The CIPSA-Portland Group Strategic Procurement Benchmarking Survey is the first published study of this subject dedicated solely to Australia and New Zealand. It offers a genuine and detailed insight into the subject of strategic procurement in both public and private sectors – a ‘state of the nation’ snapshot effectively.

Crucially, this research has 4 primary objectives;
1. Provide a point in time portrayal of strategic procurement capabilities in this region.
2. Offer a platform for future priorities for CIPS Australia & New Zealand following the 3+3 research published in June 2005.
3. Begin the process of building a definitive Australian and New Zealand body of knowledge contribution.
4. Provide a user friendly benchmarking tool for organisations in Australia and New Zealand for internal use in comparing their development progress in strategic procurement and highlight local best practices.

The key concerns identified in this research echo the themes identified in the previous CIPSA research published in June 2005;
- stakeholder buy-in
- performance measurement
- people development

The research also offers some insight into why these issues remain topical and also presents three new issues that we as practitioners and managers must address;
- the rate of growth of our profession
- the e-Procurement opportunity
- influencable spend coverage

It also more than hints at other emerging issues;
- the looming demands of socially responsible procurement trends
- a lack of confidence in system and IT solutions
- limited interest in P2P processes
- growing interest in low cost country sourcing & the effects of globalisation

CIPSA will address each of these issues over the next 12 months in Australia and New Zealand in a variety of ways for the benefit of all practitioners.

Finally, a thank you to The Portland Group for their enormous contribution in sponsoring and delivering this survey on our behalf, with precious little direct recompense.

I hope you find the survey report an interesting read and a useful benchmarking tool for your organisation.

Jonathan Dutton MCIPS
Managing Director,
CIPS Australia & New Zealand

Melbourne, December 2006
Stakeholder Buy in

- The procurement team needs the ear of the CFO or CEO as a trusted advisor. In order to be truly effective, they also need to be seen as part of the management team involved with sharing the corporate goals in order to add real value.
- Aligning the procurement team’s goals with those of the organisation is the key to acceptance – only a quarter of respondent strategies include contributions directly to corporate goals, whether financial or non financial.
- Improving the internal marketing & lobbying skills of the procurement team is a key skill requirement.
- Performance measurement is still key: three quarters of respondents ‘mark their own homework’ in terms of savings, 35% have finance validate their claims and only 25% see savings in the P&L…perhaps representing a generalised lack of appropriate measurement tools and methodologies?
- Too few organisations seem to canvass their internal customer views either informally or formally about the procurement team performance; only 10% cite stakeholder satisfaction as a formal measure, although this was not a formal research parameter.

Growth of the procurement profession

- What will rapid growth of the profession really mean, and what are the implications? 40% of respondent’s teams are growing in numbers this year.
- How are procurement managers trying to address the clear skills shortage in the profession and attract talent into the profession? 89% of respondents simply call recruitment agencies when they have a vacancy. Why are only 20% of procurement teams recruiting new graduates? Why are so few recruiting from other disciplines and cross-skilling?
- How can we professionalise our profession?
- Training programmes are available, why are they not fully subscribed? Why have so few procurement managers implemented people development strategies for their teams?
- What are the top priority new training needs for procurement professionals?
- How are we truly addressing the procurement skills shortage?
Professional practices & techniques

- Category management practices still need developing more rigorously for organisations
- Procurement teams are struggling to obtain remits in complex categories, including BPO. Strides have been made in traditional fortress categories such as Marketing and Engineering, but progress seems slow still in the professional services area.
- Procurement spend coverage is only measured by 31% of respondents, a strategic weakness of the profession….if you don’t measure it you won’t get it.
- Procurement teams need more confidence in implementing e-Procurement solutions – and perhaps more encouragement in identifying and successfully implementing the right e-Solutions.

The Research Process

The CIPSA/Portland Group Strategic Procurement Benchmarking Survey is the first large scale review of strategic procurement practices, priorities, successes and challenges to be undertaken solely from an Australia and New Zealand perspective. It complements existing global surveys by focussing on pertinent local benchmarks and concerns, which in some areas differ markedly from European and US preoccupations.

Respondent companies are predominantly ASX Top 200 corporates and equivalently sized public sector bodies. Local operations of global entities were de-emphasised, as they are less likely to reflect Australia/NZ-centric environments. The information was drawn from fifty-five in depth face to face interviews with Procurement professionals in all states, and their trans-Tasman counterparts during mid-late 2006. The open dialogue with passionate professionals provided the true richness of the Survey, with participants sharing their strategic plans and thoughtful analyses in a way that the multiple-choice format alone would have failed to do.

The Survey was not designed as a competitive “good, better, best” self-assessment exercise by participants. It sought to develop a neutral understanding of the importance and positioning of the Procurement function; how it sets objectives and measures success, the tools it uses to do this, the people it hopes to attract and the prevalence of certain approaches, techniques and behaviours. Where participants provided both spend and achieved benefit levels, this respondent subset has been used to draw some relatively simple conclusions regarding structure, age, and resourcing.
The Top 10 Individual Insights...

