Introduction

In 2006 CIPSA and Portland Group undertook the first large scale review of procurement practices, priorities, successes and challenges within large organisations in Australia and New Zealand. The subject matter was wide-ranging and included organisational perceptions of procurement, structure and core competencies, objective setting and success measurement, resourcing, and systems and control environments. Participants were also able to assess their progress against statements of leading practice in a number of key areas.

Following the success of the 2006 survey, we have repeated the process again this year. The 2009 survey is across a larger scale throughout the region and compares progress over the last three years as well as covering other topics of interest such as today’s economic context and how this is impacting procurement teams day to day.

The output of the survey is a summary of best practices, common challenges and improvement opportunities across a range of leading Australian corporate and government bodies.

The primary objectives of the survey are:

- To provide an up to date portrayal of strategic procurement capabilities, issues and areas of interest within Australia and New Zealand
- To assist CIPS Australasia in prioritising research and professional development programmes for the region
- To continue building a body of knowledge that is relevant to the region
- To provide a basis for benchmarking of organisational development for strategic procurement

Some of the key issues that have been highlighted in this research include:

- The impact on procurement functions stemming from the global financial crisis
- Function structure, level of staffing and organisational influence
- Sustainability and how it is being incorporated into procurement policies and processes

Some of the above issues are recurring themes with others more symptomatic of the current economic climate that all organisations are facing and the attendant effect on procurement functions. In particular some of the concerns that require immediate attention from the profession include:
Increasing understanding of the organisational impact and exposure wrought by significant volatility in foreign exchange rates, commodity prices and the oil price

■ Changing focus and developing greater skills in category and demand management
■ Developing more realistic and credible benefits tracking methods and communicating these more widely

Some emerging issues and concerns are:

■ The impact of carbon and the regulatory environment
■ Lack of qualified or experienced practitioners in some overseas countries where companies operate or have outsourced various procurement business functions
■ Increase in specialist and timely knowledge required for some categories, such as electricity and telecommunications/data which are assuming more prominent spend profiles

It is pleasing to see that on some fronts such as sustainable or “green” procurement, on the whole, organisations are keeping this top of mind and incorporating it into their business as usual practices rather than relegating it to the “to-do” list during tougher times.

I would like to thank Portland Group for their contribution in sponsoring and delivering this survey on our behalf.

I hope you find the contents of this report worthwhile and a valuable benchmarking reference for helping your organisation improve its procurement capability.

Jonathan Dutton FCIPS
Managing Director
CIPS Australasia

Melbourne, September 2009
The CIPSA – Portland Group Strategic Procurement Benchmarking Survey Report, September 2009

Executive Summary of Key Issues Presented by the Survey

Global Financial Crisis Impacts on Procurement

■ While most industries and organisations have been significantly impacted by the global financial crisis or GFC, primarily by way of falling revenues or cancelled and delayed projects for construction and infrastructure focused companies, procurement is enjoying a new prominence as chief executives move to rapidly reduce their cash costs.

■ In this environment, procurement departments are being challenged to reduce their organisation’s operating costs across all categories of spend that they manage and influence, as well as new or hitherto untouched spend categories.

■ A key challenge is to increase cost down targets and to simultaneously mitigate any potential supply risks from a strained supplier base, who are themselves struggling to weather the forces of the economic slowdown. Depending on the sector that a supplier is operating within, the severity of the downturn and resultant drop-off in orders is leading to overcapacity and in turn affecting their entire cost structure. Where they are unable to move to more of a variable cost structure, this is resulting in requests to buyers for price increases to cover their fixed costs and in particular to retain their existing staff.

■ Procurement practitioners have to adjust to an external environment where the rapidity of changes to input prices is unprecedented. In particular, the extent and speed of movements in foreign exchange and the oil price over the last 12-18 months is cited as the most challenging. Obviously these have direct impacts on transport and resin based products as well as all imported goods and has exposed deficiencies in contracts or arrangements that did not contemplate these factors appropriately. There is recognition that depending on how contracts were structured, the buyer or supplier stood to benefit disproportionately, however this is not a desirable nor sustainable situation in professional procurement with ongoing relationships.

■ The GFC is being viewed by some organisations as a time to regroup and review a range of existing contracts as well as policies and processes. Although demand may have fallen off a cliff for some spend, buyers are thinking strategically about how to get their house in order, including re-negotiated terms, higher transparency and more suitable price adjustment mechanisms so that when the much touted uptick arrives, they have more robust arrangements in place. This is also manifesting itself in a renewed focus on category management and demand management when the more achievable benefits of strategic sourcing have been exhausted. In addition, some are
turning their attention to policy and process improvements, including implementation of procure-to-pay (P2P) systems to take advantage of generally higher availability of IT resources at more reasonable rates.

**Structure, Staffing & Influence**

- The predominate procurement structure still tends towards being centralised or centre led, however, some respondents have gone the other way following a change in strategic direction at a corporate level associated with M&A activity.

- Similarly to the 2006 survey, there are few Chief Procurement Officers or CPOs in name or function, with the most senior procurement roles typically reporting in at two or three levels below CEO. Even when procurement is seen as a highly valued function and has regular forums with C-Level executives, including the CEO, it appears that organisations are still struggling to make the structural leap to have procurement reporting directly to the CEO.

- 82% of respondents believed that the importance of the procurement function had increased over the last 3 years and this was consistent with the anecdotal feedback of having more C-Level contact and being more integrated with business units and their stakeholders. In more mature procurement organisations, the spend under management or influenced by procurement, tended to be higher. Even when the procurement function has good reach and the much desired “mandate”, respondents understand that they must continue to demonstrate value to their stakeholders and take them on the journey.

