Aberdeen Group
A Harte-Hanks Company

The CPO's Agenda 2009

Smart Strategies for Tough Times

April 2009

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Executive Summary

The global recession is taking no prisoners. Neither industry, nor region, nor company-size has provided shelter from its impact. Within the enterprise, few business functions have been unaffected. Yet, as this business downturn continues, the Chief Procurement Officer's ("CPO") agenda and the CEO's agenda have started to converge. In fact, **two-thirds** of this study's participants believe that the economic downturn has positively impacted the role of the CPO within the enterprise. One thing is certain: the CPOs who successfully devise and execute smart strategies in these tough times will continue to rise.

Best-in-Class Performance

Aberdeen evaluated over 220 enterprises between February and April of 2009 and distinguished Best-in-Class enterprises by a combination of two metrics: the percentage of spend under management and cost savings (as a percentage of total spend) delivered. Best-in-Class enterprises in this study are notable for their superior performance and for their focus on and automation of the strategic sourcing process as well as their ability to accurately track their performance across many key areas.

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics with respect to the procurement operations. These top-performing CPOs and their departments are:

- **Twice as likely to** automate their spend analysis programs
- **91% more likely** to conduct regular reviews of contract compliance
- **65% more likely** to have a formal supply risk management program in place

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, enterprises should take action across the following areas:

- **Supply risk management:** Develop formalized programs to measure and track risk within the supply base, focusing on strategic suppliers and those key suppliers that can impact revenue, production, and reputation.
- **Sourcing and other cost containment initiatives:** Accelerate plans to source new or renegotiate current contracts, prioritizing speed to implementation as much as savings.
- **Strategic planning:** Ensure alignment with the larger enterprise agenda by proactively engaging the CEO and CFO.

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations.

"We intend to operate with strict financial discipline, maintaining a maniacal focus on cash. We're also closely managing all of our costs, **renegotiating contracts around the world, localizing our sourcing**, and variablizing [sic] our costs."

~ Indra Nooyi, CEO, PepsiCo, 4 / 20 / 09

"Companies that deliver improved execution during the tough times will be the ones best positioned to capitalize on the economic turnaround which will most certainly occur. **To be successful in 2009 we need to deliver on improving execution across the supply chain.**"

~ Bob Eckert, Chairman and Chief Executive Officer, Mattel Inc.
4 / 17 / 09

"There has been a change in context, speed, and risk. **It's time for procurement to be the hero.**"

~ Christina DeLuca, Chief Procurement Officer, Refining and Marketing, BP plc

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Chapter One: Benchmarking the Best-in-Class

A Tale of Two (Hundred) CPOs

It is certainly not the best of times for business. For many of the more than 220 Chief Procurement Officers ("CPOs") and other global procurement executives who participated in this research effort, it is the *worst* of times for their employers. But the challenges of each day present opportunities within them. In this business cycle, many of an enterprise's best opportunities and top priorities will play to the strengths and expertise of its procurement department. For example, as top-line revenues stagnate or fall, cost containment, a major focus for any procurement department, gains in significance as a business lever for profitability. Also, unprecedented commodity pricing volatility can enable a procurement department that possesses deep supply market and category expertise to gain advantage over its competitors. For many CPOs and their enterprises, basic survival is the order of the day; for others, like **Nat Leonard, CPO at Veyance**, "resiliency" is this year's theme. One thing is certain: the leaders who utilize smart strategies to address short-term enterprise needs while pressing forward on longer-term initiatives position themselves and their organizations to play an increasingly strategic role when the recovery inevitably begins.

Fast Facts

√ **91**% of CPOs identified the need to identify cost reductions as a top-three business pressure

√ **71**% of CPOs believe supply risk is increasing, yet **30**% have a formal program in place to manage it

"The key is to balance short-term urgent needs versus long-term strategic goals."