1. Procurement is acknowledged in most respondent organisations as an important function, though a third of participants report that it is yet to reach complete strategic acceptance.

2. There are still few true “CPO” level heads of function: most report 2 levels below CEO.

3. The most common shared preoccupation is ensuring continued organisational support for the function and its activities.

4. Self reporting of benefits, low P&L visibility of these benefits, and failure to track delivered benefits are creating a credibility gap. Suboptimal levels of internal marketing are likely, given the relatively low incidence of formalised stakeholder engagement strategies.

5. Strong success in strategic sourcing is fuelling the continued push for increased category coverage, especially in complex (professional services, outsourcing) categories.

6. There is less confidence in deploying ongoing category management strategies and a reluctance to assume a “policing” (demand management, strategic budget setting) role.

7. Systemisation was lower than expected, with a predominance of in-house analytical and tracking tools and a low appetite for IT solutions other than vendor performance management.

8. Most functions demonstrate a low understanding of P2P processes and the potential benefits of reengineering them.

9. KPIs were overwhelmingly financial in nature, and drove functional behaviours: of non-financial measures, only risk management rated strongly (44%).

10. Expanding functions are all seeking experienced professionals, but few are training graduates: we anticipate a worsening medium-term skills shortfall across the profession.
Respondent Statistical Overview
55 organisations contributed their experiences to the Survey, and 70% of which were willing to be associated with it by name.

Financial Services in their various forms (retail banking, funds management, insurance) represented some 20% of the total. Manufacturing and Energy and Utilities were also statistically significant in the sample, with an even representation from Public Sector, Health, Consumer Goods, Petrochemicals, Telecoms and Aviation. A substantial majority had revenues of >$2BN, with just 9% registering inflows under $0.5BN.

A third of respondents had an employee base of over 1,000, this was balanced somewhat by over 40% with less than 500 employees. The distribution of human resources also varied greatly, 42% had fewer than 50 sites and typically represented manufacturing or mine sites and non-retail based services companies. The remainder had substantial multi-site presences.

Example Participants

<table>
<thead>
<tr>
<th>Defence</th>
<th>Retail</th>
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</thead>
<tbody>
<tr>
<td>Petrochemicals</td>
<td>Metals &amp; Mining</td>
</tr>
<tr>
<td>Gaming</td>
<td>Freight &amp; Logistics</td>
</tr>
<tr>
<td>Industrial &amp; Other Services</td>
<td>Health Services</td>
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<tr>
<td>Construction</td>
<td>Consumer Goods</td>
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<tr>
<td>Public Sector</td>
<td>Energy &amp; Utilities</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Financial Services</td>
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</tbody>
</table>

Air New Zealand | Medibank |
ANZ Bank | Orica |
Aristocrat | Origin Energy |
Bluescope Steel | Paperlinx |
Boral | Qantas |
Brisbane City Council | QBE Insurance |
Cadbury Schweppes | Queensland Health |
Caltex | Queensland Rail |
Coles | Rinker Group |
Myer | Santos |
Dept of Infrastructure (VIC) | Sigma Pharmaceutical |
Ergon Energy | Singtel Optus |
Fletcher Building | Suncorp Metway |
Fosters | Telecom New Zealand |
IAG | Telstra |
Lion Nathan |
14% of respondents were NZ based. 33% of all respondents had Asia Pacific operations, and a similar number reported a North American presence, with EMEA comparatively poorly represented.

All respondents had formal Procurement operations, but their age and remit varied very widely. The newest function was a mere 10 weeks old, the oldest over 20 years old, seeded from a successful functigral to delivering outcomes for its organisation.

There were no fully outsourced or fully decentralised functions in the sample.

A surprisingly large proportion of respondents reported their function to be very youthful. Whilst many were factually older, age was dated from their current strategic direction, which typically emphasised strategic sourcing. The impetus for most of the new functions was a growing awareness from Finance of Procurement’s ability to contribute to the bottom line, followed by a desire for better structured and understood external vendor relationships.
A positive finding for these teams is that Procurement tends to get better as it gets older. The most mature functions among the subset of respondents who included spend and achieved benefit figures displayed higher benefit levels than their youthful counterparts, suggesting that they are tapping more deeply into the organisation’s expense base than “low hanging fruit” exercises. Their comparative staffing ratios show that they are more inclined to have ongoing category management capability, and less likely to maintain a transactional capability.

60% of respondents were centre led, with either a business unit or category based split. These functions also reported higher benefit levels (among the subset of respondents who reported spend and benefit figures) than centralised or loosely allied decentralised units.
Organisational Perceptions of Procurement

The majority of respondents felt that procurement within their organisation was an important function with a voice at the table, and which assisted in the achievement of strategic corporate goals. This is consistent with the typical reporting line, which is 2 levels below CEO.