- 55% of respondents reported that their numbers in procurement are stable with 32% responding that they are expanding. The latter compares with 40% from 3 years ago and is most likely related to the impact of the GFC. Interestingly, many still reported that it was moderately to extremely difficult to find appropriate procurement professionals. In many cases this was premised on finding people at an acceptable salary level, indicating that the growth in the profession over the last few years is having upward pressure on salary expectations. The reset in the economy, however, is expected to stabilise this to some extent.

**Sustainable Procurement**

- Organisations have risen to the challenge of sustainable procurement and are in various stages of having existing and emerging corporate and regulatory requirements baked into their business as usual processes.

- The main drivers for incorporating more sustainability initiatives into procurement were corporate policy followed by customer demands and brand image.
Most respondents had robust and longer standing processes around HSE (Health, Safety and Environment) compliance, including well developed supplier qualification for service based contracts.

“Green” purchasing was most visible by way of green office products such as paper, increased recycling and purchasing a minimum amount of green power. Another trend was to change the specifications on vehicle fleets with approaches to increase fuel efficiency, downsize from 6 to 4 cylinders where it was still considered fit for purpose or use alternative fuels. Carbon trading and the organisational carbon footprint were also mentioned as areas that procurement needs to increase its knowledge and activity in the near term. Some respondents reported employing dedicated resources in sustainability-related roles or relying on third party subject matter experts to support them or to provide ongoing advice and reporting.

Reasonable efforts are being applied in the area of risk assessment and management, ethics and corporate governance. For some, these are new areas of activity while for others they are going through renewal or enhancement to improve the relevant policies and processes. Many respondents reported working more closely and formally with their Chief Risk Officer in assessing various risks (supply chain, supplier, commodity pricing) and their likely impact on the organisation.

The Research Process

The CIPSA/Portland Group Strategic Procurement Benchmarking Survey in 2009 builds on the first large scale review from 2006 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 focusing 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. The information was drawn from 74 respondents conducted online and/or via face to face interviews with procurement professionals across Australia and New Zealand in mid-2009. Candid conversations with practitioners from a range of industry sectors and with procurement functions in various stages of their lifecycle, have provided a comprehensive cross-section of circumstances, opinions and challenges.

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, attracting and retaining people, and the prevalence of certain approaches, techniques and behaviours. It also sought to identify what the
current hotpoints are for procurement and how the profession is rising to the challenges associated with the current global downturn in the economy.

In some cases, organisations did not wish to be named, however, their current status, issues and challenges are reflected in the survey results.

**The Top 10 Individual Insights…**

1. The change from boom times to GFC is bringing new prominence to procurement functions, however, it is testing their practitioners’ skill and revealing some deficiencies in past contracts owing to the extent of price movements and the rapidity of the changes.

2. Centralised procurement, whether it be national, regional or global is still the dominant structure but with growing recognition of the need to complement this with centre-led and embedded procurement models that draw procurement departments and their stakeholders closer together.

3. Most procurement practitioners believe that their function has increased in importance over the last 3 years, however, the lack of true CPOs belies this fact and indicates that there is still much to be done in Australia and New Zealand to convince and convert the sceptics.

4. It is commonplace to have a procurement strategy for the organisation with clear financial targets aligned with this. Non-financial targets are becoming more diverse from green or sustainability measures to increasing contract compliance, stakeholder and supplier satisfaction as well as employee engagement.

5. Measuring and reporting on procurement’s contribution to the organisation is still challenging, despite often having better reporting systems. Greater credibility is afforded to the function, in particular by the finance fraternity, when actual rather than forecast benefits are tracked and reported.

6. Where the involvement of procurement has been “mandated” in some organisations, this has manifest itself in stakeholders using procurement to “tick the box” late in the process or after they have selected suppliers but prior to contract; whilst this is less than desirable, procurement is treading the balance between no involvement and some involvement with these stakeholders.

7. Low cost country sourcing (LCCS) is a continuing trend with lower cost goods and labour arbitrage being the primary drivers. Consistency and quality are acknowledged concerns however various “in-country” controls have been implemented to address this.

8. Procurement outsourcing in its various forms is evident but not widespread with indirect categories the most common candidates. Organisations are also cognisant of the difference in outsourcing the business process but not the category, and therefore not ceding control over the strategic direction of their spend.
9. Procurement and Supply Chain is moving closer together with many organisations part of cross functional teams recognising the interdependency of these areas. In terms of some of the recent volatility in price and capacity, procurement professionals are needing to increase their depth of knowledge in local and international inbound supply chains.

10. Sustainable procurement and in particular green purchasing is firmly entrenched in terms of awareness and organisational strategy and policies. This is largely driven by corporate strategy and brand image with procurement practitioners becoming the custodians of implementing green purchasing, supplier qualification and in some cases regulatory reporting.

**Comparisons and Contrasts Between 2006 & 2009**

Some comparisons and contrasts since the survey was conducted in 2006 are contained in the following table. Other comparisons are included throughout the survey report.

<table>
<thead>
<tr>
<th>2006 Insights</th>
<th>2009 Insights</th>
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<tr>
<td>Pronounced difficulty in finding and recruiting appropriate procurement resources.</td>
<td>Less evidence of lack of suitable candidates overall, however higher salary expectations by available candidates. More challenges in growth economies such as China, South East Asia and India in finding suitably qualified and experienced procurement professionals.</td>
</tr>
<tr>
<td>Procurement’s contribution to the organisation premised on cost reduction and cost avoidance.</td>
<td>Contribution still largely about cost reduction with cost avoidance more formally recognised than in the past. Other measures attempted such as CSR contribution, however concerns abound in terms of the systems and resource effort in tracking and reporting of benefits.</td>
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<tr>
<td>Limited evidence of regular spend analysis and vendor database cleansing; data sourcing from a variety of systems and sources.</td>
<td>Appears to be more regular spend analysis and vendor database cleansing; some spend analytic systems in place for one or more years starting to yield richer and more timely data used for decision making and resource prioritisation. Organisations still sourcing data from a variety of sources including internal systems and suppliers; data validation still proving challenging.</td>
</tr>
<tr>
<td>Strong focus and high levels of achievement in strategic sourcing.</td>
<td>Organisations turning more attention to category and demand management, requiring different mindset, more sophisticated application of resources and higher levels of supplier engagement.</td>
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Respondent Statistical Overview

74 organisations contributed their experiences to the survey and 65% have agreed for their name to be published as having taken part in it. 30% of the organisations also took part in the 2006 survey and of those organisations, 28% of the individuals were the same respondent as previously.