~ Ken Syme, Chief Procurement Officer, Xerox

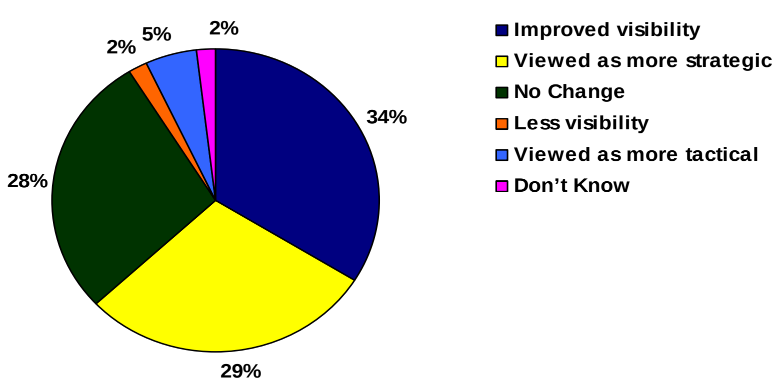
A Time to Lead

Aberdeen's February 2008 report, *CPO Rising: The CPO's Agenda for 2008*, sought to both catalog and advance the narrative of the broad procurement transformation that has occurred within the enterprise over the past decade.

"We face the extraordinary challenge of right-sizing to our business which has contracted by 45% in the past year. This means fundamentally restructuring our organization and resetting the scope of operations and our overall mission."

~ Chief Procurement Officer, Large Global Manufacturer

Figure 1: The Economy's Impact on the Role of the CPO



Source: Aberdeen Group, April 2009

While much has changed since that report published fourteen months ago, procurement's momentum continues unabated. According to **nearly two-thirds** of this current study's respondents (Figure 1), the role of the CPO and the procurement organization in general has been enhanced (improved visibility or more strategic) by the challenging economic environment. It is said that in times of crisis, character reveals itself; but in these times, capabilities are also on display. CPOs with a firm command of the goals of the larger enterprise, a clear vision and plan focused on supporting or achieving these goals, and an organization well-equipped to execute said plan stand poised and ready to lead their enterprises out of this economic cycle and into the next decade. And, those CPOs that lead and deliver in tough times will gain deserved recognition, they may be duly rewarded, and over time, those with aspirations beyond procurement may reasonably pursue and attain other, more senior roles within the executive ranks.

"Our goal is to achieve Best-in-Class performance. In good times or bad, we're focused on the right behavior."

~ Bruce Kilkowski, Vice President and Director of Procurement and Strategic Sourcing,, JCPenney

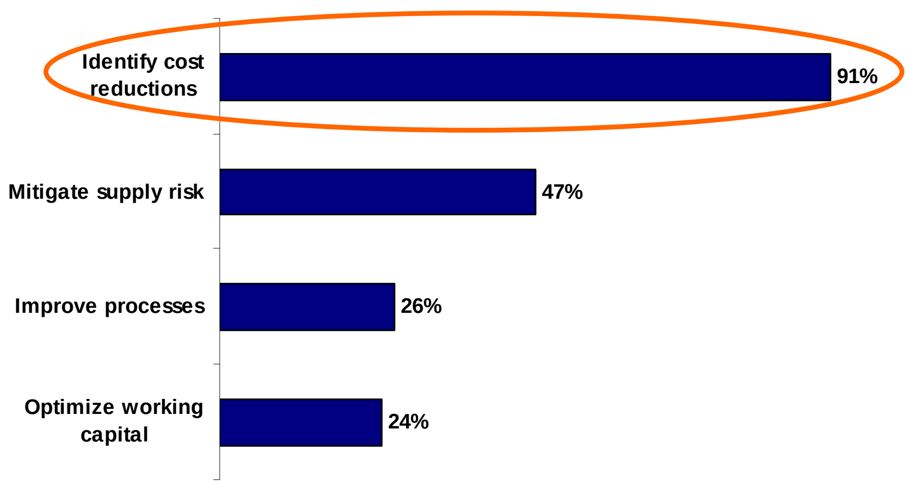
Savings: Still the Name of the Game

While the role and focus of the procurement department has expanded in recent years to include a wider range of supply management activities including assuring supply, measuring supplier performance, driving quality, and fostering innovation, identifying cost reductions remains the critical element on the department's performance chart. The list of business pressures driving CPOs to action this year is led by the need to identify cost reductions, which was selected by **91%** of survey respondents as a top-three pressure (Figure 2).

