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REALIGNING FOR 2020 AND BEYOND

Procurement & Sourcing Benchmark Report

INTRODUCTION

About the Survey

In the past few years, organizations have adapted to a climate of rapid turnover, routine mergers and acquisitions, and unexpected disruption from technology startups affecting many industries. The resulting uncertainty has only grown in the age of COVID-19. Procurement and sourcing professionals are at the tip of the spear when it comes to this new reality, preparing for an unknown level of upheaval and disruption in supply chains.

This is a challenge, obviously, but it is also an opportunity. Now more than ever, CPOs and their teams must increase the collaboration and synchronicity with other departments and establish processes and contingencies that will keep their organizations competitive in uncertain times.

Due to this, we wanted to take a step back and hear about what other organizations are experiencing — through the lens of procurement and sourcing.

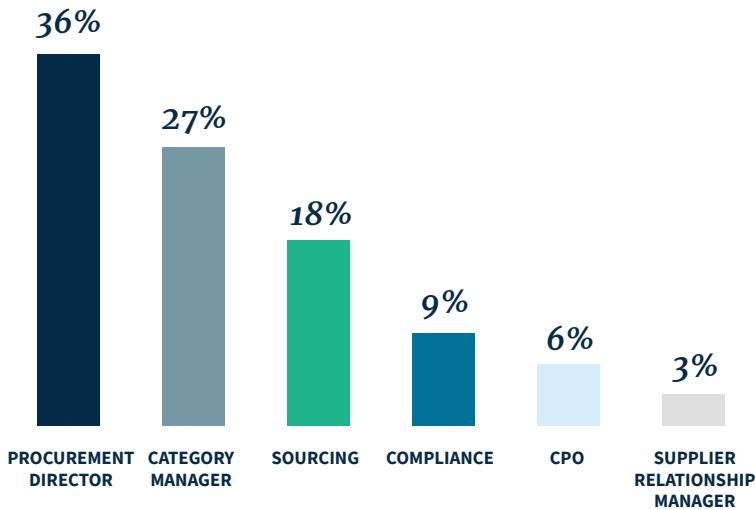
The first annual Procurement and Sourcing Benchmark Report, conducted by SC&H Group, outlines a comprehensive “state of the state” and provides a detailed look into how the industry is collectively re-aligning for 2020 and beyond.

Before reviewing the data, it’s important to note that this survey was distributed at varying stages of the pandemic. This may influence the consistency and the economic climate in which survey respondents were weighing in with their organizational priorities and direction.

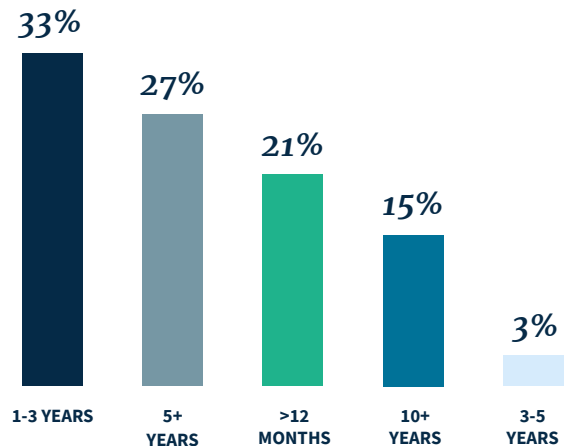
Now is the time to ensure that procurement and sourcing are built into your business’s strategic plan, where they can influence the full range of your work and your long-term approaches.

In terms of the responsibilities and tenure of the respondents, the research showed that 43% have been with their organizations for at least 5 years, while 55% have less than 3 years at the company. This space does see a fair amount of transition and reorganization which can make it challenging to execute a long-term strategic plan. Because of this, it’s critical for procurement to have strong support and cadence at all levels of the department – whether it’s at the buyer level, analysts, category management, supplier relations, or executive leadership.

Which of the Following Best Describes Your Role?



How Long Have You Been with Your Organization?



Now is the time to ensure that procurement and sourcing are built into your business’s strategic plan, where they can influence the full range of your work and your long-term approaches.

Organizational Priorities in 2020

It can be challenging to look too far ahead because things are changing constantly—pandemic or not—and as one of the respondent’s stated, “We could take this survey every week and give different answers each time.”