Energy & Utilities companies made up 14% of the total followed by Consumer Goods, Metals & Mining and Manufacturing each at 9% of the total. The other main participants were made up of Public Sector, Telecoms, Banking, Retail and Health Services. 65% of the participants had revenues of >$2B with around 8% with revenues <$0.5B.

<table>
<thead>
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<th>Example Participants</th>
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<tbody>
<tr>
<td>AGL</td>
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<tr>
<td>Aristocrat Technologies</td>
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<tr>
<td>Bendigo &amp; Adelaide Bank</td>
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<tr>
<td>Bluescope Steel</td>
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<tr>
<td>Boral</td>
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<tr>
<td>British American Tobacco</td>
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<td>Cadbury</td>
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<td>Caltex</td>
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<tr>
<td>Coca-Cola Amatil</td>
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<td>Contact Energy</td>
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<tr>
<td>Department of Transport (Vic)</td>
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<tr>
<td>Department of Treasury &amp; Finance (WA)</td>
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<tr>
<td>Downer EDI Engineering</td>
</tr>
<tr>
<td>Geodynamics</td>
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<tr>
<td>George Weston Foods</td>
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<td>Gold Fields</td>
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</table>
Around 46% of the respondents had a worldwide employee count of >5,000 with 42% having between 1,000 - 5,000.

The respondents were primarily based in Australia and New Zealand with coverage of 92% and 71% respectively. In line with more multinational organisations participating in the survey compared with 2006, there was stronger presence in SE Asia, North America and other regions. In some cases this meant that different dynamics were occurring within the same global companies depending on the region and in particular whether they were operating in a higher growth economy.

### Procurement Staffing & Structure

Although some of the respondent companies were the same organisations as the 2006 survey, over the past three years, there were some marked changes to staffing and structure. Some of these were brought about from mergers and acquisitions as well as restructuring driven by a change in corporate strategy and direction with a flow on effect on the procurement function. Some functions have continued to expand and in
particular become more far reaching in their organisations or extending to global operations and influence. In some cases this has meant procurement hubs which traditionally were concentrated in Australia have moved northward to China or Singapore. For multinationals there has been a growing recognition of the reach of the profession with greater intra-company communication and coordination, particularly between North American and European centric operations and Australia. It may be that this is also driving the impetus to implement best practices since there is greater global interaction and interdependency amongst some of these organisations.

As with the 2006 result, there are few Chief Procurement Officers or CPOs in name, with the majority of the most senior procurement roles reporting in at two or three levels below the CEO. The reporting lines are mostly up through Finance or Supply Chain with some reporting up via functions from the Strategy Director to the Chief Information Officer.

The overriding trend for the procurement organisational structure is dominated by centralised or centre led functions at around 70% of the respondents. Decentralised but with collaboration on common purchases represented 19%. In some cases there had been movement from centralised to decentralised and vice versa over the past three years, more based on changes in corporate strategy rather than an overwhelming impetus from the procurement function itself.
Pleasingly, 82% of the respondents believed that the importance of the procurement function had increased, with 5% stating that it had decreased over the last 3 years, with similar trends predicted over the next 3 years.

In a sign that procurement departments are stabilising amongst the survey respondents, only 32% stated that their function is expanding in numbers with 55% reporting that their numbers are stable. A common theme was that even with the importance of the function increasing, and often a greater demand driven by need or policy, procurement teams are not necessarily expanding commensurately – rather, they are being asked to do more with the same (or sometimes fewer) resources.

**Strategy & Targets**

83% of respondents stated that they had a procurement strategy with the majority of 48% covering a time period of 3 years or more and 40% covering 1 – 2 years. Some new functions or those experiencing a renewal stated that their procurement strategy was still a work in progress.

Some of the more comprehensive responses had a procurement strategy that cascaded from the corporate strategy with long term savings targets over multiple years. In addition some of the non-financial targets included metrics on safety, supplier performance management (SPM) reviews, organisational spend coverage, implementation of tools and process improvements, training and development, risk management, audit compliance and internal customer satisfaction measures.

Where the nature of procurement was more project driven there was not a single common strategy. Financial targets tended to be driven by budgets on a project by project basis. Another observable trend was that procurement teams were increasingly involved in assisting their sales colleagues from the front end of the business in bid preparation and subsequent sourcing of project goods and services once contracts were awarded. Other spend categories that were common across the organisation such as travel, fleet and office supplies had universal cost down targets.

Other non-financial targets included drivers such as embedding procurement throughout the organisation or increasing procurement’s reach, implementation of supporting IT infrastructure, staff engagement, various “green” or sustainability measures, flatter organisational structures, increased contract compliance, forecasting accuracy, employee retention and in some cases a change from a culture of “approval to pay” to one of “approval to buy”.

Risk reduction was a common concern which is reflective of the current operating environment with some procurement teams working closely with their Chief Risk Officer on various procurement projects and general policies, processes and systems.

For organisations that had undergone acquisitions or mergers, one important target was the achievement of integration synergies in terms of increased spend leverage, reduced headcount and standardisation of processes and systems as well as distilling the combined best practices from both organisations.

