

Building the Brand of Procurement and Supply

Forward-thinking players are setting their sights on advancing the future of procurement with active value management. But there's a long way to go to become an essential part of the enterprise performance conversation.



From the Authors



Tom Derry
Chief Executive Officer,
Institute for Supply
Management

If it's true that firms manage what they measure, then it follows that it's critical to measure the right things. Anyone who's ever participated in a quarterly earnings call or a board meeting knows that firm performance is ultimately measured along two dimensions: 1) financial results and, 2) progress against strategic objectives (which may or may not be financial in nature). It's therefore essential that procurement and supply chain professionals be able to report performance in terms that tie directly to the firm's financial results.

ROSMA Performance Check is a tool that translates supply management performance into results in two key ways. First, it expresses the return generated by the firm's investment in the function. Best-in-class companies generate a return in the range of seven to 11 times the investment made in supply management. Second, calculating the return requires firms to quantify the hard-dollar benefits generated by supply management in a given period. Those hard-dollar results link directly to widely used measures of profitability, such as EPS or EBITDA.

No firm in today's ferociously competitive global economy can afford to take for granted that it is getting world-class performance from its supply management function. That value has to be measured and weighed against results of the firm's competitors. With ROSMA Performance Check, we now know what world-class performance looks like. Our challenge as a profession is to make sure we are not a drag on performance, but rather a driver.



David Noble
Group Chief Executive
Officer, Chartered
Institute of Procurement
& Supply (CIPS)

It is increasingly evident on a global scale that the procurement and supply profession is emerging as the most strategic of functions, a real success differentiator in an increasingly competitive environment where innovation and marketing are not enough. To support this, CIPS is promoting the licensing of the profession to demonstrate proven competence in managing an increasingly critical activity.

There is no doubt that the profession has to be seen as supporting the strategic aims of the enterprise and to have relevance to its goals and success. Nowhere is this more important than in finance where we must be able to demonstrate value in a quantitative way.

That is where ROSMA Performance Check is so powerful and a very necessary building block in the exciting journey our profession is now on.



Joe Raudabaugh
Partner, A.T. Kearney, Inc.

I would like to thank the many pioneering CPOs and CFOs who have engaged and supported the procurement performance management narrative with us since 2009 when our study group formed. The procurement profession deals with enormous complexity and unending challenges. There are many opportunities to change the brand of procurement across the profession, within our enterprises, and to attract, develop, and sustain best athlete-caliber talent. In pursuing these opportunities, adopting value management practices is on the critical path. It's a different path from the past but necessary for the future.



John Blascovich
Partner, A.T. Kearney, Inc.

We know from our *Assessment of Excellence in Procurement* research that the profession has made significant advances globally over the past 20-plus years. Today's procurement organizations are better aligned with business strategies, have center-led organization models, advanced sourcing tools and professional category management, as well as improved career paths and HR practices. These advances have been a necessary response to a variety of business trends—from increased globalization and economic volatility, to the growing need for transparency (Internet-enabled) and reliance on suppliers for value.

All of these are building blocks for a stronger, more effective profession. Many companies have built teams that are capable of executing at a very high level. But, what has been missing is an acceptable way to keep score and track how the teams are doing. ROSMA is emerging as a credible standard that allows companies to track and score team performance consistently, and in a way that is understandable to our key constituents, especially those in the financial function.

The authors wish to thank those who helped perform the research and analysis, and those who helped write the final report from all three organizations—CIPS, ISM, and A.T. Kearney—for their valuable contributions to this report.

The New Language of Procurement

The new language of procurement speaks to an agenda driven by delivering value. Leading procurement organizations are well-versed in areas that resonate with financial officers and the performance narrative. They know both the hard and intangible value that procurement contributes to the company and can discuss an array of value drivers. Knowledgeable about how their teams are performing, they know what they need to do to improve and are laying out career paths to attract and retain the best talent.

Chief procurement officers who are literate in this new language are building the brand of procurement by making themselves invaluable to chief financial officers and the rest of the C-suite. To learn this new language, forward-thinking procurement teams are using value management tools adapted for supply management.

Procurement must catch the next wave of **best management practices.**

In 2011, A.T. Kearney began homing in on benchmarking value delivery with Return on Supply Management Assets (ROSMASM), a revolutionary performance measurement standard that is helping companies around the world understand and measure how procurement contributes financially to the business.

In this inaugural ROSMA Performance Check report, we have gathered the feedback of hundreds of companies. The insights are powerful:

- Top-quartile performers are reporting hard financial results in excess of seven times their costs and investment base in procurement, providing a strong basis for reinvestment and recognition. These leaders generate about \$1.6 million in financial benefits per procurement employee each year, with 35 percent of the financial benefits coming from using advanced methods that create hard value beyond unit cost reduction (for example, asset productivity gains and complexity reduction).
- Middle-tier performers are accretive, typically generating four to five times the investment and costs of their supply management assets, including people and technology, but they have not improved their productivity since tracking began in 2011.
- Bottom-quartile teams are dilutive, with financial benefits that do not cover the cost of and investment in their organizations.
- Most organizations do not have the reporting and tracking capabilities to provide ongoing, accurate visibility of procurement's value-creating activities. They simply don't have a grasp of—and therefore can't manage—their resources to optimize them with the same level of precision as is typically done in other functions.
- Performance varies widely across all of procurement's key value drivers—spend coverage, sourcing program velocity, sourcing project yields and outcomes, compliance rates, and operating costs—regardless of company size, industry, or spend mix. Although organizations with more mature or advanced practices have less variable performance across some of the value drivers, substantial productivity improvement opportunities are being missed.

The lack of tools for procurement-focused capability and resource management may explain the lagging adoption of value management practices in supply management.

The CFO community's sentiment toward supply management suggests only 10 percent of procurement organizations have captured the respect, understanding, and mindset of their finance organizations regarding the value they contribute. Almost 15 percent are "out of mind" or "inconsequential players" to the CFO community and 75 percent have mixed and yet-to-be developed "brands."

Because CFOs are the de facto scorekeepers, procurement's brand value must be addressed. Now is the time to redefine procurement's position, clarify the value it provides, and radically improve the careers, development pathways, and recognition for its people.

Setting the Stage

Over the past 30 years, performance dashboards and active process monitoring (visibility) have rolled across most enterprises: in the 1980s the focus was on manufacturing; in the 1990s, it was on supply chain, research, and engineering; and in the 2000s, it was on sales and marketing thanks to new customer relationship management platforms such as salesforce.com.