With prioritization shifts becoming even more prevalent in the COVID-19 era, some of the key findings from this section of the survey include:

Significant focus on managing risk and it was far and away the most immediate priority, but the question is how does your organization approach it? 3rd-party due diligence is usually the first option, but this has already been done when suppliers are initially vetted and onboarded. Some other ways to manage risk:

1. Making sure the business partners have the proper controls incorporated into their processes and terms in their contracts protecting the company from potential exposures.
2. Focusing on continuity and sustainability – suppliers might not be viable after the COVID situation so it will affect the supply chain and they will likely need to find new partners.
3. Identify the strategic categories of suppliers that you rely on. By dividing your suppliers into “tiers” according to spend and importance, you can discern which relationships are most critical to your business by spend levels and/or by business function, and which are potentially in need of closer attention.

It can be challenging in this space to look too far ahead because things are changing constantly—pandemic or not.

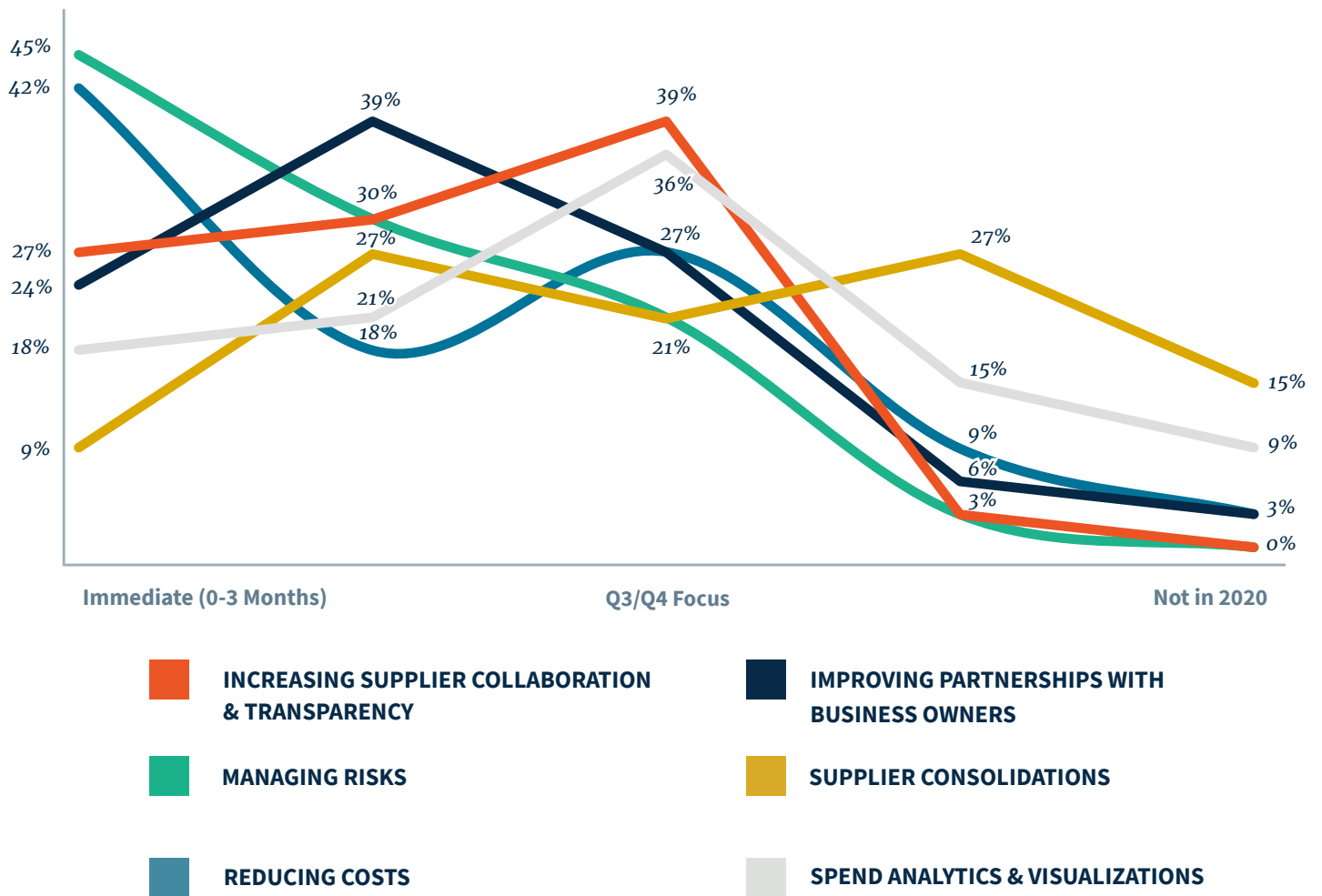
Companies are turning to cost reduction measures, with the three most common being: freezing budgets, canceling non-essential spend, and headcount reductions.