**Measuring Procurement’s Contribution**

Not surprisingly the most common way of measuring procurement’s contribution is still premised heavily on annualised savings metrics with respondents’ achievements ranging from a few million dollars to over $100M per annum. Some respondents were not fully aware of the savings achieved or in some cases this was not the main focus, particularly in project driven sectors. In many cases, although savings were forecast and reported as part of a formal market engagement exercise, the actual savings once implemented were not reported on or known, mostly owing to the inadequacy of the organisation to identify, track and monitor savings or it was seen as too time consuming to do so. One metaphor which was reflective of many was that valuable procurement professionals are paid to “kick goals” not to “keep score”.

While cost savings is still the most common metric, most organisations now formally recognise cost avoidance in their overall performance metrics, albeit methodologies on this are inconsistent in application. Organisations also realised the increasing importance of Corporate Social Responsibility (CSR) measures, but stated that it was hard to measure and compare amongst suppliers.

**How are savings targets and achievements communicated to the organisation?**

- Procurement sends out report to stakeholders: 79%
- Finance tracks and approves savings: 61%
- All budgets are amended to reflect the new arrangements: 57%
- They are visible in the P&L of each stakeholder: 47%
- If other, please specify: 7%
In terms of how savings targets and achievements are communicated to the organisation, 75% of respondents send reports out to stakeholders with 61% obtaining formal signoff from a finance function. 57% had budgets adjusted to reflect new arrangements with 47% stating that they are visible in the P&L of their stakeholders. This shows a marked increase in formalising the achieved benefits and incorporating them into budgets compared with the 2006 results and is consistent with the generally higher profile of the function and corroborates the increased organisational importance identified earlier.

**Spend**

Most respondents had good knowledge of their aggregate external spend for the previous financial year, however reported widely on the level of management or influence over this spend. The external spend ranged from tens of millions with the highest in the survey at around AUD $4 billion. Where procurement functions have been established for multiple years or are part of multi-national corporations with strict global enforcement of procurement policy, the managed spend (where Procurement is the primary decision maker) and influenceable spend (where Procurement provides some support and advice but is not the primary decision maker) was typically above 60 – 70% and in a few cases above 80 – 90%. Again this correlates with the increased importance of the function reported earlier as well as reflecting that procurement functions are very aware of needing to market themselves internally and to continue to demonstrate their value to the organisation.

77% of respondents had conducted a spend analysis within the last 12 months with only 6% reporting that it was more than 2 years since this had been done indicating that this is becoming a regular part of the toolkit for most procurement functions.

In 58% of cases, the spend map was produced from multiple payables systems reflecting a common case of merged organisations still running different systems or multiple spend data sources within the same organisation.
Spend Segmentation tools

Excel is still proving to be the tool of choice for spend analytics with 78% of respondents using this as their mainstay once data is extracted from various systems. 42% reported use of in-house solutions with 22% using third party dedicated tools, often as add-ons to ERP (Enterprise Resourcing Planning) systems.

Vendor reporting was quoted as often the best source of information with 46% of respondents reliant on this source. T&E (Travel & Entertainment) and corporate card reporting by third parties including Travel Management Companies (TMCs) and corporate card providers were another valuable source of spend data. In some cases, the spend data was taken from the expense management system (EMS) associated with the corporate card, then imported into a third party spend cube so that all the spend data was in a single repository for analysis and further reporting.

Compared with 3 years ago, there is evidence of the more advanced spend analytic solutions having been implemented with multiple years of data and wider user acceptance. These tools are increasingly being relied upon to provide better insights into baseline spend as well as to monitor spend leakage or non-contracted spend.

Vendorbase

Most respondents had a good idea of the number of active vendors in their vendor database with ranges from a few thousand to around 45,000. Although some had no knowledge of whether the vendor files had ever been cleansed or reviewed, the majority mentioned that this was a business as usual function with strict controls on the authorisation process around adding new vendors or on using “one-time vendors”.

Interestingly in one response, vendors are automatically removed from the database if they are not active for a period of 13 months. In another case, in order to ensure compliance with P2P processes, vendors paid wholly by corporate card or purchasing card (Pcard) were removed from the vendor masterfile to ensure that invoices were not paid to this vendor via accounts payable, thereby very effectively controlling leakage or off-contract spend.
Category and Demand Management

Respondents reported much greater focus on category and demand management which appears to be driven from three directions; firstly mature procurement functions are looking for the next wave of improvement after several years of focusing more on sourcing; secondly the financial environment is requiring deeper analysis and innovation to reduce or maintain costs. Thirdly, there is intense focus across all organisations to review and update policies which have significant demand management implications – one of the most obvious being travel.

47% of respondents regularly review their major commodities, with a common response of needing to prioritise on a continual basis to stretch their limited resources across as many categories as possible. For some organisations, this is assisted by offshore teams who perform the bulk of the market research, spend analysis and report generation. There is some disconnect here though when deep local knowledge and market insights are lacking to support and overlay the analysis.

Less regularly practiced at 21% was monthly tracking and reporting of vendor performance using scorecards or other techniques. This was mainly reserved for the critical few or core suppliers in the vendor base. For those respondents more closely aligned with projects and construction, this was seen as a critical requirement and included onsite and overseas inspections as well as expediting reports for capital intensive projects with long lead times for plant and equipment.

For critical supplies of goods and services and key relationships, 66% of respondents reported that they had formal contracts or service level agreements (SLAs) but not necessarily with penalties or incentives in place.