"It's not just about unit cost reduction. Demand management is a critical area to manage as well."

~ Anders Lillevik, CPO, Webster Bank

Figure 2: Top CPO Pressures



Source: Aberdeen Group, April 2009

It should be noted that across a decade of global supply management research, Aberdeen has never seen the pressure to find savings reach this high level. The intensity focused on cost reductions is uniform across industries, enterprise size, and global regions and sheds significant light on the breadth of the global recession and where we may be in the current business cycle. While growth and expansion are not precluded as underlying drivers of this pressure, the interviews and feedback from the CPOs participating in this study point to profitability, liquidity, and survival as the preeminent enterprise concerns. Even CPOs with enterprises that are less focused on a traditional bottom-line are feeling the pressure. "Driving strategic sourcing through our social programs is imperative in achieving greater quality, increasing service offerings and adding financial savings for departments. This has a positive impact upon the lives of our community," states **Sam Austrin-Miner, Programme Director for Payments & Procurement for the City of Edinburgh Council**.

A difficult business environment for a buying organization can also have a ripple effect across its supply chain. This can and often does correspond to an increase in supply risk, the second top pressure felt by CPOs today. As many CPOs work to right-size their spend in the face of cost concerns and / or waning demand, a push for cost reductions on top of significantly lower quantities can have a doubly adverse effect on suppliers. As the **CPO at one Tier 1 automotive supplier** noted, "The Tier 2s and Tier 3s are really feeling the industry pain. Tier 1 suppliers have to deal with a supply chain that's on the ragged edge."

"We're involved in trying to change the game for some of our products, collaborating with suppliers to develop different, cheaper chemical routes to get to the same requirements."

~ Mike Lanham, Procurement Director, Dow Corning

The Maturity Class Framework

Aberdeen evaluated over 220 enterprises between February and April of 2009 and distinguished Best-in-Class enterprises by a combination of two metrics: (1) the percentage of spend under management and (2) cost savings (as a percentage of total spend) delivered. Spend under management (see sidebar for definition) has been, and will continue to be, a primary metric used by Aberdeen to define and discern Best-in-Class procurement performance from all others. In Aberdeen's view, spend under management is an important metric to utilize because it represents the opportunity that procurement has to impact an enterprise. Certainly, managing a high percentage of spend does not in and of itself guarantee efficient or effective management; but, over years of benchmarking thousands of procurement departments, Aberdeen has identified a high correlation between high percentages of this metric and high performance in other KPIs.

Spend Under Management

The classic measure of procurement's impact upon an enterprise is the percentage of all non-payroll, tax, tariff and fee-related spend that falls under management of this group, what is commonly referred to as ***spend under management***. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new dollar of spend brought under management.

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	▪ **88%** of spend under management ▪ **8.5%** cost savings as a percentage of total spend
Industry Average: Middle 50% of aggregate performance scorers	▪ **64%** of spend under management ▪ **5.2%** cost savings as a percentage of total spend

Definition of Maturity Class	Mean Class Performance
Laggard: Bottom 30% of aggregate performance scorers	▪ **23%** of spend under management ▪ **3.7%** cost savings as a percentage of total spend

Source: Aberdeen Group, April 2009

If procurement is not managing certain categories of enterprise spend, its ability to identify savings opportunities within those categories, track and ensure compliance to specific category contracts, or reduce maverick spend is severely, if not completely limited. This year we have also included a savings metric in the determination of Best-in-Class in due consideration of the extraordinary pressure being placed upon CPOs and their departments to deliver savings.