Organisational Perception of Procurement

Whilst a line to the CFO provided the single most common structure (and reflected the emphasis on financial performance shared by most respondents), it only accounted for a portion of possible reporting lines. COOs and Heads of Supply Chain were also obvious reporting lines. Lower down the chain, many reported into a central corporate function, such as Business Services, Group Services, Shared Services; Corporate Services, Administration Group Strategy or Risk.
Interestingly, the 20% of respondents who felt that the function was critical to the success of their corporation were no more likely to be senior level reports than those who felt the function was important. Some of these were functions still in their inception, and seemed to be motivated by their vision and enthusiasm rather than real experience.

Almost a third of respondents felt that Procurement had completed some well regarded projects, but were yet to progress to full strategic acceptance. This perception was not related to the age of the function, and in several instances researchers found that these respondents had impressive track records. A few respondents, mostly new functions with a developed culture of business line independence, openly admitted to struggling for acceptance.

Though over half of all respondents identified as having a CPO, there were very few true “C” level appointments within Procurement and only 3 direct reports to the CEO, one of which was in the public sector.

Heads of function, whether CPOs or not, frequently managed a variety of other departments. Overwhelmingly these included either Supply Chain (raising the perennial question of whether Procurement is a sub-function of Supply Chain) or Facilities/Property. Only a quarter had either Shared Services or Payables responsibilities and this reflected in a generally low awareness of end-to-end P2P processes: most participants needed to refer this section to parties outside Procurement to complete.
Approximately 40% of participants did not reallocate their expenses, however there was no apparent correlation between reallocation methodology and organisational perceptions of the function.

Cost Reallocation

- Headcount: 15%
- Spend: 15%
- User Pays: 18%
- Not Reallocated: 41%
- Other: 10%
Policy and Strategy

20% of respondents had no formalised strategy, whilst 9% had no formalised purchasing policy.

The most common policy inclusions were Procurement practice guidelines, tables of authority, and details of preferred vendor arrangements. Interestingly, only half the respondent base included a Code of Ethics in their policy (note that CIPS has a suggested Code of Ethics available online). Reciprocal trading is typically a contentious issue: a low 22% had a formal policy in this space. The more sophisticated policies included wide ranging content, such as foreign exchange hedging guidelines. Almost all were intranet based, with the most proactive participants finding other means of communicating the message, such as new employee inductions, roadshows and cross functional team review.

The respondents without a strategy were generally functions in the throes of change. They characteristically had category-level approaches which were not coordinated into a holistic vision for the function, though several were actively focussed on building this.

The outlook for those who did have a procurement strategy was varied: around a third had a 12 month focus, a similar number 24 months, and the majority a confident 3+ years, though in some cases this signalled the timeline to achieve a certain benefit level rather than a deeply differentiated strategy. Most strategies addressed systems, functional capabilities and categories, whilst leaders also focussed on business unit alignment and influencing issues.
Measuring Procurement’s Performance

A significant 27% of respondents had no formal financial targets, but this subset represented the extreme ends of interviewees. Resources focussed firms emphasised a speedy and efficient supply chain to deliver financial returns greater than those achievable through purchase price performance. Construction firms tended to operate within wider project based budgets, and the new or struggling functions also tended to de-emphasise hard savings.

Performance measures are overwhelmingly financial in nature, with a strong focus on savings, followed by avoidances. Risk management is the only non-financial measure in the top 3. Fewer than a third identified DIFOT or other availability measures as important, and those that did were predominantly in the resources sector. Transactional measures such as cycle time and PO accuracy were clearly deprioritised. We regret that we did not specifically ask about customer satisfaction – several respondents mentioned this without prompting.
There is a close correlation between performance KPIs and the key concerns of Survey participant’s: perceptions and behaviours were clearly shaped by these quantitative success measurements. This resulted with shallow support for initiatives such as CSR, which ranked a lowly last out of 16 possible concerns. Similarly, supply risk management was ranked as a low or medium importance concern by 40% of participants. These examples were selected because both are very topical in UK organisations.

A large majority of the respondent base communicated their achievements by circulating self-generated reporting to stakeholders, typically as a post project summary, periodic newsletter or a presentation to business units. There was a sense of unease among many respondents over the effectiveness of this process, which contributed to the rating of “ensuring continued organisational support for the Procurement function, or for its expansion” as the single most important concern among them (79% “high importance”).

A low 35% of respondents have implemented some level of Finance overview to validate their calculations. 30% (some also reflected in the above) have the ability to make Finance aware of their activities through adjustments to budgets to reflect a lower baseline cost.