In line with the prevailing economic environment, 36% of respondents reported that they regularly review the supplier market and use various information sources, including third party benchmarks and indices to re-negotiate when conditions change in their favour. For project related procurement this was especially crucial since the market may have changed dramatically between the bid phase and the contract award often separated by many months or over a year.
Potential Areas of Concern

The greatest challenges facing the procurement function in the next 12 months raised many issues with some common concerns as follows (in no particular order):

■ Leveraging group scale and synergies, particularly after merging of companies or moving to a centralised function
■ Dealing with significant market volatility in commodity prices and foreign exchange movements
■ Ensuring suppliers remain competitive but viable and weather the current downturn; this was also mentioned with respect to market forces leading to increased rationalisation of some supplier bases and the attendant risk of supplier markets becoming too concentrated
■ Increased focus on spend control and compliance, especially where policies have been updated and renewed to reflect a stricter regime on discretionary categories such as travel
■ For some project based sectors, competing for resources (both labour and capital) across national and international borders, especially with the increase in infrastructure projects driven by stimulus packages in Australia, China and other countries
■ Finding appropriately skilled resources, particularly in some of the new growth economies such as China, South East Asia and India
■ Rollout of supporting IT systems, in particular procure-to-pay (P2P) systems, expense management systems (EMS) or invoice automation systems
■ Increasing the influence and mandate of procurement across organisations, even where they have been very successful in past years, recognising that they cannot rest on their laurels

When asked about challenges over a longer timeframe of 3 years, most of the above issues were still seen to dominant thinking. Some respondents understood the need to further develop their supplier base and also look for non-traditional suppliers, including Tier 2 suppliers that they may not have dealt with previously. Where systems implementation was an area of focus, greater transactional efficiency and more granular and timely reporting of spend and metrics were seen as future challenges.

76% of respondents believed it was of high importance to prove the value of Procurement’s activities to the wider organisation, even where the department had been operating for several years. This underscores the importance of having to continually show value to the organisation and being adaptable to this challenge depending on where the company and the relevant commodity markets are in the cycle.
While there was recognition that finding appropriately skilled people was still challenging, this was not necessarily driven by candidate availability but by budgets in being able to meet the salary expectations of candidates. There was also seen to be a lack of university trained candidates in some overseas markets where procurement as a profession is still building its profile.

Other concerns and areas of focus since 2006 included the ability of procurement functions to react to the speed of change in the economic environment and flow on organisational impacts. There is also more pressure to find additional benefits in an environment that is challenging buyers and suppliers throughout the supply chain. For some organisations, their scale has increased dramatically (in some cases more than tenfold) owing to acquisition growth or significant increases in infrastructure and construction projects. Another common theme was for procurement to understand more about the impact of carbon and overall sustainability in line with organisational goals and regulatory requirements.

**Techniques & Successes**

A range of techniques has been tried by the respondents with generally moderate to excellent results for increasing the mandate and coverage of the function, strategic sourcing and building a centralised procurement capability within the business. This is not surprising since these are normally the basic building blocks of a robust function and had been in operation for multiple years for the majority of the respondents.
Some areas which are proving more challenging include ongoing category and vendor management, demand management and building capability closer to the business as practitioners are now needing to dig deeper into their toolkit for the next wave of efficiencies. This leads to having to work more closely and collaboratively with the business stakeholders to ensure that initiatives such as specification changes will not adversely impact the business operations or its end customers.

Overall, data management, implementing systems, use of consultants/third parties and performance in benchmarking clubs were the areas which required the most improvement or were considered poorly executed. This is consistent with fewer respondents having worked less extensively in these areas. On data management and systems implementation, some respondents reported that they were being required to access data from a wider organisational footprint and to take a lead facilitator role in implementing related systems such as P2P and AP systems.

**Improving procurement effectiveness within the organisation**

An overriding response here was for closer integration with the business, where procurement tended to be a centralised or centre led function. This was seen to improve the alignment by getting earlier involvement of procurement whether it is in the overarching category strategy or project based procurement coordination. This was also seen as a way of increasing the value and legitimacy of procurement in the organisation since it is more directly tied to the overall business outcomes.

Better systems/reporting and streamlining processes, approvals and signoffs were also seen to be drivers to increase procurement effectiveness. In some cases people reported that their department was being subjected to increased volumes of checks or signoffs, driven largely by a mandate or policy change. However this was sometimes being used to merely “tick the procurement box” by the business unit stakeholders, since they had already run some form of market engagement and this was seen as the final step in the process.

**The Economic Downturn – how is it impacting your organisation?**

The questions on the economic downturn showed that while most industries and organisations have been significantly impacted, the procurement function is holding its own and in some cases enjoying a new prominence as executives and stakeholders beat a path to procurement’s door. This may be driven by the primary need to reduce cost as quickly as possible to conserve cash and working capital as well as to mitigate cost increases where lower capacities on the supply side may be affecting supplier cost structures, who in turn may be requesting price increases.
Some respondents are benefiting from demand in other regions such as China where the government stimulus package is providing some rebound demand on their products. In other cases there is more access to the contractor pool for non-mining related projects owing to the cooling down of the mining sector. However based on the cyclical nature of the industry, it is also recognised that this trend may reverse in the medium term.

Another common response was for capital projects to be delayed or put on hold indefinitely until there is more certainty in the economy. In some cases manufacturing facilities have had working hours reduced or facilities closed. Another interesting trend is a decrease in suppliers responding to tenders. The explanation offered for this is that with limited resources on their side, suppliers are becoming more circumspect in how they apply these resources to bidding for work. In some cases, they are also applying greater qualification and financial risk assessment to the buying company and withdrawing if they believe the company doesn’t meet their updated internal prudential hurdles.

## Industry

### Where has the impact of the economic downturn been most felt?

- **Revenues**: 59%
- **Costs**: 25%
- **Internal Staffing**: 9%
- **Other**: 7%

### How is the industry overall responding?

- **Reduced external spend**: 33%
- **Initiatives on hold**: 21%
- **Pricing impacts**: 19%
- **Contracting**: 14%
- **Other**: 14%

## Organisation as a whole

For organisations where there has been a significant hit to revenues, the obvious immediate lever is to reduce costs commensurately. While 22% of respondents reported that increased pressure on procurement was most keenly felt, many respondents also mentioned that this was a flow on consequence of falling revenues. In some cases they have had to reduce staff in line with cuts across the organisation (32% of respondents) or at best, to do more with the same level of resourcing. This has translated in having to be much more discerning in their focus and prioritisation of effort versus reward.
In the case of companies operating across different regions, while they may be shrinking in some markets including Australia, Japan and Korea, in other markets such as China, India and South East Asia they are growing.