"In my fours years as CPO, we have increased our spend under management from 50% to 90% and shifted the mentality of how procurement is viewed beyond savings into an end-to-end process owner."

~ CPO, Fortune 100 Company

The Best-in-Class PACE Model

Aberdeen has shown that there is a clear relationship between the pressures companies identify and the actions they take, and their subsequent competitive performance. All participants should examine their prioritized Pressures, Actions, Capabilities, and Enablers (PACE) selections and determine whether there are valuable perspectives to be gleaned by comparison with the PACE priorities of Best-in-Class companies (Table 2).

Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
▪ Pressure to identify cost reductions	▪ Increase sourcing activity (volume and velocity) ▪ Develop supply risk mitigation strategies	▪ Ability to track identified or negotiated savings ▪ Standardized sourcing process ▪ Ability to track the percentage of spend under management of procurement ▪ Standardized spend analysis process ▪ Ability to track and maintain active strategic sourcing pipeline	▪ Commercial Cards ▪ Spend Analysis ▪ Supplier Performance Management ▪ Supplier Networks or Portals ▪ E-Procurement ▪ Contract Lifecycle Management

Source: Aberdeen Group, April 2009

Smart Strategies — The Drive for Savings

Rick Odell has never met a category he could not source. This savvy sourcing veteran's view remained unchanged after being given management responsibility for Thermo Fisher's fleet of 3,600 vehicles shortly after joining the company in 2008. “Initially, very few people believed that the OEMs would participate in an online bidding event, but I wasn’t so sure,” Odell noted.

continued

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Smart Strategies — The Drive for Savings

"And, with the price of gas where it was last year, even without cost savings from the bidding process, there was an opportunity to drive value simply from shifting our supply to more efficient cars. I also saw e-sourcing as a great opportunity to streamline and standardize a process that we conduct annually."

Odell worked with their third-party fleet management company to develop a cost model that could evaluate bids based upon a total cost per mile calculation. The model included inputs like capital cost of the vehicle, fees, interest rates, gas mileage, and residual value while also incorporating assumptions based upon Thermo Fisher's historical usage data and pricing information from the secondary auto market. "We explained to the OEMs that we while would use a sophisticated Total Cost Model to help evaluate bids, non-price attributes like safety and performance rating as well as unique car features would be included in our process."

Results: Every OEM that was invited to participate placed a bid in the process; and, for the first time, Thermo Fisher was able to evaluate car models on a total cost of ownership basis. This enabled Odell and his team to better quantify the cost or trade-off of certain features and capabilities. Odell and team were able to identify savings beyond their initial projections even though the lowest-cost cars were generally not selected. In one example, head-rest functionality was the key determinant in awarding a contract. Odell expects to gain significant process efficiencies as he e-sources new vehicle bid packages in the future.

Summary: This case presents an example of a sourcing leader who sourced a non-traditional category from a very sophisticated supply market by developing a system that would fairly and clearly evaluate bids. The event was a success and the suppliers plan to participate next year. A broader discussion of e-sourcing appears at the end of Chapter 2.

"We cut nearly $1 billion from our 2009 budget primarily by pushing projects into the future or decreasing their scope and as a result are actually sourcing less this year."