This is a significant concern, given that three quarters of respondents were aware that the benefit of their activities is not directly visible in the P&Ls of their stakeholders. Unsurprisingly, “proving the value of Procurement’s activities” was rated as highly important to 68% of the respondent community.
The preferred benefit calculation methodology was to claim identified benefit from sourcing activities (at the time of the sourcing event). However, less than half of all respondents followed through to track delivered benefits. There is a worrying correlation between the inability of stakeholders to see benefits through their P&L and the lack of Procurement focus on true, delivered benefits: in our experience this is a key source of stakeholder skepticism regarding the value of the function’s activities.

**Spend Analytics**

The need to collate spend information across a diverse base of group entities and their separate payables systems presented a challenge for many respondents. Almost half of all functions were pulling information from multiple payables systems (and these included some quite cumbersome systems such as insurance claims assessment databases). Several mentioned using third parties to help them get a handle on this data.

Nonetheless, a majority of respondents had performed a spend segmentation within the last 6 months. At the other end of the spectrum, the spend maps of 14% of respondents were more than a year old, and the impact of this would be felt in all category driven reporting.
There was some disconnection between the recency of vendor masterfile review (just under half of all of respondents had several masterfiles to integrate, almost a fifth had >5) and spend segmentation, with 44% of participants reporting no activity on this front in the last year. This is perplexing, as vendor masterfile cleansing is often seen as a crucial first step to accurate spend analysis.
There was a majority view that GL categories were easy to interpret, and half the respondent community felt that spend was categorised with fewer than 10% errors. This also surprised us, as our experience has typically shown a much higher proportion which leads to errors in category based reporting.

Spend and Coverage

There was some debate as to the definition of “influenceable spend”: whilst some firms excluded taxes, regulatory charges and the like, others also excluded spends over which they had no current influence. Yet others excluded spends which were core to the business and typically resourced in specialist teams which do not form part of the procurement function - these included finished goods for resale (very few merchandising teams were considered to be part of procurement), raw materials and commodities. Such as Traded Energy contracts.
The professional services sector is overwhelmingly the arena where procurement departments are still battling to make headway. Despite the statutory requirement for Audit, a low 27% of respondents were involved in a strategic, decision-making role in the Audit and Advisory category. Legal services were covered by less than half of functions (though we are obtaining feedback from Legal firms that procurement is increasingly pushing into this category).

To our surprise, outsourced service providers were also covered by fewer than 50% of respondents: given that most large corporates continue to review their BPO options, this is a deep concern. Our experience in this sector shows that many endusers still fail to identify reviews of their business processes as a “procurement” activity. Only a handful of respondents were confident that they were always involved in such projects, whilst 27% felt that they were sometimes or never involved.

Typical indirect categories such as Travel, Office Supplies, Print, IT&T, Contract Labour and Recruitment and Fleet Management were all heavily influenced by Procurement.

63% of respondents classified increasing coverage as a high importance activity, with only 15% satisfied with their existing coverage. The majority had attempted to ensure good procurement practice by making procurement templates and guidelines available to “part time buyers”, but nonetheless rated their use as “inconsistent”.

There was an overall low reach into strategic expense management, being the management of expense before it is committed. Procurement’s exposure to the firmwide budget process is typically restricted to providing inputs in categories managed by the function (energy, fuel, travel) and economic forecasting for raw materials and commodities. It was characterised by the word “consultative”, and several respondents were lobbying for more active involvement.

Best practice leaders in this category took a far more active stance: working with individual BUs to define cost-down targets in their areas and sitting on budget review committees to surface groupwide opportunities.

**Systems and Tools**

Given the nature of the respondent base, we had anticipated a comparatively high degree of automation and systems deployments, and were surprised at the outcomes in this section.

Half of all respondents had implemented a transactional e-procurement tool, the majority as a module of their ERP, though platforms such as Ariba were quite evident, and some organisations used web-based aggregator functionality. These tools were reported to have decreased administration overheads but had achieved only grudging enduser acceptance, with less than a third of respondents reporting them to be popular. We speculate that this comparative unpopularity may allied to their role in reducing enduser choice and driving compliance to preferred vendors and products. However, and in line with earlier observations regarding “policing” spend behaviours, it does not always follow that increased spend transparency (78%) results in decreased breakout spend (44%).
A quarter of respondents had implemented strategic e-procurement platforms, and were using them overwhelmingly for electronic RFPs, with a dwindling emphasis on reverse auctions. These were endorsed for their reduction in administrative workload and enduser acceptance, but less than half of the sample felt that they provided increased analytical functionality.

An astonishing 85% of all functions relied on home grown means of spend segmentation, with a majority downloading and manipulating data into Excel, and the rest using other in-house solutions, such as data warehouses. A fifth had purchased third party solutions, and those who had done so reported struggling to realise the full richness of these tools in the face of their own accounting systems’ complexities.
Just over a third of respondents supplemented their analysis with T&E and P-Card specific analytics. Since three quarters signalled that they had some form of card programme in their organisation, a significant proportion of functions appear to have inadequate mechanisms to review their purchases in these areas.