In the next wave of management practices, procurement is not going to escape being enabled with new technologies. Since the 2008 global recession, there has been an uptick in CPO turnover. Now more than ever, focus is on supply management. Forward-thinking players are measuring, communicating, and institutionalizing the value of supply management to secure recognition and support for the procurement brand and recognition of their supply management professionals.

Investment banking and private equity players such as KKR & Co., The Carlyle Group, and TPG Capital have discovered that using procurement to create value is a powerful part of successful portfolio management. Procurement has also enabled success in mergers and acquisitions (think Anheuser-Busch and InBev, Procter & Gamble and Gillette, Walgreens and Boots). It is just a matter of time before procurement becomes a core topic for executives in their conversations with analysts—and for some it has already.

Recognizing these trends, A.T. Kearney embarked on a journey with the Chartered Institute of Procurement & Supply (CIPS) and the Institute for Supply Management (ISM) to bring common value management visibility and practices to procurement.

Having benchmarked ROSMA since 2009, we now have a wealth of cumulative data. Over the past five years, more than 750 companies have started the ROSMA benchmarking process. However, not all surveys were completed because, for example, some did not track the critical performance data required. In a rigorous qualification process, submitted data is checked to ensure that it makes sense. If responses are questionable, participants are asked to verify the authenticity and accuracy of the data and are given an opportunity to refine their answers, which are again validated. After the verification step, the data is accepted when it is within stretch ranges that we believe are rational and possible. Our cumulative database now has more than 400 completed, qualified, and accepted benchmarking surveys. For this report, we take a closer look at our 2013 data set of more than 170 completed, qualified, and accepted submissions (see sidebar: About the Study on page 5).

Our findings are organized into the following sections:

The Value of Supply Management. Addresses the need for a performance management standard and discusses adapting and adopting widely accepted financial performance measurement methods and the ROSMA framework

Results and Insights. Presents 2013 and cumulative benchmarks with a discussion of the lessons learned and a look ahead at performance expectations

The Long Road Ahead. Shares the view of procurement’s performance from the perspectives of CFO organizations from Australia, Canada, the United Kingdom, and the United States

Learning More. Provides ways to engage CIPS, ISM, and A.T. Kearney to explore and improve value management results from procurement

In addition, a list of the questions posed to the CFO community is provided in the appendix on page 19.

About the Study

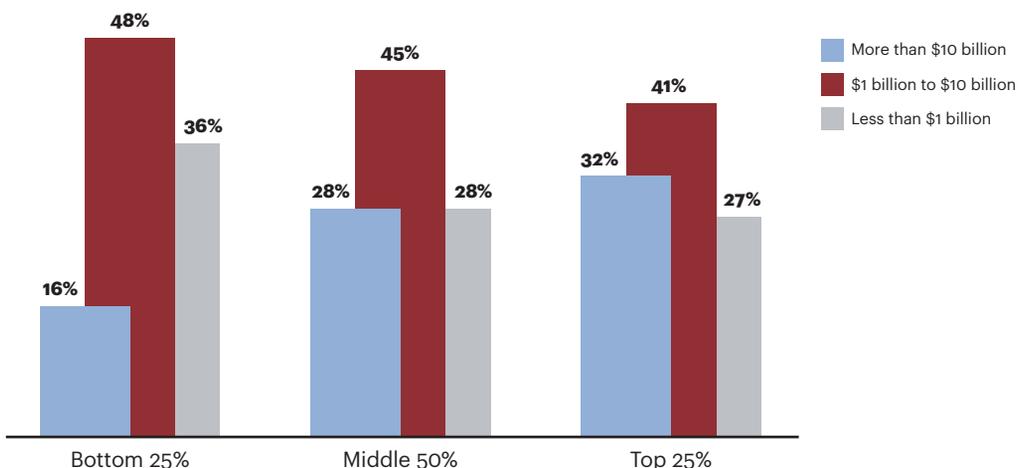
This report is distilled from more than 400 completed, qualified, and accepted cumulative benchmarks along with more than 170 submissions focused on 2013 results (see figure). Contributors participated in the free benchmarking through ROSMA Performance Check gateways on the CIPS and ISM

websites as well as via A.T. Kearney’s 2014 Assessment of Excellence in Procurement (AEP) study, the longest-standing global study of supply management best practices. Large organizations received an invitation to participate, but the research opportunity is open to all organizations.

A.T. Kearney also contracted independent research about the CFO community’s view of procurement to further clarify the imperative to push forward the profession’s commitment to adopt and institutionalize value management practices and standards.

Figure
Profile of respondents

Participants segmented by ROSMASM score and size



Source: A.T. Kearney analysis

The Value of Supply Management

Without being able to demonstrate the value of procurement in terms that resonate with CFOs and the rest of the C-suite, many procurement organizations will continue to be relegated to the list of hygiene functions, used to support sufficiency at the lowest cost rather than being positioned as a strategic capability. Certainly, some elements of procurement, like many other functions, should be managed for service-level sufficiency at the lowest cost. But world-class procurement can create and capture massive value. Such a central role has yet to be widely addressed because of inadequate resourcing in advanced capabilities and positioning to lead and affect strategic outcomes (value beyond conventional routine procurement). Players that can tap into active value management will enjoy reinvestment into their procurement organizations.

Benchmarking at a granular level has become an addiction for some, and the resulting complexity and ambiguity have become an excuse for many.

For decades, CIPS, ISM, and A.T. Kearney have worked with thousands of procurement organizations that have a laundry list of reports and key performance indicators (KPIs). Procurement is complex by design (X categories *times* Y suppliers *times* Z specifications *times* J businesses/ demand points *times* Q terms *times* α other variables). No wonder, then, that reporting with thousands of Excel files often leads to clarity in the moment but ambiguity overall. Benchmarking at this granular level has become an addiction for some, and the resulting complexity has become an excuse for many.

Building the procurement brand requires being able to answer an array of strategic questions such as:

- What hard, tangible value is the business getting from procurement? What should it be getting now, in 36 months, and beyond?
- What three or four value drivers define the size, scope, and timing of visible financial results? How are we doing with them?
- What is the critical path of projects and outcomes to meet the organization's expectations of procurement? Are we ahead or behind on this plan?
- How is the engagement model between procurement and the business creating value? What changes in behaviors or governance could improve performance?
- What mix of capabilities and resources is needed for procurement to be a world-class player?
- Who are our best procurement athletes? How are they measured, and how are they doing? Do they understand what counts? Do they know how they are doing?
- What is our plan for growing value through procurement? How will we support professional pathways for our supply management professionals?