Increased collaboration and transparency with suppliers, including pricing transparency and more focus on understanding 3rd-party supplier strategy to find something that is mutually sustainable and beneficial to customer’s desire to reduce costs. There could be other synergies in the relationship to make it more cost-efficient.

From an internal perspective, procurement and sourcing teams are prioritizing improving relationships with business owners.

Many reported supplier consolidations as a lower priority, likely because the more mature organizations have already gone down this path. More than 40% are moving this beyond 2020, into 2021 or later.

Larger organizations are experimenting with the build-out of an analytics team within their procurement department – but so far many are focused on running reports and queries internally, without leveraging the more sophisticated and easily digestible visualization aspects of data analytics and dashboards.



TOP 5 WAYS TO IMPROVE INTERNAL RELATIONSHIP WITH BUSINESS OWNERS

1. Ensure that the buy meets the needs of the organization / department.
2. Understand that it's a collaboration, not an auction.
3. Explain the importance and benefits of procurement partnering with the business as needs arise and being an active participant throughout the entire supplier management lifecycle
4. Procurement needs to build credibility with business owners to earn trust and in turn be more effective. Listen and learn about what would help your business owners be successful – then act accordingly within your organization's strategic framework and policies to deliver results.
5. Do not view every category the same – approach each with a fresh set of eyes.

Contract Audit Program: Ownership and Supplier Audit Criteria

The majority of organizations polled stated they have a contract audit program in place, with 59% reporting that their procurement department takes ownership, however, the data would suggest that not many organizations have implemented what we'd consider to be mature audit programs.

64% of the organizations reported that “we only audit all Tier 1 suppliers or ones with the highest degree of spend” – this can yield solid returns, but it overlooks the full gamut of suppliers and plenty of additional opportunity to ensure you've enacted a fair, consistent policy across your organization and categories.

All organizations have Tier 1/2/3 suppliers – typically this is based on spend / how critical it is to their business, but we have also heard of sole-source suppliers that are unique to providing a service or product that are “tough to replace”, but it's primarily spend-based.

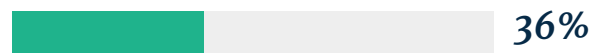
With an effective mature audit program in place, global enterprises can optimize business performance with strategic partners by replacing familiarity and blind trust with transparency, accountability and earned trust. This helps to reduce third-party risk and ensure that their contracts, business processes, and internal controls are working in harmony to achieve business objectives.



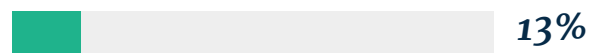
WE ONLY AUDIT TIER 1 SUPPLIERS



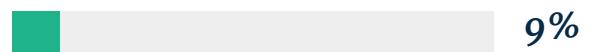
INTERNAL AUDIT SELECTS SUPPLIERS TO BE AUDITED



WE AUDIT ALL INDIRECT SPEND



WE ONLY AUDIT WHEN ISSUES ARISE



MECHANICS OF A MATURE AUDIT PROGRAM

- ✓ There needs to be a strong cadence and alignment between Procurement and stakeholders across the enterprise – including business owners, Finance, Internal Audit, Legal, and the C-Suite - supporting ongoing and periodic supplier audits. A contract repository exists where contracts are organized and can be pulled.
- ✓ There needs to be clear ownership of the audit program.
- ✓ It must be consistently executed against all tiers of suppliers – a “we only audit when issues arise” approach will not bear the fruits you can expect from a mature program.
- ✓ It should not be reactionary or temporary.
- ✓ All suppliers, both direct and indirect, are subject to this best practice.

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Collaboration with Other Departments

One of the top challenges for procurement and sourcing teams is being looked at as a value-add, strategic partner—and not a roadblock to 3rd party partnerships.