Half of all functions had a contract management tool, making this the single most implemented system tool for procurement functions, and this was preponderantly a Lotus Notes database or intranet register. About a third reported some form of vendor performance management capture mechanism, and this was also by far the largest area of active interest within the IT space, with many respondents piloting or evaluating solutions.

Fewer than 20% of respondents had the means to report specifically on category management – and this was reflected in a prevailing concern (high importance to 75% of the participant community) about ensuring vendor compliance to negotiated agreements.
Invoice and Payment Processing

P2P processes represented the greatest unknown for many respondents.

A large number of respondents knew what their corporate standard days to pay were, but were simply not close to the actuals. Information on payment processes was also not included in 40% of purchasing policies.

Best practice companies actively leveraged their positions on this point: either by being an excellent payer and negotiating on this strength, or extending payment terms to improve their cash position. This latter position is currently being aggressively and controversially pursued by UK based retailers, but it is uncommon in Australia.

There is little current focus on reducing process costs associated with the acquisition of goods and services – for example, whilst most Payables systems (64%) accepted e-Invoices less than a fifth of invoices were typically presented this way. The use of ERS/RCTI or other self-billing techniques was also confined to one fifth of respondents. Measures such as invoice consolidation are also low: one third of respondents who provided this data are receiving more than an invoice a week from each active vendor.

On the positive side, Australia is advanced in its use of EFT payments, with several participants reporting that they no longer had a cheque payment facility. This high standard made the 16% of vendors who processed <50% of payments electronically really stand out.
The Survey used the treatment of corporate card payment as a micro study for the efficiency of payables processes. Most respondents had evolved strategies to avoid late fees, varying from payment on receipt with retrospective reconciliation to individual liability cards. Those corporates which had not adopted any of these strategies were paying between $50K and $200K pa in late fees, tangible proof of the value that robust processes can confer.

**Strategic Sourcing**

Most respondents were confident of their capabilities in the Strategic Sourcing space, especially the competitive review process and their ability to build specifications, model financial outcomes, assess vendor and supply market risks and negotiate – either independently or as the leader of coordinated stakeholder teams – key terms, SLAs and the deal itself.

Almost 70% also reported “excellent” results from their sourcing programmes, making this easily the most effective strategy employed by purchasers across Australia.

Weaknesses were only evident in the more specialist and associated areas of supply market development and developing strategies to challenge monopolistic vendors, possibly because few respondents addressed the lock-in problems common to machinery, aviation and technology buyers.

However, the lack of early involvement was a consistent lament: only 6% of respondents are involved at the inception of a new product cycle and 44% are either “sometimes” or “never” involved. Echoing findings in the Spend and Coverage section, a lowly 6% of functions are “always” involved with make verses buy outsource decisions compared to the 27% who are “sometimes” or “never” involved.
The following Strategic Sourcing Approaches have been listed in decending order of frequency (weighted average) from 'Always Adopted' to 'Never Adopted'.

1. **Always**
   - We are comfortable negotiating contractual terms and SLAs
   - We are comfortable assessing vendor, supply and market risks and providing recommendations to internal stakeholders
   - We regularly competitively review all major commodities
   - We structure and coordinate negotiations which often involve multiple internal stakeholders
   - We are involved in reviewing all important vendor agreements before they are committed
   - We assist our stakeholders to build complete and accurate specifications, and these form the basis of SLAs or contractual documentation
   - We have specialist expertise in most of the categories we need to source
   - We have the analytical depth to model optimal cost outcomes from our RFP processes

   **Frequency Distribution:**
   - Always: 55%
   - Regularly/Mostly: 34%
   - Frequently: 9%
   - Sometimes: 2%
   - Never/No Idea: 0%

2. **Regularly/Mostly**
   - We structure and coordinate negotiations which often involve multiple internal stakeholders
   - We assist our stakeholders to build complete and accurate specifications, and these form the basis of SLAs or contractual documentation

   **Frequency Distribution:**
   - Always: 45%
   - Regularly/Mostly: 34%
   - Frequently: 9%
   - Sometimes: 11%
   - Never/No Idea: 0%

3. **Frequently**
   - We are involved in reviewing all important vendor agreements before they are committed

   **Frequency Distribution:**
   - Always: 42%
   - Regularly/Mostly: 40%
   - Frequently: 8%
   - Sometimes: 11%
   - Never/No Idea: 0%

4. **Sometimes**
   - We are involved in reviewing all important vendor agreements before they are committed
   - We assist our stakeholders to build complete and accurate specifications, and these form the basis of SLAs or contractual documentation

   **Frequency Distribution:**
   - Always: 36%
   - Regularly/Mostly: 42%
   - Frequently: 17%
   - Sometimes: 2%
   - Never/No Idea: 0%

