individualized training and coaching plans for each staff member. Numerous e-learning and instructor-led training programs then were implemented, followed by exams and company-developed certifications. The final step was to roll out the program to related departments and suppliers that collaborate with the procurement department, thus ensuring a full, cross-functional competency-building effort.



Characteristic 6: Technology

Procurement technologies have progressed considerably. In fact, most companies would derive new value from the use of modern sourcing or purchasing tools. In the near future, technology will progress even faster, with new Web-based tools for gathering, interpreting and sharing procurement-related information; purchasing services; and connecting with other parts of the business, to name just a few. Even more than before, the name of the game will be integration.

But what are procurement masters doing now to leverage procurement technology? Consistent with other principles of mastery, huge disparities exist in the degree to which leaders leverage tools. As shown in Figure 18, the use of technology to support sourcing programs is most prevalent among masters. Given the rewards associated with regularly rationalizing and enhancing supplier relationships, this is a logical spot for

procurement masters to focus their efforts. Almost as common is masters' use of common technologies to support their requisition to pay processes, followed by tools for harmonizing master data—creating a central corporate repository to ensure that information about materials, products, customers, suppliers and assets is current, consistent and accurate.

Lastly, it is somewhat surprising that the level of "reporting excellence" is not higher than it is (Figure 18). Developing user-friendly ad-hoc reporting capabilities is, in Accenture's view, one of the most fundamental ways to increase buy-in, raise entity-wide transparency, and capture the information needed to discover and drive improvement opportunities.

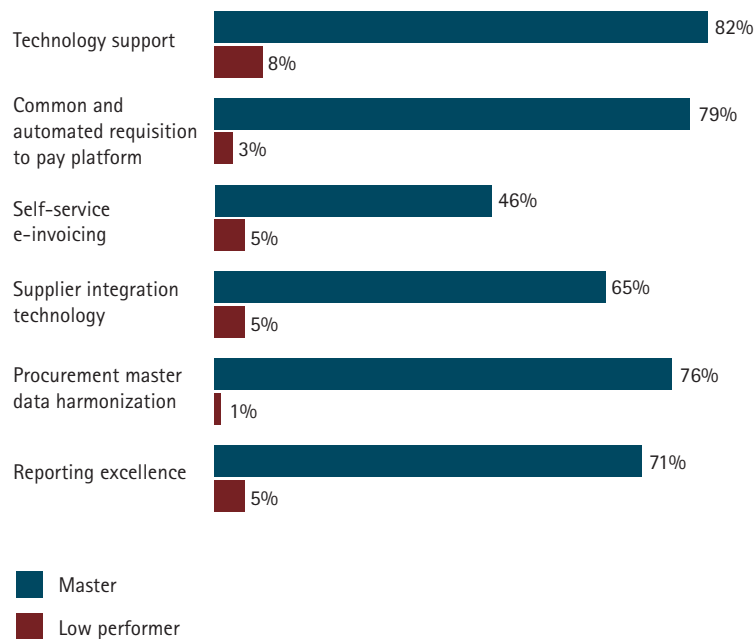


Figure 18. Percentage of survey respondents (masters versus low performers) that leverage various technology-based capabilities.

Case study in procurement technology

A food-industry leader recently launched a worldwide “e-supply chain” program to enhance, harmonize and standardize procurement information sharing, processes and applications. The program also involved the development of solutions for maximizing consistency across the company’s packaging operations and its raw-material supplier base.

Key results include a plug-and-play solution for all supplier categories, sizes and capabilities. The solution has spurred a 25 percent reduction in delivery times, a 15 percent reduction in inventories, a 20 percent reduction in obsolescence costs, and a 20 percent increase in back-office and warehouse productivity.





Procurement mastery and high performance

In research that is recognized as one of the 10 most-notable initiatives in the field of corporate performance during the past quarter century, Accenture equates high performance with companies that outperform their peers over the long term. These successful companies consistently outpace competitors by using strategic insight, selective innovation, operational excellence and technology proficiency to generate steady growth and higher profits.

Accenture also has completed extensive research into how mastery in specific functional areas influences companies' attainment of high performance. It is from efforts such as these that we have ascertained the importance leading companies attach to innovative, technology-savvy and relationship-focused procurement capabilities.

Throughout this document we have identified many ways that procurement masters increase their potential to outpace companies with lesser proficiency. The evidence is real: There is a direct link

between procurement mastery and the measures companies use most frequently to gauge the efficacy of their own procurement operations.

These measures are:

- Total cost of ownership savings.
- Percentage of spend controlled by procurement.
- Total cost of ownership savings as a percentage of procurement operating costs.
- Percentage of new product designs/introductions in which procurement has a material role.
- Share of suppliers managed through a formal process.

With respect to high performance, three big-picture traits should be added to the list of masters' characteristics profiled in this report. The first of these, based on Accenture research beyond the scope of this survey, is that virtually all masters take a supply-chain-wide view of the practice of procurement. They consistently outpace competitors by working effectively with product development, design,



manufacturing, logistics and service/warranty management.

Secondly, procurement masters are ever mindful of a product, category or stock keeping unit's total cost of ownership. For every purchased item, masters know the acquisition costs, the logistics costs, the integration costs and the potential cost of obsolescence or failure.

Lastly, procurement masters know that changing demographics can turn today's low-cost source of materials and components into tomorrow's midcost source. For this reason, they insist that their sourcing venues not be overly "locked in", and that their procurement organizations and staff are flexible and open to change.

Broad supply-chain-wide views; unswerving focus on total cost of ownership; and flexible organizations, people and responses to changing market dynamics—these are the characteristics which represent the boundaries of procurement mastery and provide a solid foundation for organizations to become high-performance businesses.

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