Tactical discussions are unavoidable in the inevitable fire-drill moments. (For example, what is the impact of the corrugated cost escalators from vendor X or the engineering change cost creep on part Y?) But if the procurement function is to achieve excellence, then there must be a periodic review and a discussion within a strategic value framework. Addressing these questions will help focus the conversation—and give procurement professionals opportunities to grow and gain recognition.

What is the language and culture of a procurement performance environment that is aligned to an agenda driven by managing value? Most organizations have dabbled in value management practices, such as economic value added (EVA), or offshoots that address aspirations beyond financial results, such as a balanced scorecard, to align strategy, activities, resources, and measures to support shareholders' value goals. But to be relevant, procurement must fully engage in these practices.

A financial scorecard spurs the conversation of **strategic value and performance**.

Many CPOs have participated in “tagalong” KPIs across their stakeholders' value-driven targets, but few organizations have delivered on a robust supply management balanced scorecard or articulated procurement-specific EVA targets. The CPO who is literate in value management is relevant to the CFO. Otherwise, engaging the CFO only in a myriad of in-the-moment discussions of granular issues misses the opportunity, especially when the CPO only attempts to summarize value delivery with a few simple and often inadequate metrics.

Procurement must translate its activities, resources, and results into a similar set of metrics—hard financial results, the costs to deliver those results, and the return on the investment. Communicating the financial side of the scorecard opens the conversation to procurement's strategic performance and value.

Focusing on the CFO view of procurement is not meant to suggest that the financial aspects are its only value. However, there is much to be gained by getting procurement and finance on the same page with a shared understanding about the value of procurement. Only then can procurement engage the financial players—and enroll their help. (See *The Long Road Ahead* on page 15.)

ROSMA can facilitate this value-management conversation. ROSMA and its component elements are vital parts of the financial perspective of a balanced supply management scorecard. The framework can guide discussions about value management and performance and enable a profession-wide standard to accelerate broad recognition of the value of procurement.

ROSMA was derived from classic financial frameworks such as the DuPont method circa 1926 and EVA and shareholder value methods introduced in the 1980s but adapted for supply management. ROSMA, itself a metric, is the output of a financial ratio. Simply stated, it is *financial results delivered* divided by *invested supply management assets*. ROSMA captures specific results of activities to create incremental financial value (such as retained year-on-year hard savings, improved working capital conditions, and improved margins or profitable growth from supplier innovation) versus the attributable cost of the procurement team in delivering those results and sustaining transactional support services.

After introducing the concept in 2009, A.T. Kearney refined ROSMA through joint client development and piloting groups as well as vetted the concept in forums of CPOs and CFOs. In the ROSMA framework, seven top-level drivers guide the financial conversation about how procurement activities affect results across the enterprise (see figure 1).

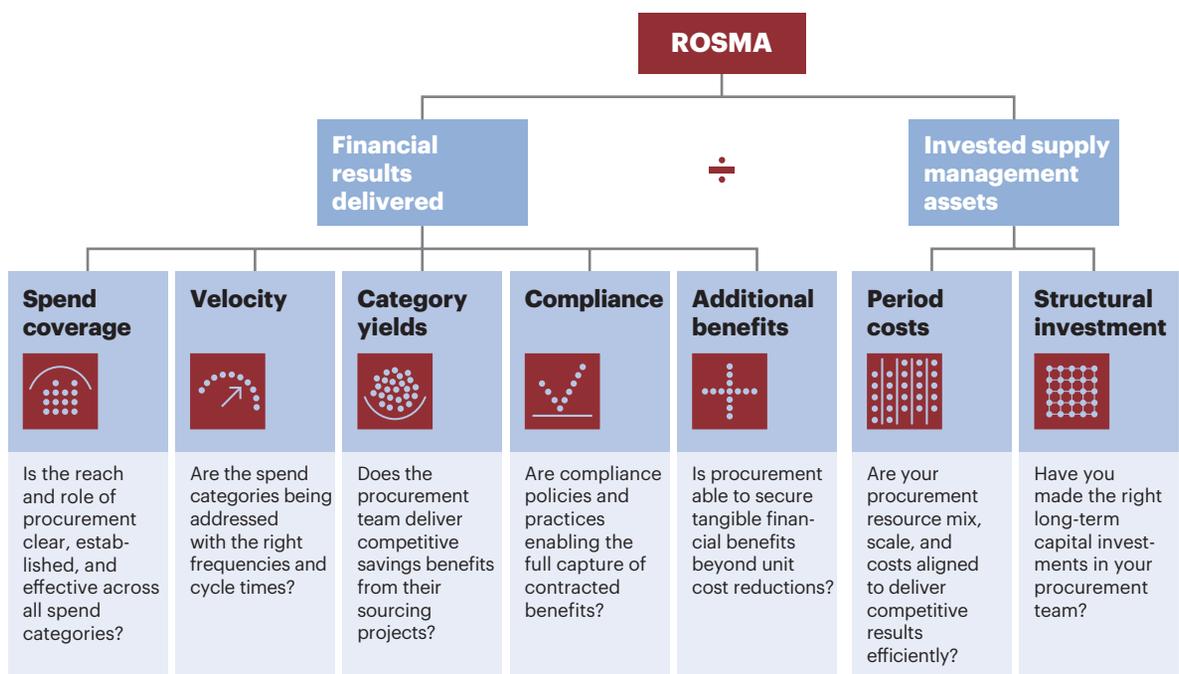
The framework also recognizes an extended set of variables that affect the core value drivers (see figure 2 on page 9). Benchmarking with the ROSMA Performance Check captures results at the core value-driver level. Exhaustive benchmarking via A.T. Kearney’s Assessment of Excellence in Procurement (AEP) study takes a deeper look at process maturity. Process maturity affecting the extended set of ROSMA variables is directly correlated to increasing performance levels of the core value drivers for which the process variables have been mapped. For example, higher-order maturity around governance and strategy alignment processes and practices is directly correlated to higher levels of spend coverage.

ROSMA unlocks many benefits:

- Explores gaps, sets priorities, and steers supply management toward a results-driven and leadership mindset or model.
- Helps CPOs establish priorities around financial results improvement, talent capability building, and organizational development.
- Enables broader engagement and support by gaining the financial community’s understanding. (ROSMA speaks the language of the scorekeeper for supply management: the CFO, whose buy-in is essential.)