5. **Never/No Idea**
   - We are involved in reviewing all important vendor agreements before they are committed
   - We assist our stakeholders to build complete and accurate specifications, and these form the basis of SLAs or contractual documentation

   **Frequency Distribution:**
   - Always: 32%
   - Regularly/Mostly: 40%
   - Frequently: 13%
   - Sometimes: 15%
   - Never/No Idea: 0%

6. **11%**
   - We assist our stakeholders to build complete and accurate specifications, and these form the basis of SLAs or contractual documentation

   **Frequency Distribution:**
   - Always: 25%
   - Regularly/Mostly: 21%
   - Frequently: 15%
   - Sometimes: 13%
   - Never/No Idea: 2%

7. **2%**
   - We assist our stakeholders to build complete and accurate specifications, and these form the basis of SLAs or contractual documentation

   **Frequency Distribution:**
   - Always: 23%
   - Regularly/Mostly: 47%
   - Frequently: 17%
   - Sometimes: 11%
   - Never/No Idea: 2%

8. **2%**
   - We assist our stakeholders to build complete and accurate specifications, and these form the basis of SLAs or contractual documentation

   **Frequency Distribution:**
   - Always: 30%
   - Regularly/Mostly: 32%
   - Frequently: 17%
   - Sometimes: 19%
   - Never/No Idea: 2%
Our recommendations are rarely if ever disputed by internal stakeholders

We have access to market data which supports our negotiations and sets our pricing expectations

We are adept in sourcing potential new vendors, both domestically and offshore

We are involved in all make v buy and in-v outsource decisions

We have long term partnering arrangements with vendors which are governed by risk/reward structures

We have evolved processes for challenging the demands of monopoly vendors

We are involved at the start of every new product development cycle

We actively develop the supply market to reduce the impact of our monopoly vendors
Non-Sourcing techniques

Respondents were typically more tentative in their assessment of their behaviours in this category, and just over half reported excellent outcomes from these techniques. At an individual level, many assessed themselves as one scale level back from their Strategic Sourcing capabilities.

Contract key dates and terms were widely recorded, and most respondents had implemented benefits tracking mechanisms (though as we have seen these are very largely manual): 70% were confident that their contracted pricing was being adhered to by the preferred vendor base. However, the need to ensure vendor compliance to negotiated arrangements is front of mind for most buyers, and was rated as highly important to three quarters of respondents.

Statements which scored under the mid-point in this section related to two predominant themes. The first of these was vendor performance management: vendor performance monitoring was “sometimes” or “never” carried out by around half of respondents, and this correlated to a similar number who reported lacking formal agreements and/or SLAs for key relationships.

The capture of value add also appeared to be a low focus for the majority of participants: only 30% always or regularly pursued the value in their continuous improvement provisions, and less than a quarter had consistent formal mechanisms in place to capture value added suggestions from their vendorbase.

The management of preferred panels of vendors was especially problematic for the majority of respondents, over 60% of which did not proactively manage the allocation of work to the most compliant vendors within these structures. We feel that automation solutions are only just starting to emerge in this area, and that with the right tools, price and performance ranking will become much more prevalent.

Proactive category management techniques, such as standardisation, value analysis and range rationalisation were actively practiced by around a third of respondents, with a further third employing these techniques sometimes or never.
Category management was less favoured as a technique than expanding Procurement’s coverage and mandate to new categories, tending to reinforce the view that project work produced more visible results and was easier to perform successfully.

Best practice performers in category management acted in substantially different ways than the norm, and their interpretation of the role of category managers differed radically from most respondents. For example one had personnel whose role was to research materials innovations and global trends for key purchases over a 5 year timespan.

Interestingly, the results from the associated discipline of demand management were uniformly downplayed. 55% had experienced moderate results and 27% reported poor outcomes, making it the largest single source of disappointment in this Survey. We speculate that the role of policeman may be an unwelcome one for both the function and its clients.
The following Demand & Category Management Approaches have been listed in decending order of frequency (weighted average) from ‘Always Adopted’ to ‘Never Adopted’.

We are aware of the expiry dates of all key agreements

We are aware of the key terms (e.g. change of control clauses) inherent in each important agreement with vendors

We know that our contracted pricing is being adhered to by our preferred vendors

We know that there is little or minimal leakage from our preferred vendor agreements

We regularly update our vendors on their performance and our expectations of them, business changes etc

We have formal (automated or manual) means to track category benefits against targets, and these are regularly reported

We have best practice template/ precedent documentation for all major categories of spend, and we regularly use and revisit them

We regularly review the wider supply market & renegotiate when conditions change in our favour

We regularly employ standardisation, rationalisation, specification changes and/or value analysis in our category reviews between sourcing events
Where we are in a long term vendor relationship, we take care to continue to inform the market about our requirements & needs and to develop vendor understanding & capability