Some companies reported an increase in competition from new or non-traditional entrants to their sector. This in turn was forcing them to re-look at their operating models and cost base, including a review of insourcing versus outsourcing. In some cases where their business model is more of a Managing Agent approach, their clients may be demanding further cost downs on the spend under management.

Demand management in this environment has come to the fore, not always by virtue of sophisticated procurement controls or improvements but by much stricter - and often swifter - changes in policy or business direction. In particular this has been seen in some categories perceived to be more discretionary such as travel and marketing.

For some categories, particularly those with significant contingent labour services, respondents have reported that they have been positively impacted and able to lock in better rates and longer term pricing so that they will benefit now and into the future when the uptick arrives.

**Procurement Function**

84% of respondents reported impacts to some degree on their supplier base, and had put contingency plans in place to some extent on their critical supplies. Although there has been pressure to reduce headcount across the board, 70% of respondents reported that their numbers were stable with 14% increasing their numbers. Some observations here suggest that to counter organisational headcount freezes, there is resurgence in hiring contractors or consultants to either keep up with the business as usual requirements or to take on new projects.

There is also greater qualification or assessment of major suppliers to determine their financial stability and to mitigate risk of supply. In this, 17% of respondents are performing complete end-to-end assessments of their key suppliers. In addition they are looking to pro-actively qualify additional suppliers for a percentage of their requirements in order to build a relationship or to trial products and ensure they have some coverage...
if their main supplier defaults or experiences supply issues. Some mentioned that whereas previously in the preceding boom times they experienced supply capacity constraints, they have now switched their focus to ensuring their suppliers withstand the downturn.

In a sign that procurement has reached a new level of maturity, it was interesting to note that buyers are not being overly opportunistic in the current environment and arbitrarily requiring suppliers to cut prices. Although many mentioned that competitive review and specification changes are part of their normal business practices, the overriding concern was to keep their own organisation “safe” and by association, for their critical suppliers to remain viable and profitable with adequate cashflow during the downturn. Where alternative suppliers have been sought, some respondents have begun investigations into low cost country alternatives or extended their existing activities in this area.

Are you requiring your suppliers to cut their prices to you? By what typical percentage?

- No requirement: 32%
- 0-5%: 16%
- 5-10%: 38%
- 10-15%: 6%
- Over 15%: 7%

**Low Cost Country Sourcing (LCCS)**

64% of respondents reported that they have sourced goods from low cost countries with 30% responding similarly for services. The latter included outsourcing to countries such as India for some of their business processing needs across various finance functions and procurement activities.

In a sign of a longer term trend, 62% of respondents who have experience in LCCS, have been actively sourcing goods and services from these countries for more than 2 years. For those that have yet to go down this path, the primary reason (43% of respondents) for staying away from this area was supply risk.
The most cited reason for sourcing from low cost countries was for cost reductions with over 73% rating this as their main driver, whether it be in lower cost goods directly or labour arbitrage for services. Other reasons included consistency of quality, augmenting production capacity, developing supplier alternatives and lack of local sources.

17% of respondents reported that more than 15% of their spend is currently sourced through LCCS with this number expected to increase to 25% over the next 3 years.

The main categories sourced or planned to be sourced via LCCS were direct materials/goods and capital equipment. Indirect goods and services were the next most prevalent categories sourced.

China and South East Asia dominated the countries of origin with India also represented more based on outsourced services for various business processes. The proportion of sourcing from these countries did not vary significantly when projected over the next 3 years, however respondents indicated that they are also looking further afield to areas such as Latin America.

The procurement model for LCCS shows that the majority of respondents use local agents in the origin country or with some multinational firms, they already have representation or employees in that country. Others used an International Procurement Office (IPO) and this was forecast to increase over the coming 3 years. Only 16% of respondents stated that their supply chain flexibility had decreased as a result of LCCS indicating that they had adequate internal processes or better planning to accommodate the sometimes longer lead times.
Quality of goods and services was the most cited challenge associated with LCCS, however it was recognised that robust “in country” quality controls and audits were a necessary part of the business process. In this several respondents mentioned that it should not just be a one-off audit at the time of contract award, but needed to be part of a continual process, and in some cases for each shipment to ensure standards were met and retained consistently. Substitution of original equipment manufacturer (OEM) parts was seen as attractive but only when the quality was assured since the flow on effects can be very expensive for consequential failure of major equipment or infrastructure items.

In the case of services some of the respondents mentioned that although they benefited from labour arbitrage in the relative cost of white collar workers, that there were still issues with culture, communications and the appropriate skill levels to obtain the required deliverables in a timely manner without multiple iterations. This also means that effective knowledge transfer needs to occur via two-way visits or secondments to ensure more seamless delivery particularly where non-transactional business processes have been outsourced.

In a sign of changing fortunes and currency effects, respondents mentioned that countries such as Japan and New Zealand are now being seen as competitive for some supplies with the added benefit of quality not being an issue.

LCCS may prove challenging but not impossible to some government procurement requirements since there is usually a strong influence to support local markets. Political, financial and social stability, tariffs and embargoes were also mentioned as further challenges when dealing with some countries and regions. Uncertain legal and regulatory enforcement regimes were also cited as potential obstacles by some respondents.
For global companies operating in many countries, another reason for LCCS was to gain local knowledge of other markets and to move various procurement functions to the most appropriate location across the globe.

**Category Management**

It was pleasing to see that all respondents interviewed had a good understanding of the principles of category management, even if the practice was not widespread or they were just starting to turn more of their focus onto this area. Targeting cost reduction initiatives and formal performance reviews were the most common approaches followed by joint process reviews and partnering or joint ventures.