Figure 1
Seven value drivers for procurement

Return on Supply Management AssetsSM

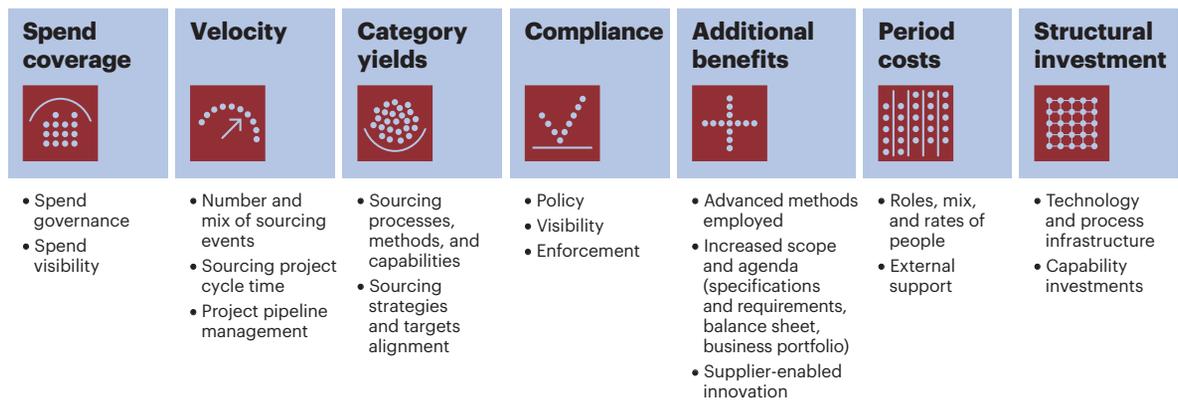


Source: A.T. Kearney analysis

- Adds a powerful component to a balanced scorecard by measuring the hard, tangible results of procurement’s activities and investments.
- Gives supply management a way to benchmark performance and effectiveness across markets and industries.

The ROSMA framework metrics and extended variables can be incorporated into a balanced supply management scorecard (see figure 3). The scorecard framework has evolved beyond the hard financial KPIs to also address intangible performance goals—internal process performance, procurement customer needs, and organizational development (learning and growth). These are all vital ingredients for procurement excellence, and each of these complementary perspectives influences value driver performance outcomes. (For example, stronger capabilities and processes enable more effective engagement, governance practices, and yields.)

Figure 2
An array of variables affect ROSMA core value drivers



Note: ROSMA is Return on Supply Management AssetsSM.
 Source: A.T. Kearney analysis

Figure 3
ROSMA supports and enables a balanced supply management scorecard Illustrative

| Supply management balanced scorecard | | | | |
|---|---|---|---|---|
| | Financial perspective | Procurement customer perspective | Internal process perspective | Learning and growth perspective |
| ROSMASM Invested supply management assets, financial results delivered, drivers and extended variables applied | <ul style="list-style-type: none"> • YOY financial results delivered • Return or productivity of procurement resources (e.g. ROSMA) | <ul style="list-style-type: none"> • Alignment of projects to business needs • PPV • Supplier contract compliance • Supplier innovation | <ul style="list-style-type: none"> • Spend coverage • Project pipeline management • Project cycle times • Covered spend addressed • CFO validated results and compliance • Productivity versus best practices • Resource allocations | <ul style="list-style-type: none"> • Best athlete model (performance tracking from ROSMA PPM) • Methods and capabilities building and tracking • Resource mix management • Value justified reinvestment |
| Other score-card elements | <ul style="list-style-type: none"> • Business-specific financial metrics (PPV, WC) | <ul style="list-style-type: none"> • Diversity spend • Customer service levels | <ul style="list-style-type: none"> • Business customer satisfaction | <ul style="list-style-type: none"> • Best place to learn and work |

Notes: YOY is year-on-year. PPV is purchase price variance. PPM is procurement performance management. WC is working capital.
 Source: A.T. Kearney analysis

In short, procurement can build a more powerful brand by using value management tools adapted for supply management. Engaging, tracking, and articulating performance in the primary language of the financial community can elevate the function. With ROSMA, procurement can engage in the value management dialogue and chart a course to world-class performance.

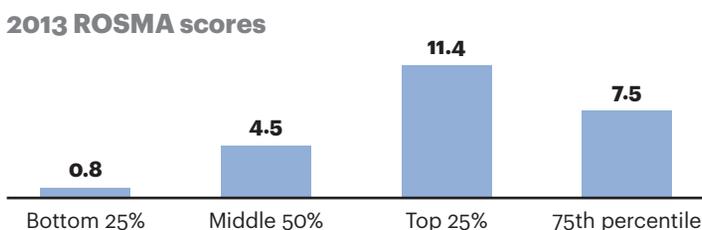
Results and Insights

The data in this report comes from all submissions that were tested for reasonability and accepted through May 30, 2014. Participants are reporting on their 2013 results. As companies continue to use the various channels (via CIPS, ISM, and A.T. Kearney) to perform a ROSMA benchmark, their data will be added to the cumulative benchmark pool and incorporated into the 2015 publication as cumulative results. Because participants report their own data, the survey challenges respondents to confirm any entries that appear to be outliers relative to historic norms. Participants whose final submissions include outlier entries were rechallenged with follow-up communications before the data set was finalized. The data set is robust and consistent with other independent benchmarks for like-for-like elements, such as OPEX as a percentage of total spend and savings yields.

Leading off with the overall ROSMA metric view, the 2013 results are directionally similar to prior periods collected by A.T. Kearney since 2010. The financial productivity, or ROSMA, range across participants is very wide (see figure 4). Although there is some variance in performance, as is expected because of the category portfolio mix (such as indirect dominant, balanced, and direct/CAPEX heavy), each performance-based segment has similarly representative respondent profiles (size, industry, and geography). The bottom quartile is not generating results to offset the cost of procurement's operations. In the middle tier, the average participant has an overall ROSMA score of 4.5, which is about the same as prior periods recorded thus far. But despite no visible improvement of the average procurement team, they are creating value at a rate of 4.5:1 versus their cost and investment. The top quartile band substantially improved in 2013 versus prior periods, delivering an average score of 11.4. (Some outlier performers lifted the results of this segment, which were revalidated as noted above.)

The 75th percentile threshold for 2013 is consistent with the leadership group of companies in the 2011 AEP ROSMA outcomes. Figure 5 on page 11 provides additional performance context based on the category mix at the 75th percentile performance threshold (the gateway to the top quartile performance segment) for 2013 results versus the cumulative data, which is still growing.