We have continuous improvement programmes built into in all key agreements, and we actively pursue the value in these programmes

We have formal Agreements and SLAs for all key relationships, and these are tied to a service level credit and/or incentive regime

Our product catalogues (where applicable) are regularly updated by our vendors

We monitor vendor performance closely, and can tell month by month how they are tracking to objectives by means of a scorecard or other

We work with Management on the best means to manage demand when the organisation needs an extra push to make its financial predictions (e.g. interdiction campaigns)

We have formal mechanisms for capturing and investigating vendor suggestions

Where we have panels of vendors (e.g. print, legal), we have mechanisms for allocating work according to a set of defined criteria which include cost, performance & timeliness
Resourcing

The programme of activities outlined by participants throughout the Survey is extensive. Unsurprisingly, therefore, 40% of respondents were actively building their teams. Their expansion is fuelled by plans to increase their functional reach (most notably in Capex and BPO) and/or driving post merger integration synergies.

Half of the respondent functions had stabilised their headcount. Several of these participants were also seeking to increase their functional remit, but needed to find a way to do so within existing headcount constraints.

A small proportion of respondents across industry sectors are contracting their teams. This is typically in response to anticipated downturns in their industry which have already caused headcount restrictions, or as a result of efficiency drives within the function itself. The first situation is an interesting one, philosophically, should the Procurement function be pruned alongside other functions in times of downturn, or ought it flourish as a key contributor to continued corporate health?

Recruitment activities were overwhelmingly focussed on the external hire of fully formed professionals. The need to attract and retain skilled resources figured strongly both in multiple choice and free-text responses.
Skills shortages and retention issues were particularly acute in WA, with some respondents looking to overseas candidates to fill positions. In candidate short markets, the Public Sector seemed to be a potentially attractive source of trained professionals.

Worryingly, there is a marked imbalance in the effort expended to train up Procurement professionals and the actual market demand for these individuals. A low 22% of respondents offer graduate programmes in procurement, which leads us to expect a worsening medium term skills shortfall across the profession.

The old-style pull-through from Warehousing to Purchasing is no longer prevalent in our respondent sample: Resources without previous procurement experience are drawn predominantly from technical functions such as Engineering, followed by Legal. Next year’s Survey will focus more closely on how these resources are inducted and trained.

Surprisingly, the desire to hire qualified staff did not reflect in the attitudes towards procurement outsourcing. Just over 40% of the respondent base had considered it; albeit fleetingly. They saw it predominantly as a way of improving data quality and reducing transactional workloads. Most expected to complement their own category reach with point-in-time specialist input (e.g. fuel, energy, insurance) but very few were thinking of applying outsourcing to key categories. Construction participants were most notable for their willing use of contractors to handle variable project workloads.
The composition of resources varied widely across organisations. A majority of functions incorporated both a transactional and a strategic arm: few had totally devolved all transactional accountabilities and re-invented themselves as purely strategic. Most functions relied on other departments for capability development and IT support. Analytics and process roles were polarising: either they were heavily emphasised or not present at all.

However, the subset of respondents reporting the highest levels of achieved benefit were more likely to have a functional span which included category management, and much less likely to manage a transactional function.

Most respondents acknowledged the presence and role of “part time buyers” (defined as staff outside the procurement function whose predominant responsibilities are of a procurement nature). In many cases, this was a substantial proportion of the total employee base. These staff typically performed day to day, transactional procurement, expediting or contract management. In multi-site operations, they were significantly more likely to be managing site specific categories. They were also at the helm of those spend categories where Procurement has low visibility - Marketing/campaign management; civil engineering contracting and IT being examples cited by several respondents.

**Key Concerns**

Participants were asked to rate 16 statements as being of high, medium or low importance, and these were then weighted and ranked.

Almost 80% ranked the continuing support of their stakeholder organisation as most critically important to them. Allied to this was the desire to prove the value of Procurement’s activities.

This was separated by resourcing worries from a thematically linked tranche of concerns, being the desire to expand spend coverage, and to increase vendor and enduser compliance to existing deals.
Given the high importance accorded to organisational support and proving the value, we were surprised to see that the means to achieving these ends (profile raising, generating timely and accurate reporting) were comparatively lowly ranked.