Many respondents were using a variety of information sources to obtain deeper knowledge and insights on the relevant markets, suppliers and innovations. Some of these were via formal subscriptions to local and global services, while others were based on informal market research and other forums such as roundtables.
Supplier segmentation and prioritisation for category management were largely driven by the amount of spend and key relationships that underpin the business. Most practitioners running category management programmes to drive ongoing cost or supplier performance improvement had KPIs that were regularly reported on. In some cases there were seemingly a plethora of KPIs that proved burdensome to measure, monitor and draw insights from. Respondents who focused on fewer standard KPIs appeared to have more success in applying their programme more broadly and making it business as usual with their critical suppliers.

78% of respondents who run formal category management programmes are targeting cost reduction targets which are typically 2 – 5% or greater. While 56% of respondents reported that they currently cover more than 20% of their categories under a formal category management programme, in a determined show of their future plans, 80% expected to be in this position over the next 3 years.
Not surprisingly, some of the key challenges centred around internal alignment and engagement with business stakeholders beyond awarding contracts and implementation. There was also strong recognition that category management is often the poor cousin to strategic sourcing with the immediacy of market engagements reported to be more exciting than the hard yards of category management. Furthermore, resources are often prioritised towards sourcing rather than category management against the backdrop of expiring contracts that require new arrangements to be put in place.

A number of respondents believed that category management objectives should be more explicitly set out in contracts to ensure cost, performance or innovation measures and milestones were clearly communicated and tracked over the life of an agreement. This also led to discussions on the tradeoff between tenure or term of contracts and supplier willingness to invest into category improvement initiatives.

Where specialist knowledge, reporting and analytical tools are required for categories such as electricity and CO2 emission reporting, some respondents are using third parties to provide this as a bureau service.

The key challenges to implementing and sustaining a formal category management programme are alignment and engagement with internal stakeholders as well as the additional resourcing – in terms of skills and numbers. Where organisations are prioritising their work programmes, category management is still often taking second place to running more sourcing events or simply extending current arrangements with incumbents.
Procurement Outsourcing

Only 28% of respondents had part of their procurement function outsourced, with 15% of those reporting it had been in operation for more than 5 years. For 22% of respondents who have gone down the outsourcing path, their experience was within the last 12 months so it is very much still a work in progress.

Where organisations have engaged in some degree of procurement outsourcing 79% reported results which were moderately or extremely successful in terms of benefits realisation, indicating an overall positive experience. In terms of benefits tracking, some reported that this was often overlooked once the business case had been made and implemented or that only first year benefits were tracked. Where respondents had experience with multi-year outsourcing, they suggested that short term benefits are relatively easily achieved but that over an extended period, the arrangement may need to move to a different pricing model based more on a risk / reward structure.

Around 40% of the respondents who had outsourced procurement reported that they planned to increase the level of outsourcing whether it be for selected categories (such as travel) or for a group of related categories. In some cases, outsourcing more business functions, including procurement, was seen as an overall strategic direction of the organisation. Some respondents were keen to stress however the distinction between outsourcing the business processes but not the category. In this sense they still ensure the organisation maintains control over decision making and signing off on contract renewals or awards as well as maintaining the requisite level of knowledge of the category and market insights.

Indirects were by far the most prevalent expenditure outsourced at 68% with business processes at 26% and direct or raw materials at 5%.

Some of the major barriers to outsourcing and advantages reported by respondents are listed in the table following.
The reasons given for outsourcing procurement varied with the most common being that it was a non-strategic category or to reduce the cost of the overall procurement function.

<table>
<thead>
<tr>
<th>Major Barriers</th>
<th>Advantages</th>
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<tbody>
<tr>
<td>Loss of strategic or native knowledge</td>
<td>Buying leverage</td>
</tr>
<tr>
<td>Loss of control</td>
<td>Specialist category or market knowledge and experience</td>
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<tr>
<td>Potential supplier alienation or diminution of relationship</td>
<td>Ability to rationalise the tail</td>
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<tr>
<td>Ability to reverse decision, particularly with extensive offshore</td>
<td>Provides resource flex capability</td>
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<tr>
<td>Inability to prove cost/benefit business case</td>
<td>Reduced internal headcount and management overhead</td>
</tr>
<tr>
<td>Quality (Education, Knowledge, Experience and Training) of offshore resources</td>
<td>Good for “orphan” projects</td>
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<tr>
<td></td>
<td>Ability to continuously benchmark across a variety of businesses</td>
</tr>
<tr>
<td></td>
<td>Transfer some of the risk, particularly in facilities management arrangements</td>
</tr>
<tr>
<td></td>
<td>Remove transactional activities and focus on higher value initiatives</td>
</tr>
</tbody>
</table>

Why was procurement outsourced?

- Non Strategic Area: 15%
- Reduce Cost of Function: 15%
- Improve Procurement Capability: 13%
- Improve Management of Spend: 13%
- Headcount Reduction: 11%
- Improve Supplier Management: 10%
- Reduce Supplier Costs: 7%
- Test Case: 6%
- Other: 3%
Supply Chain Integration

The majority of Procurement functions reported up through a Finance function at 42% followed by Supply Chain at 22%. Depending on the sector, Procurement was more or less tightly integrated into the typical Supply Chain activities such as Sales & Operations Planning (S&OP), Logistics Optimisation, Vendor Managed Inventory, Inventory Optimisation, and Inbound/Outbound Logistics. Not surprisingly, companies more focused on manufacturing (such as FMCG respondents) or those in more project based industries with a heavy reliance on imported capital goods, had much closer ties between procurement and supply chain.

Typically the high spend or business critical categories affecting production – whether manufacturing, mining or construction – tended to be those where procurement becomes more operationally involved with their supply chain counterparts. In a mining example, this may include mobile equipment (trucks, loaders etc), tyres, explosives, conveyor equipment and engineering spares; for a food manufacturer it may include ingredients and packaging (cartons, cans, glass, PET bottles etc).