Figure 4
Financial productivity of procurement varies widely

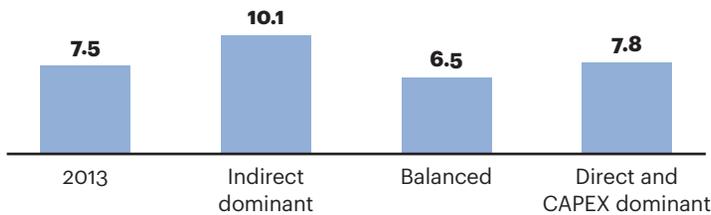


Note: ROSMA is Return on Supply Management AssetsSM.
Source: A.T. Kearney analysis

Figure 5

Procurement leaders show some performance variability because of category mix

75th percentile ROSMA thresholds



Notes: AEP is Assessment of Excellence in Procurement. ROSMA is Return on Supply Management AssetsSM. For indirect dominant, 70 percent or more of the spend is from indirect spend categories. For direct and CAPEX dominant, 70 percent or more of the spend is from direct or CAPEX spend categories. Source: A.T. Kearney analysis

Participants dominant in indirect spend enjoyed higher yields (about 12 percent) but lower coverage levels than those that are dominant in direct and CAPEX spend. Direct and CAPEX spend dominant organizations averaged more conventional yields (7.5 percent) and had lower cost procurement operations. The balanced spend mix participants fell prey to added complexity: higher costs and moderate yields (7.3 percent).

Although the ROSMA scores are very telling and will no doubt spark a dialogue in the CPO and CFO communities, it is more interesting to understand the variations in driver-level performance that affected these scores. These variances can pinpoint where to focus improvement efforts. Having said that, every segment has participants with widely varying combinations of driver performance levels, highlighting the massive opportunity to embrace stronger process management practices to deliver more value. All organizations should get a baseline and then begin tracking driver-level performance over time while managing for continuous improvement. Figure 6 highlights the combinations of selected driver values that the various quartile segments leveraged to affect the benefits numerator (financial results delivered) of their ROSMA scores.

Figure 6

Value driver performance profiles vary across benchmark groups

| Procurement value driver | Average driver performance | | |
|---|----------------------------|------------|---------|
| | Bottom 25% | Middle 50% | Top 25% |
| Spend influenced | 64.4% | 76.4% | 70.4% |
| Velocity (% of influenced spend sourced in year) | 61.5% | 69.0% | 74.2% |
| Yield | 4.9% | 5.8% | 8.0% |
| Compliance rate | 79.0% | 90.7% | 93.4% |
| Additional benefits¹ (% of total financial results delivered) | 17.4% | 12.5% | 34.8% |

¹ The percentage represents only companies that reported additional benefits.

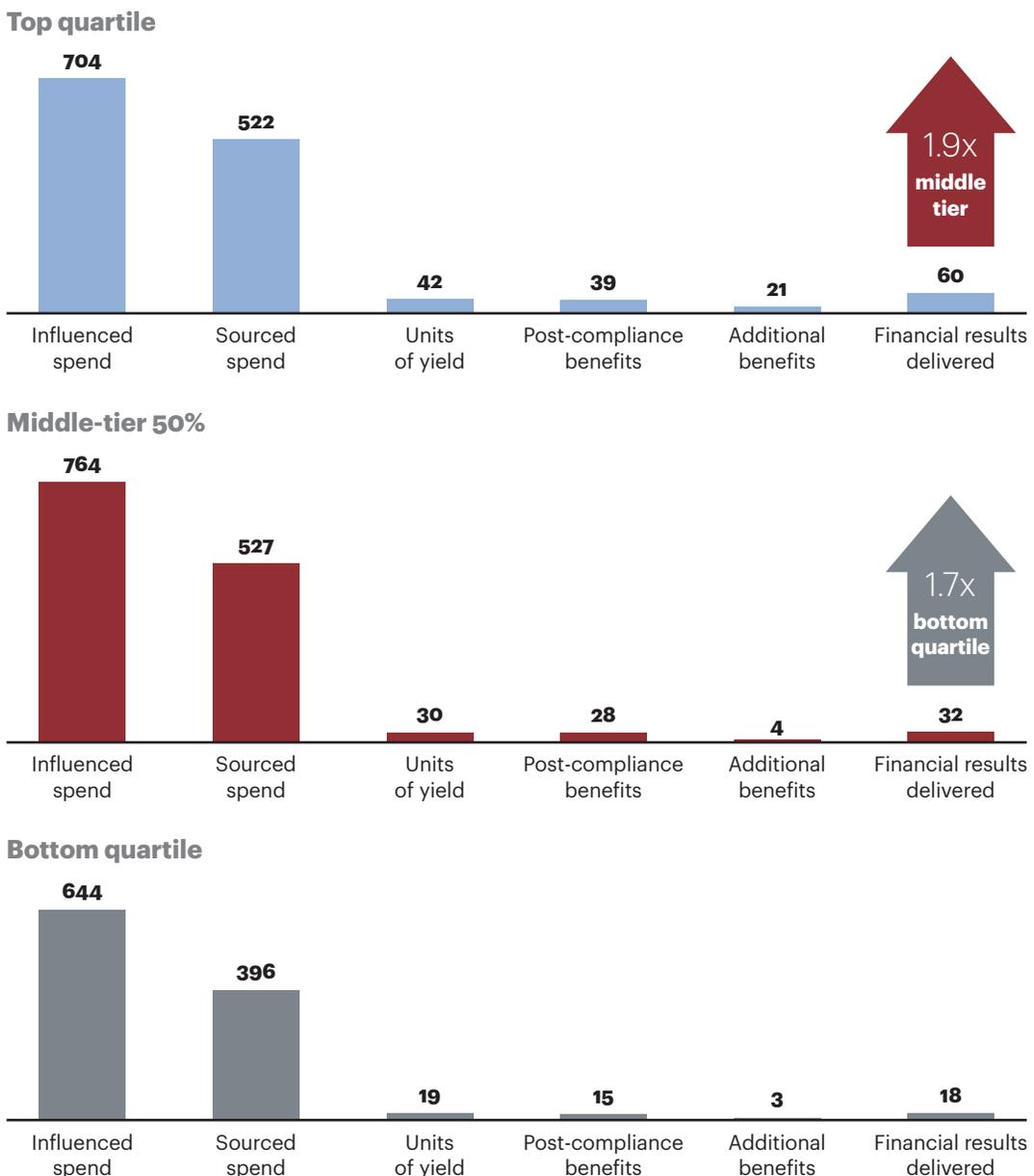
Note: ROSMA is Return on Supply Management AssetsSM.