<table>
<thead>
<tr>
<th>Focus areas or concerns</th>
<th>High Importance</th>
<th>Medium Importance</th>
<th>Low Importance</th>
<th>Not Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring continued organisational support for Procurement function, or for its expansion</td>
<td>79%</td>
<td>19%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Finding skilled people for Procurement roles</td>
<td>83%</td>
<td>10%</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>Ensuring vendor of compliance to negotiated agreements</td>
<td>75%</td>
<td>21%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Proving the value of Procurement’s activities to the wider organisation</td>
<td>68%</td>
<td>25%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Understanding and/or decreasing supply risk from key providers (e.g. exposing organisation to regulatory risk or fines; potential stock outs, unacceptable quality outcomes, etc)</td>
<td>60%</td>
<td>29%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Increasing spend coverage by the Procurement function, and reducing bypass spend</td>
<td>63%</td>
<td>21%</td>
<td>13%</td>
<td>2%</td>
</tr>
<tr>
<td>Enduring enduser compliance to vendor arrangements</td>
<td>55%</td>
<td>36%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Ensuring the application of Procurement policies and procedures across the organisation</td>
<td>51%</td>
<td>43%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Raising Procurement’s profile and/or contribution at critical internal fora (management or budget committees, new product kick off teams, etc)</td>
<td>54%</td>
<td>35%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Gaining visibility of upcoming large/capital/project purchases</td>
<td>62%</td>
<td>17%</td>
<td>21%</td>
<td>0%</td>
</tr>
<tr>
<td>Segmenting spend and classify vendors regularly and speedily</td>
<td>56%</td>
<td>33%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Keeping up to date with trends and developments in the Procurement field (e.g. LCCS)</td>
<td>32%</td>
<td>55%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Providing timely and accurate commodity based Management Information Reporting (MIR) to stakeholders</td>
<td>43%</td>
<td>34%</td>
<td>17%</td>
<td>6%</td>
</tr>
<tr>
<td>Understanding how my organisation benchmarks to industry peers or best practice</td>
<td>32%</td>
<td>50%</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>Running an e-Procurement system that is low cost and efficient</td>
<td>34%</td>
<td>40%</td>
<td>23%</td>
<td>2%</td>
</tr>
<tr>
<td>Corporate social responsibility issues (packaging, disposal, ethical purchasing, meeting minority/diversity targets, implementing audits)</td>
<td>33%</td>
<td>39%</td>
<td>24%</td>
<td>2%</td>
</tr>
</tbody>
</table>

This suggests that internal marketing and formal stakeholder engagement activities are still under-developed or informal in many procurement functions, and that the need for them is possibly under acknowledged. The absence of such detail in many of the strategies would tend to support this hypothesis.
The more progressive procurement functions (including those in the Public Sector) are decreasing their reliance on a formal and explicit mandate and using influencing and networking skills to expand their remit. Functions in this category will tend to use their high-level management support to make initial contact with new clients, but will not use it to compel ongoing compliance from stakeholder groups.

The canny CPO will not miss out on opportunities to educate the stakeholder community and widely publicise the work of their function; this includes participating in fora attended by other senior decision makers, and regularly circulating accurate spend and activity snapshots to stakeholders.

Respondents were asked what single organisational change would most improve the effectiveness of their function. The results of this free-format question correlated well with the output of the multiple choice sections. The primary preoccupation was the need to broaden Procurement’s mandate and drive early involvement. The need for more and better resourcing split the linked desires for better senior level appreciation of the function’s value (including acceptance of Procurement’s recommendations & results) and the elevation of the functional head to a senior management role.

Improved relationships with stakeholder communities and a desire for increased collaboration demonstrated that functions are anxious to forge better stakeholder linkages. This was followed by a wish list of structural improvements, from automation to more user friendly technology, and from more robust planning to de-layered processes.

**Conclusions**

Procurement in Australia and New Zealand is experiencing a growth wave. Indicators are that the numbers of practitioners will grow, fuelling recruitment and training needs throughout Australia. Functions have tabled “excellent” results from strategic sourcing and are using their organisational reputation to enlarge their remit into new areas of expense. Reporting and tracking tools are lagging behind the ambitions of many respondents and may be hampering the ability to accurately report on delivered benefits and perform advanced category management activities. Procurement is still aspiring to be a board level function, however, internal marketing skills still appear largely nascent, and their development will address the prevalent need for organisational support and value recognition.
About the Authors

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Portland Group is a professional services company specialising in Procurement, Supply Chain and Operational Effectiveness. Working predominantly with ASX listed corporates across the full spectrum of industries to reduce their cost of doing business and increase their return on capital employed.

Formed in 1999 with offices in Sydney and Melbourne, their client sector expertise spans aviation, building materials, chemicals, construction, distribution, financial services, food and beverage, healthcare, insurance, manufacturing, metals and mining, packaging, retail, telecommunications and utilities.

Consulting Services

Procurement - Portland’s services generate value from optimising the way large organisations manage their relationships with external suppliers of goods and services.

Supply Chain - Assisting clients to develop and implement customer-driven supply chains - to enable companies to meet customer requirements in the lowest cost manner.

Operational Effectiveness - Providing business process redesign services to manufacturing and back office environments.

Organisational Capability Development
Portland has developed a range of proprietary tools and benchmarks to assess and measure organisational capabilities in procurement and supply chain functions.

Procurement Managed Services
Providing a suite of managed services to assist clients to realise and sustain the benefits that their sourcing programmes have identified.