Respondents mentioned an increasing awareness of logistics in terms of freight, distribution and warehousing. In particular they require greater knowledge of various modes of transport including inbound logistics (air and sea) from around the globe. Some of this appears to have been sparked by the rapid impact of oil prices which spiked in mid-2008, then fell in early 2009 and are now on the rise again. This unprecedented volatility is having direct price effects on their logistics charges as well as indirectly on other goods with oil based inputs. It is also affecting other categories of goods where delivery charges are now being added or made more transparent. For some this is causing category managers to review their purchasing practices and move to minimum order sizes, scheduled courier runs or deliveries on specified days of the week in their various attempts to minimise freight charges.

When responding to questions on total cost of ownership (TCO), a surprising number of respondents mentioned that they did not do this at all, however there was good knowledge of the principles of TCO and why it should be incorporated into good procurement decision making. Those working more with direct materials and raw ingredients were more inclined to work through the detail of TCO models with others acknowledging factors such as environmental cost and risk as being important but unsure how to incorporate them into a robust TCO analysis. With more levels of organisational responsibility and regulatory reporting such as CO2 emissions, the area of TCO appears to be one of the next levels that procurement professional will need to scale.
It was pleasing to see that despite the downturn, the majority of respondents still rated environmental sustainability and corporate social responsibility as being highly relevant to their organisation’s supply chain management. Although many were still working on embedding this into their policies and processes, there was high acceptance that once the organisation had begun on this path there was no turning back. For some departments they had dedicated staff or a nominal part-time role responsible for incorporating the principles of sustainability and CSR into their procurement and supply chain processes.

How is procurement’s delivery against TCO measured?

- Life Cycle Cost: 46%
- DIFOT Levels: 28%
- Risk Assessment: 25%
- Landed Cost: 24%
- Contract Management/ Administration Cost: 22%
- Environmental Cost: 21%
- Inventory Levels: 21%

**Sustainability**

Defining Sustainable Procurement as procurement that achieves value for money on a whole of life basis, generating benefits to the organisation, society and the economy, whilst minimising damage to the environment, an overwhelming 91% rated this as moderately to extremely important despite the current market conditions. This was primarily driven by corporate policy or business strategy, followed by customer demands and brand image.

There was widespread acknowledgement of the breadth of procurement’s footprint across organisational boundaries when considered against social, environmental and economic factors.
In terms of health, safety, community and supplier compliance, respondents mostly treated this as business as usual within their procurement processes. For some organisations procurement had very strong links with their OH&S (Occupational Health & Safety) or HSE (Health, Safety & Environment) teams to ensure compliance to standards for goods and robust supplier qualification processes on safety, insurances and other certification for services and sub-contractors. Respondents reported that they had standard clauses in their contracts covering these elements and also conducted audits to ensure compliance with policies and processes in this area. Some of the supplier qualification was done via “self-service” on Internet based portals – particularly where large numbers were required on project work or simply owing to the size of the organisation - then reviewed by procurement departments as a secondary step.

In some cases the procurement of goods and services was targeted at the economic improvement of local communities and businesses to support the organisation’s operations. This may have included communities in Australia or New Zealand but also in other countries where the organisation operates.

Most organisations were actively pursuing “green purchasing” to some extent, that covered the areas of energy, materials, chemicals, water, emissions, waste and recycling of products and packaging. Some very tangible initiatives here included buying green office products such as paper, increasing recycling and reducing the amount of paper used and setting specific reduction targets. Several mentioned having policies that required a minimum amount of green power (e.g. 10%), or were changing the composition of vehicle fleets and also looking at alternative fuels.

In the area of waste management, organisations are reporting on waste streams and also looking at product specifications, particularly on packaging, to reduce or re-engineer their requirements, including buying reusable packaging. Also where more sophisticated TCO is being conducted, the associated disposal costs are being included into whole of life cost models.
Several respondents mentioned carbon trading and carbon footprints now being an area of concern and one that they as procurement practitioners needed to understand more about. There was also recognition that it wasn’t enough to just ensure the organisation had their house in order locally but needed to apply the same principles to offshore supply, albeit that this was seen to be more challenging.

Other factors such as risk management, ethics, corporate governance, supply chain integration and full lifecycle costing were reported with a reasonable level of activity depending on the maturity of the organisation. For fledgling functions these were a work in progress or recently developed. In others, these may have been under review or updated with one firm reporting regularly on a corporate governance index across the organisation.

Which dimension of sustainable procurement is currently the highest priority for your business?

- Business strategy/policy: 64%
- Customer demands: 18%
- Management & Staff commitment: 11%
- Brand/image: 5%
- No specific driver: 3%
Conclusions

Procurement is continuing to become a critical function within organisations and this has been heightened by the global financial crisis. For some this has been a time for procurement to prove its worth on opposite ends of the business – both in helping the front end sales teams win bids, and ensuring market competitive sourcing or re-bids once contracts are awarded. For others, it has been reducing COGS (cost of goods sold) or general operating expenditure in very difficult times. The financial impacts are being felt all along the supply chain, and ensuring suppliers remain viable and can retain key staff is critical.

There is pressure for practitioners to do more with the same - or fewer - resources and while some systems and tools are being implemented, there is still a way to go in getting timely and accurate data that can be relied on by the business stakeholders and procurement alike. There is a need for the knowledge and toolkits of practitioners to continually expand. Global volatility in currency and commodity markets is having severe and rapid impacts as well as changing cost structures and requiring ever more efficient sourcing from alternative suppliers and regions. Category and demand management are requiring a rethink of the knowledge and skills required as well as supplier engagement, once the strategic sourcing lever has been pulled multiple times. There is also added impetus for procurement functions to proactively address their corporate responsibility on the sustainability front to meet published organisational goals, CSR requirements and to ensure probity, ethics and corporate governance are strengthened and maintained. Procurement is well and truly becoming enmeshed as a vital function in the wider organisational footprint.
About the Authors

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