The survey found that organizations are seeing the greatest collaboration with Finance, Operations Executive Leadership, and Technology. The low scoring for the Marketing department is not quite as surprising because it's traditionally a more insular, go-it-alone department. A few notes on the others:



TECHNOLOGY

This is a huge area of spend, so it makes sense to see a greater level of involvement.



FINANCE

Makes sense because of how closely they are aligned – procurement wants to produce savings and finance wants to manage costs and protect margins.



OPERATIONS

This was the 2nd-highest rate of close collaboration, to Finance. 69% of those surveyed rated their collaboration with a 4 or 5 out of 5.

Rate Your Level of Collaboration with the Following Departments

When it comes to cross-department collaboration, there is no real correlation to having a mature audit program in place, but contract audit groups can help to facilitate and foster strong relationships because they're dedicated to promoting harmony between them.



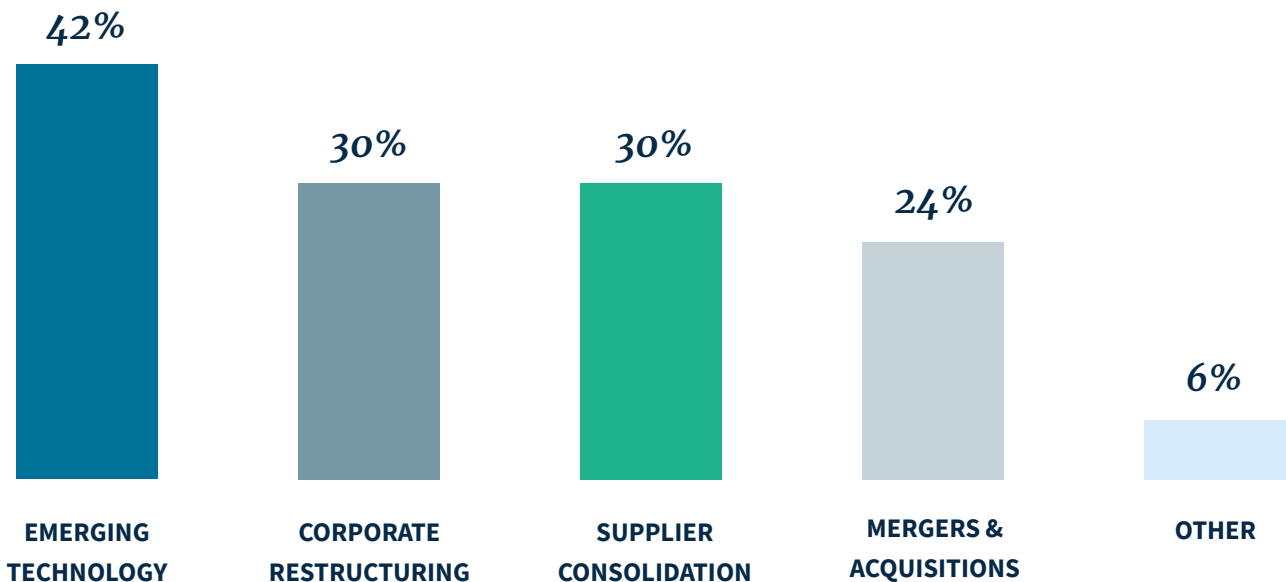
What Had the Biggest Impact on Your Organization in 2019?

Procurement and sourcing executives have more data at their disposal than ever before, and more ways to interpret, extrapolate, and utilize this data. But on the flipside, some of the largest businesses in the world are just now getting around to implementing emerging technology solutions, including procure-to-pay options such as Ariba or Coupa.

Research suggests that some organizations may have an Artificial Intelligence (AI) bot that can read invoices, but in many cases that's the extent of emerging technology utilization. These solutions can be quite powerful, but they can also be used as a file storage application. The most advanced organizations reported in open feedback that things like AI, Robotic Process Automation (RPA), and Machine Learning (ML) are fully integrated into their processes—not just being used in one-off situations.

Some of the survey respondents reported leveraging AI, RPA, or ML to increase supply chain transparency, quickly identifying fraud or disruptions in their supply chains, and sourcing materials at an optimum price. They can pinpoint micro-values and losses with incredible accuracy, while also projecting trends into the future to anticipate need. This is obviously cause for celebration on one level, but it's also a reminder that the very role of procurement and sourcing executives is changing.

While having a procure-to-pay solution in place can help foster a mature audit program, it's not imperative.



When it comes to corporate restructuring and reorganizations, as soon as you're done with one, you are on to another.