Source: A.T. Kearney analysis

The bottom quartile under-delivers for a variety of factors. First, they source 20 percent less spend per year or only 40 percent (64.4 percent influenced times 61.5 percent velocity of sourcing influenced spend) versus an average 50 to 52 percent spend for the rest of the participants. Second, their yields from sourcing are 16 percent below the average of the middle tier and almost 40 percent less than the top quartile's yield levels. Figure 7 illustrates the compounding impact on financial results or benefits to the enterprise because of performance variances across the value drivers noted above. The middle tier generates 1.7 times the benefits of the bottom quartile, and the top quartile delivers almost twice as much value as the middle tier.

Figure 7

Top-quartile performers deliver nearly twice as much value as middle-tier players



Note: All three segments start with a common hypothetical spend of 1,000 to normalize the case example.

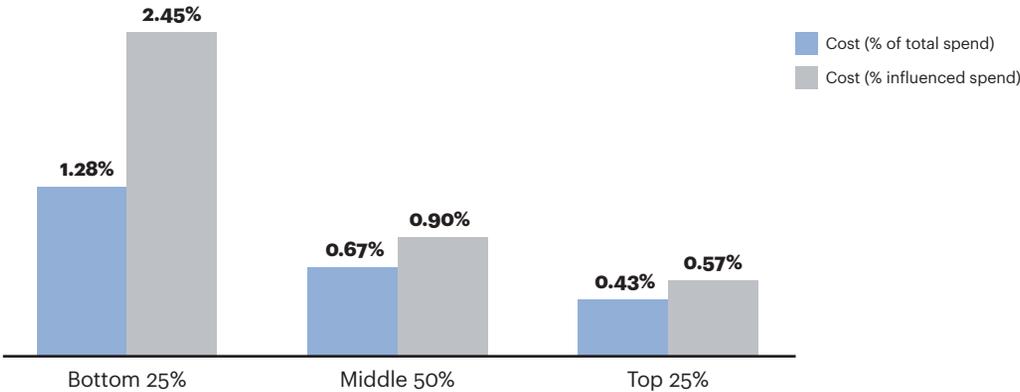
Source: A.T. Kearney analysis

Procurement leaders achieve one-third of their financial results through advanced methods.

One highlight of the top-quartile performers is the level of value derived from additional benefits. A third of their total financial results are achieved using advanced methods that create hard benefits beyond classic unit cost reduction efforts characterized by yield. According to findings in A.T. Kearney’s AEP study, most procurement organizations routinely apply only 12 of the 64 proven methods (19 percent) in the Purchasing Chessboard framework.¹ Most organizations have not expanded the assortment of methods they have mastered, according to longitudinal research studies. However, leading procurement teams use more than 25 methods. Clearly, advanced capabilities and applying more advanced methods enable step increases in additional benefits, such as supplier-enabled innovation (revenue growth with higher margins), radical specification simplification and reengineering, alternative partnering arrangements, and working capital reduction. Improvement rates from these methods tend to be much larger than conventional yield-driven projects, but only a small portion of the addressable spend warrants such advanced capabilities. Nonetheless, best practice leaders are driving significant gains with additional benefit programs.

Figure 8 illustrates the reported cost of the procurement function by ROSMA performance segment. As noted, the bottom quartile is burdened with higher relative costs, which suggests they are lagging in technology investments and have higher relative headcounts supporting their processes. And the corollary is also true: higher performing segments have lower effective costs. Later, we show this is correlated with more advanced practices and greater use of automation.

Figure 8
Middle-tier and top-quartile performers have lower cost structures and superior resource productivity



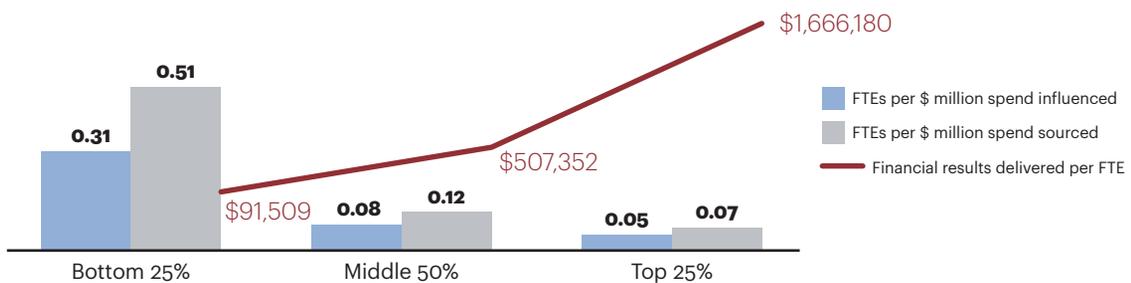
Source: A.T. Kearney analysis

¹ See [The Purchasing Chessboard](http://www.atkearney.com) at www.atkearney.com.

The lower cost structures and superior resource productivity of the middle 50 percent and top-quartile performance groups are noteworthy. Leaders have wider coverage, superior pipeline management or sourcing velocity, more robust yields, a favorable compliance advantage, stronger engagement with stakeholders (providing more opportunities for and results from additional benefit initiatives), and superior efficiency and costs. The result is powerful: \$1.6 million in hard value delivered per procurement professional (see figure 9). We have seen this level of performance—and higher—with our clients. Resourcing levels of those in the middle tier are slightly higher but within range of the leaders. The bottom quartile needs a radical transformation to close the performance gap.

The step differences in performance across the value drivers and results from the bottom quartile to the top quartile are consistent with findings in A.T. Kearney’s AEP studies. The AEP assessment tool explores more than 450 practices and methods across the eight rooms of the House of Purchasing and Supply™ framework.² The battery of assessments in the AEP that affect procurement’s value driver performance, such as ROSMA, has been mapped. The correlation is high. (Better, more objective financial KPI results are directly correlated with higher levels of process and practice maturity.) Figure 10 provides a “heat map” of the AEP assessments of 2014 ROSMA research participants.

Figure 9
Top performers are three times more productive than middle-tier players



Note: FTE is full-time equivalent.
 Source: A.T. Kearney analysis

Figure 10
ROSMA performance is directly correlated to process and practice maturity

More than 250 AEP survey elements mapped to the ROSMA framework

| | Spend coverage | Velocity | Category yields | Compliance | Additional benefits | Period costs | Structural investments | |
|------------------------|----------------|----------|-----------------|------------|---------------------|--------------|------------------------|--------------------------|
| Top quartile | 2.2 | 2.3 | 2.4 | 2.0 | 2.3 | 2.1 | 2.2 | 2.5 2.3 2.1 1.9 |
| Middle 50% | 2.0 | 1.9 | 2.1 | 1.9 | 1.8 | 1.8 | 2.1 | 1.7 |
| Bottom quartile | 1.5 | 1.3 | 1.6 | 1.5 | 1.3 | 1.2 | 1.4 | 1.5 1.3 |

Notes: ROSMA is Return on Supply Management AssetsSM. AEP is Assessment of Excellence in Procurement.
 Source: A.T. Kearney analysis

² See [How to Become a Procurement Champion](http://www.atkearney.com) at www.atkearney.com.