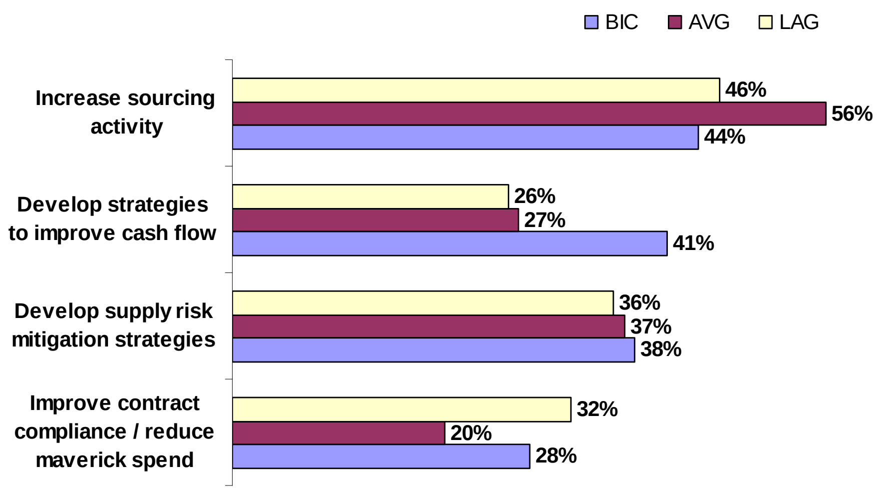
~ Price Marr, Manager Strategic Sourcing, Ameren

Ready, Aim, Source

For CPOs, 2009 will be as much about execution as it will be about leadership. Given the heightened pressure to deliver savings, the execution of more sourcing projects, noted as the top action by CPOs across all maturity classes, (Figure 3) is certainly in order. "Any procurement, sourcing or supply professional should be employing whatever tactic he or she can in order to take advantage of a depressed market and with it, an abundance of competitive opportunities," suggests **Bob Kane, Corporate Director of Global Sourcing and Supply at TPI Composites**. "The key, however, will be managing relationships and ensuring that when those tables turn, you have solid contracts, fair adjustment provisions and a committed strategic supply base that will bend over backwards to make you successful." However, other leaders are ready to shoot at anything that moves including a **former VP of Services and Indirect at a Global Pharmaceutical**

Company-turned consultant, who feels that "you have to have the guts to go long when prices fall like this. CPOs should be aggressive and take advantage of all current market dislocations."

Figure 3: Top CPO Actions by Maturity Class



Source: Aberdeen Group, April 2009

While sourcing is the big gun in a CPO's arsenal, the procurement executives across all maturity classes are fighting their battles across many fronts: savings, cash flow, supply risk and compliance. **Pete Connelly, CPO at Leggett & Platt**, has a broad series of "RONA" (Return on Net Assets) initiatives including an asset utilization program that has already avoided $1 million in purchases by identifying and redeploying underutilized assets. He is also one of a growing number of CPOs focused on integrating accounts payable functionality with procurement processes and systems. "We have been driving a payment terms initiative that has extended our usual terms from 20 days to 60 days, resulting in an estimated annual cash benefit of between $50 and $60 million."

In pursuit of driving greater cost reductions more quickly, one federal agency took a different approach to sourcing and supplier negotiation when it rolled out its "Rapid Renegotiation Initiative" that is focused on identifying savings opportunities with its top 300 suppliers. The initiative seeks to quickly engage suppliers and have them identify savings opportunities across three primary areas: cost reductions, process improvements, and scope reductions. The program was introduced externally and internally by written communications from two executives. The first communication was sent from the CFO to the top executives of each supplier organization requesting a review of their current contract and a response from the supplier that included a proposal on ways to achieve savings immediately. The second communication, sent from the CEO to all internal business executives, introduced the program and assigned ownership of the final results to each recipient, in concert with procurement. The **Vice**

"For strategic sourcing, we develop an opportunity portfolio similar to a business opportunity portfolio. We review these projects and portfolios on a regular basis to make sure the projects are properly staffed and held accountable for results."

~ Mike Lanham, Procurement Director, Dow Corning

"While supply chain reliability remains our number one priority, the increase in price focus means we are now living up to our threat to bid everything…It is very easy to negotiate in a hardball way. Using a total cost toolset and actually collaborating with suppliers takes great knowledge and skill. We think it is a worthwhile investment."