And when major players in a relatively close-knit supply chain make big changes in their corporate structure or absorb a competitor, the effects are felt throughout the industry. If the merger involves companies from different countries, as many increasingly do, the result could ripple throughout the globe and even lead to new regulations or requirements. CPOs need to ensure that their own company is equipped to handle massive changes in their supply chains and their partner corporations. With proper awareness of shifting global regulations and contracts that ensure compliance, reconfiguration doesn't have to mean instability in your systems, personnel, or profits. The impact on procurement has been significant. There are major challenges, especially for procurement professionals. The combination and balance of multiple service lines and contracts can leave CPOs wearing multiple hats and working long hours to make these transitions as smooth as possible.

In 2020 and beyond, CPOs might help assess the potential partner company to determine their compatibility—not only in terms of contracts, supply chains, and market reach, but in terms of corporate personality. Do they share your values? Do they operate according to similar assumptions and principles?



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Which Business Intelligence or Data Visualization Solution Are You Using?

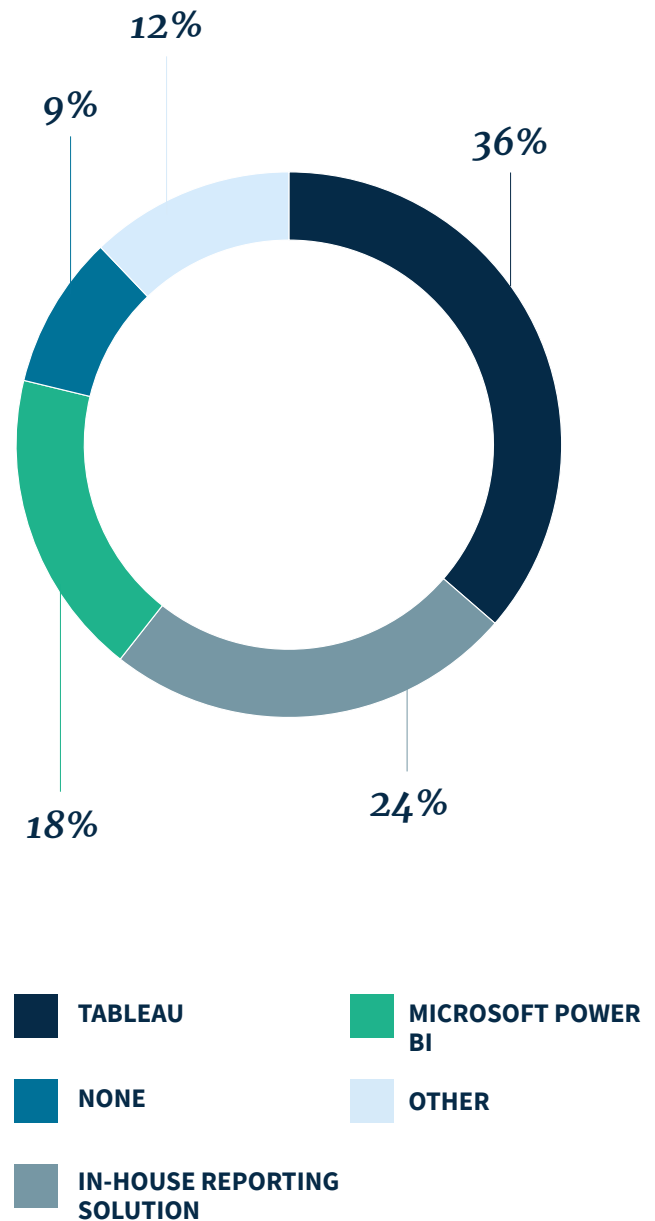
Many of the organizations reported using data visualization tools to enhance the accessibility of large, complex data sets. Well-designed dashboards improve decision making and facilitate the sharing of critical information. Dashboards are available on-demand and continuously updated, with the research showing that 55% of the organizations are using Tableau or Microsoft’s Power BI to track the progress of audits and recoveries as part of spend analytics or compliance initiatives.

It’s interesting to see such a high percentage of organizations leaning on home-grown data analytics reporting solution. With so many strong “true cloud” options out there that also integrate with the leading ERPs seamlessly, many of the Fortune 100/500 organizations are leaning on leading BI solutions for their needs.