Top-quartile performers consistently apply the following practices:

- Actively track and report project pipeline (inbound), in process (status), and results of procurement projects
- Monitor project cycle times
- Perform periodic reviews of procurement process governance roles by category
- Emphasize development of, proficiency in, and expansion of sourcing capabilities and methods
- Provide three-way validation of procurement benefits (procurement, businesses, and finance)
- Require transparent reporting of procurement staff productivity and critical process KPIs, such as compliance and requisition-to-pay practices
- Maintain levels and functionality of technologies deployed and associated adoption rates
- Provide evolution and mix of resources over time

We expect to see more leaders adopt an array of emerging practices, including:

- Map stakeholder satisfaction across projects, time, and team members to monitor team and network strength and reach (applying social media practices)
- Launch best procurement athlete recognition programs (talent visibility)
- Apply machine learning (text mining) to address tail spend opportunities faster
- Embed tracking analytics to monitor and capture sources and impacts of cost variances due to order and engineering changes

There is a significant validated gap in the pursuit and adoption of advanced practices between top-quartile leaders and the other tiers.

When coupled with a sound assessment of the existing and needed capabilities, ROSMA benchmarking can help shape a robust CPO agenda. Developing a road map to improve procurement's value requires an understanding of the organization's performance by driver, the relative level of maturity across core procurement practices and behaviors associated with the extended elements in the ROSMA framework, and the team's readiness to take on the programs required to drive improvements. Avenues to develop and advance a ROSMA-driven CPO agenda are discussed in the *Learning More* section on page 18.

The Long Road Ahead

In anticipation of the 2014 Institute for Supply Management (ISM) conference in Las Vegas, a session was outlined to discuss the value of supply management, facilitated by ISM and featuring Tom Derry (CEO of ISM), Joe Raudabaugh (A.T. Kearney partner), and Joe Black (CPO of Aetna). The initial intent was to cover many of the themes outlined in this report, but the session was expanded to also discuss insights from a recent survey of the CFO community.³ The survey, performed April 7-10, 2014, sought respondents' views about sources of value from and performance perceptions about procurement—essentially the CFO community's sentiments about the procurement brand. Questions were designed to ensure all participants had a clear understanding of the inquiries and could respond without bias. (See the Appendix

³ A.T. Kearney developed the survey concept and contracted an independent third-party research firm to interview 160 qualified participants, reflecting a cross-section of levels with supervisory financial experience and responsibilities across mid-size and large companies in Australia, Canada, the United Kingdom, and the United States.

on page 19 for a complete list of the survey questions.) The results resonated with the Las Vegas participants, who largely agreed that there is much to do to reposition procurement for success with the CFO community.

Four messages are clear:

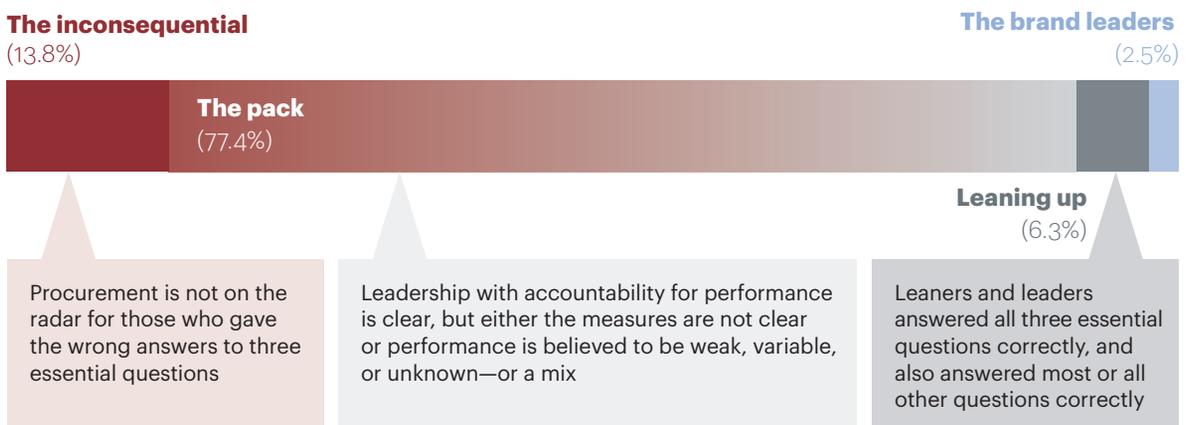
- Too few procurement organizations have built their brand value or developed a common mindset with the CFO community (under 10 percent).
- Too many procurement organizations (almost 15 percent) are inconsequential to the CFO community or lack a common mindset. (No one person is accountable for procurement, and the procurement resources they do have are not viewed as being competitive.)
- The vast majority—more than 75 percent—have established roles. These CFOs know procurement exists and understand they are accountable for its performance, but they do not understand or recognize the value drivers of procurement or the results being achieved (insufficient mindshare or weak performance image).
- Hard profit-and-loss results are king (81 percent) with the CFO community. Only 19 percent also count cost avoidance.

The sentiment of the CFO community regarding the value of procurement is clear. What’s lacking is brand recognition to elevate the profession, its contributions, and the career trajectories of procurement professionals to attain success and recognition. As the scorekeepers, CFOs must understand and support procurement as a source of value. Figure 11 illustrates the CFO community’s sentiment toward procurement.

The results are not surprising. The 100-plus in attendance in Las Vegas agreed there was a great opportunity to develop training sessions to “co-educate” the finance function and enroll both finance and procurement staff into a shared understanding of the value of procurement. The number of “inconsequential” is not surprising given that more than 15 percent of the 2013 and cumulative ROSMA benchmark respondents say they are not generating enough hard savings to recover their costs. (That would certainly encourage you to hide or to stay off the CFO’s radar.)

Figure 11

Few procurement organizations have established a prestige brand with their CFO community



Source: A.T. Kearney analysis

And likewise, the brand leaders, the leaners, and the high end of the pack reflect the size and performance profile of the ROSMA top-quartile performers. With hard value delivery returns of more than seven to one, the CFO community would engage and take note.