~ CPO, Fortune 50 Company

President of Supply Management developed a savings tracking system that captures the results of the program at the contract / supplier level and aggregates the overall program impact on the operating budget. The system is used to generate a weekly report that is sent to senior management and helps the group maintain its momentum and focus on the initiative.

Marketing the value of the sourcing group to the larger enterprise is the top strategy for CPOs seeking to expand their sourcing programs (**64%**); CPOs also use this strategy as a way to increase the percentage of spend under management (**42%**). Newsletters and emails, intranet and other web-based knowledge sharing, and direct appeals to key stakeholders are the most common CPO approaches. "We are very consciously focused on improving and broadening the brand of procurement within JCPenney," says **Bruce Kilkowski, its Vice President and Director of Procurement and Strategic Sourcing**. "I've personally conducted more than 40 interviews with stakeholders to understand how my department is viewed so we can improve performance and perception."

"We tie our commodity pricing to indices. If the product is very close to the oil source, our contracted pricing will reset monthly. As we move further down the supply chain, we will reset contracted prices every three, six, sometimes 12 months."

~ CPO, Large Manufacturer

The notion that cash and cost containment efforts are not restricted solely to procurement or finance has had an interesting effect for many CPOs who now see department heads, business unit leaders, and other budget-holders lining up to tap the skills and services of their teams. "Our CFO kicked off a campaign, 'spend it like it's yours,' that has afforded my team more interest and engagement with the rest of the company," notes **Greg Tennyson, CPO at Salesforce.com**. "We're now very engaged with our business leaders, including our CMO, on sourcing a host of different categories."

Smart Strategy — Flex Appeal

Ken Syme, CPO, Xerox, leads a team of more than 350 and is responsible for more than $7 billion in spend as well as the entire supply chain and business process outsourcing operations. Now in his fourth decade at Xerox in a career that included roles in manufacturing, engineering, and finance before ascending to lead the procurement and supply chain groups, Syme understands the value of flexibility and seeks to leverage it to the business's advantage wherever possible. "Our business generates a lot of cash," explains Syme. "So, we are very willing and able to work with our suppliers to support their cash flow needs, while taking discounts for early payment. We look for value creation among trading partners."

Even good liquidity has to be managed, therefore innovative strategies are constantly sought to reduce inventory and improve supply chain responsiveness. One such strategy is Xerox's "Flexibility Management" inventory program. Xerox initiated a program to hold all inventory between its contract manufacturers ("CMs") and the Tier 2 and 3 suppliers. Xerox' cash flexibility allows them to keep higher quantities of volatile inventory on hand than their CMs could reasonably manage on their own, providing a layer of production flexibility.

continued

Smart Strategy — Flex Appeal

"We can make an order on Monday and change it on Wednesday and our CMs are more accepting and flexible since they are not bearing the cost of inventory," reports Syme. "This improves the efficiency of our supply chain and reduces our inventory holding costs, because the inventory mix has shifted to more lower-cost components than finished goods."

Supply Risk: Front and Center

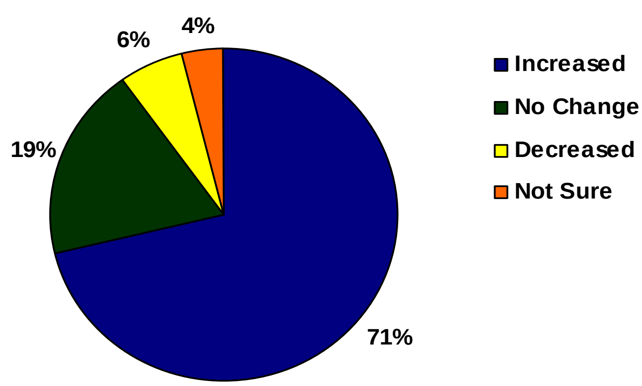
When the enterprise (often an OEM) that is nearest to the customer sneezes, its supply chain can catch a cold. When the top two or three sneeze, there can be a pandemic. With foreclosures, bank failures, and bankruptcies all occurring at unprecedented (in the post-World War Two era) rates and with talk of entire industries needing and / or requesting government bailout funds or support, it is clear that business challenges, and by direct implication, increased supply risk, have extended beyond distinct industries and geographies.