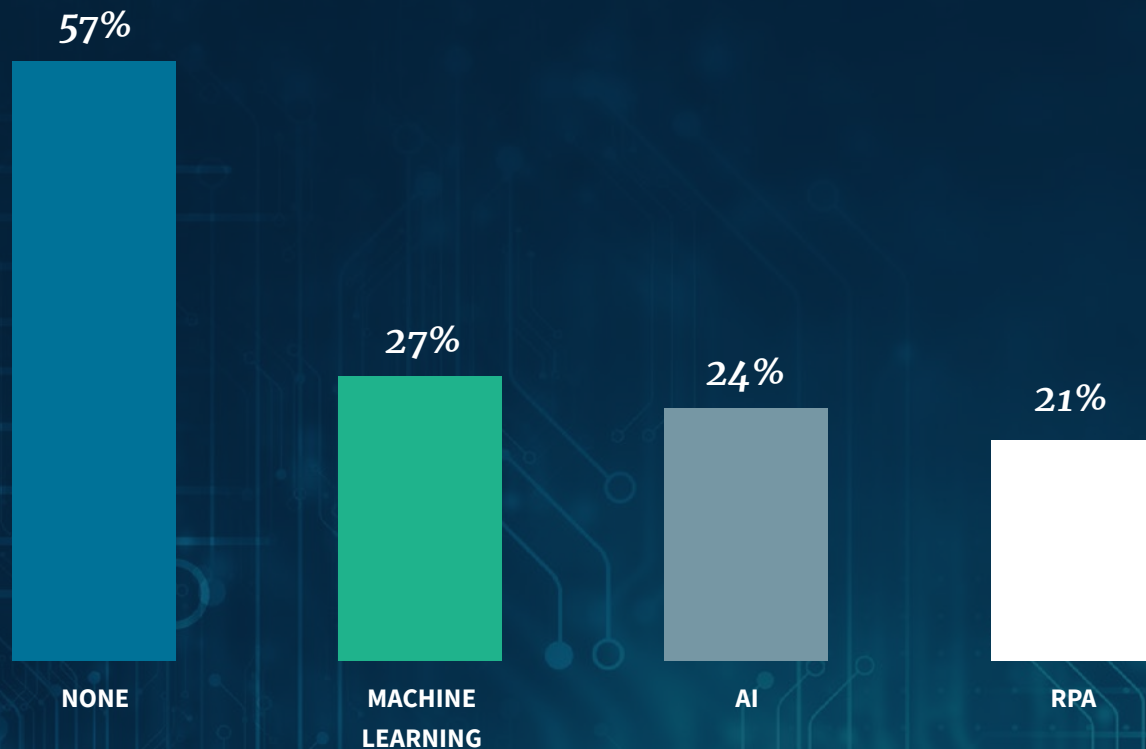
Interestingly, the coronavirus pandemic has made data visualization and modeling fundamental to our everyday lives through discussions of “flattening the curve” and infection rates.

The leading organizations reported increased collaboration with other departments to ensure that predictive, analytical modeling is driving business strategy – and not just another license sitting on the shelf.

Data visualization and business intelligence can be quite effective in driving decision-making, but you only get out what you put into it—whether that’s leaning on your in-house analytics team or an outsourced partner.



Is Your Organization and/or Department Using Artificial Intelligence (AI), Machine Learning, or Robotic Process Automation (RPA)?



TOP 4 WAYS AI/RPA/ML IS BEING USED

1. Using technology to read + process invoices.
2. Honing in on high-risk or problematic answers more efficiently and learn over time what contributes to a higher risk rating.
3. Helping with the RFP process and assessment of contract redlines.
4. Analyzing transactions for fraud.

CONCLUSION

Now What?

At SC&H Group, we've analyzed and assessed the “state of the state” in the procurement and sourcing space to obtain a detailed look into how the industry has collectively re-aligned for 2020 and beyond.

We are all experiencing some extraordinary and unprecedented situations, and we have heard from many organizations whose priorities have completely shifted since the new year.

Respondents pointed to several different priorities—both short- and long-term—for this year, including:

1. Significant focus on managing risk.
2. Aggressive pursuit of cost reduction and savings measures.
3. Heightened desire to become a more data-driven organization and leverage supplier and spend analytics to make decisions.
4. Increased collaboration and transparency with suppliers.
5. Procurement and sourcing teams are prioritizing improving relationships with internal stakeholders / business owners.



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