At an A.T. Kearney workshop in late May, more than 40 CPOs from large organizations were asked to raise their hand if they believed their CFO understands how procurement creates and drives value. Only one hand went up. However, the ensuing conversation was provocative and helpful.

There is clearly more that can be done to advance procurement's standing and elevate the position of procurement professionals both within our organizations and across the profession. We must continue to advance procurement's role to encompass "beyond financial" elements such as corporate responsibility, sustainability, and risk management. For too long, we have delayed adopting and adapting value management practices and engaging the CFO community by speaking their language and focusing on financial metrics. Only by redesigning and aligning our scorecards to bring value management principles into play will the sentiment and brand positioning improve—and will procurement's capabilities, leadership methods, and talent be transformed. This powerful new position will make our best athletes more visible.

CIPS, ISM, and A.T. Kearney will continue to make the free ROSMA Performance Check available to accelerate adoption and harmonization of the framework so the profession and the finance community can align on a common standard. Procurement teams that use the framework can develop and pursue improvement pathways to nurture and sustain stronger driver performance levels and engage the support of their CFO communities. Each organization would be wise to craft its own assortment of KPIs to create its own unique scorecard, but all organizations should adopt ROSMA value drivers or CFO-friendly derivatives as part of their financial KPIs. CIPS and ISM offer an array of training programs to support capability building that can enhance individual and team success in core skill areas affecting the value drivers.

What goals could we establish for the profession to align around a common performance standard? The following measures, if achieved in the coming years, would indicate success:

- Brand leaders and leaners segments grow from under 10 percent to more than 25 percent
- The bottom quartile's ROSMA performance average moves from 0.8 to 3.0
- Variance (standard deviation) in ROSMA scores and driver performance drops substantially across all segments, demonstrating the profession is committed to value management and is improving across the board
- Financial management of procurement becomes a widely syndicated component in business education
- Multiple technology vendors offer successful platforms that help procurement professionals improve visibility and performance tracking
- Procurement performance becomes a common component in quarterly guidance and reporting calls to the financial community

Procurement has undergone a transformation over the past 25 years, evolving from an operation-focused support function to a more widely recognized profession that has seen waves of new technology, innovative methods and practices, and the elevation of some iconic professionals who have brought recognition to the value of procurement. The brand-building pathway ahead is just another step in the transformation—a step we can champion together.

Learning More

A.T. Kearney, CIPS, and ISM work both collaboratively and independently to help organizations adopt leading-edge procurement strategies and performance-improvement initiatives. CIPS offers a range of programs and qualifications that enable stronger professional capabilities and practices. ISM provides an array of training programs, resources, and services, including CAPS Research, a nonprofit research organization. A.T. Kearney works with organizations at all stages—from ROSMA-driven assessments to tailored procurement performance management programs and experiential delivery platforms—to help leading players establish operational best practices. All three organizations are committed to building and sustaining leadership brand value in the procurement profession.

Appendix

CFO Community Survey Questions

Is there clear leadership for your procurement function that is accountable for the financial results and productivity generated from the activities of your procurement resources? Yes/No

Does the procurement function routinely have “a regular seat and active role at the executive table” for business reviews, planning, and strategy development? Yes /No

On a scale of 1 to 5, where “1” means “not defined at all” and “5” means “very defined,” to what level does your procurement organization have clearly defined, well-understood, and widely respected performance metrics in place?

Are the results of procurement efforts evaluated by finance (including audit) or self-reported by procurement or both? Answer options included: Evaluated by finance; Both or jointly evaluated; Self-reported by procurement; Don't know or not sure; and were followed by: Are these evaluations on a thorough and consistent/ongoing basis or as needed/requested?

Into which of these five categories do the results of the procurement efforts reported fall? Widely accepted; Sometimes challenged; Frequently challenged; Almost always challenged; Dismissed.

Which of the following statements best reflects your financial team's attitude toward the benefits derived from procurement?

- The only financial performance benefits that we recognize and value from procurement are hard P&L impacting results from unit cost reduction, working capital reductions, or other improvements that generate realized year-on-year improvements.
- Our priority or focus is on hard P&L impacting results (year-on-year savings) but we acknowledge that procurement contributes value by helping on cost avoidance, supply chain risk mitigation, and other intangibles.
- We count all hard and soft (cost avoidance) benefits equally. As long as there are no supply disruptions or quality problems, we are happy with procurement.
- We track hard P&L impacting results and track the productivity and performance of our procurement resources.

What percentage of your external spend is actively influenced by your procurement organization directly, or in collaboration, with business partners? By this, we mean more than supporting “buying” or procure-to-pay activities, the procurement team actively develops strategies for and/or with the business teams around categories of spend and supply markets. Respondents were given varying ranges to choose from (from zero to world-class levels) and an option to indicate that they did not know.

What percentage of the spend that procurement does support is actively sourced or market tested each year? Respondents were given varying ranges to choose from (from zero to world-class levels) and an option to indicate that they did not know.

Is the hard savings rate secured by procurement-led and procurement-supported market-tested events tracked? Answer options: We keep track and validate all savings from all sourcing projects; I know only for the events that procurement wants to share; I know only for big or high profile bids; I don't know, we don't track.

What percentage of the "contracted" savings (what you should get to keep and see in your financial performance results) from procurement-driven and supported award decisions are actually realized (compliance)? Respondents were given varying ranges to choose from (from zero to world class levels) and an option to indicate that they did not know.

Does the procurement organization contribute proactively in driving hard benefits beyond unit cost savings such as working capital reduction, value reengineering, profitable growth through supplier enabled innovation, and/or risk management, etc.?

If they answered yes to the prior question, they were then asked: How would you rate these benefits for significance and frequency? Answer options: Significant and routinely occurring; Significant, but infrequent; Moderate and routinely occurring; Moderate, but infrequent; Insignificant and routinely occurring; Insignificant and infrequent.

Do you know what the right mix and scale of procurement skills and capabilities (talent, practices, and tools) are required for your organization to drive world-class procurement performance? If yes, they were asked: Does your procurement team match the profile required to drive performance? If "no or don't know," they were asked: Do you think there is value in understanding what the right mix and scale of world class procurement skills and capabilities required for your organization should be?

About A.T. Kearney

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit www.atkearney.com.

About the Chartered Institute of Procurement & Supply

The Chartered Institute of Procurement & Supply (CIPS) is the world's largest procurement and supply professional organisation. It is the worldwide centre of excellence on procurement and supply management issues.

About the Institute for Supply Management

Institute for Supply Management™ (ISM) is the first supply management institute in the world. ISM's mission is to lead the supply management profession through its standards of excellence, research, promotional activities, and education.