"In the past, you might have data signals: one, two, even six months in advance. Now we're getting notices along the lines of 'Effective Monday, we are closing our plant'…Things are going to get worse."

~ CPO, Global Manufacturer

Last year's *CPO Rising* report highlighted several forward-looking enterprises that were anticipating broad industry challenges and were developing unique supply risk strategies to prepare for the gathering storm. Some CPOs, like **Joern Stelzner of Freudenberg Nonwovens,** have had vibrant programs in place for many years, "We have a pre-alert system designed to identify at-risk suppliers. This includes working with rating agencies, local banks, and performing financial analysis," says Stelzner.

Figure 4: CPO's View of Supply Risk (Change in Past 18 Months)



Source: Aberdeen Group, April 2009

But as we will see in Chapter Two (Table 3), Stelzner is among the minority of procurement leaders who operate robust, time-tested programs designed to identify and mitigate supply risk. More CPOs (**71%**) are taking notice of the increase in supply risk (Figure 4) and, more importantly, taking action

(Figure 5). This contrasts to earlier Aberdeen research which highlighted a general disconnection between notice and action. In response to this heightened level of supply risk, the **CPO of a Fortune 200 Company** has prioritized supply risk as part of his 2009 agenda. According to the CPO, the supply risk program has three main components "(1) crisis management: the team prepares for extreme situations and runs different mock scenarios (2) on-going risk screening that evaluates individuals, supply, services, and products for supply risk, revenue risk, and risk to reputation and (3) outsourced market intelligence that enables the current category team to enhance its understanding of specific markets, suppliers, industries and regions."

"As we start sourcing from new territories like Malaysia, Vietnam, and South Africa, supply risk management becomes increasing difficult."

~ Matt Marthinson, Vice President of Strategic Sourcing, Hubbell, Inc.

Figure 5: CPO Plans for Supply Risk Management

Source: Aberdeen Group, April 2009

This CPO's blueprint closely maps the top actions planned by other procurement departments (Figure 5), where the definition of metrics to track supply risk, selected by **58%** of CPOs is the top planned action. While 43% of CPOs plan to leverage external information and services, a robust supply risk management program means more than "papering" a file with a set of recent financials. Many of the CPOs echoed a concern voiced by this **CPO from the Financial Services Industry:** "The issue is that most information and predictive modeling is based upon historical data and we're in an unprecedented environment." If the current downturn continues without pause, the challenges posed by supply risk will remain as large as any other for procurement organizations over the next few years and will warrant an investment of focus, time, and resources.

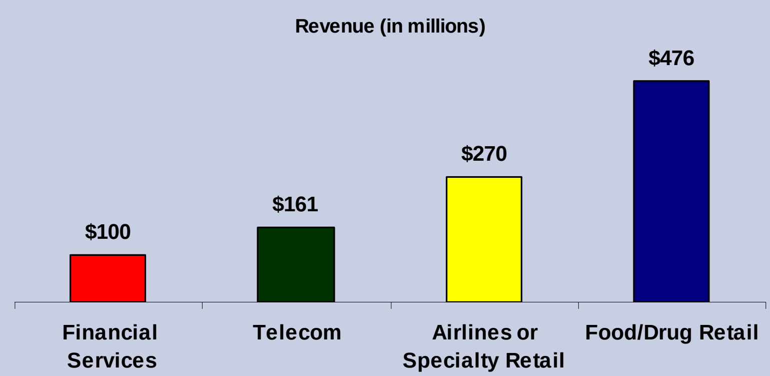
"Procurement still owns supply risk, but each group treasurer must 'accept' a new supplier."

~ CPO, Global Energy Company

Aberdeen Insights — A Penny Saved is Ten to Fifty Earned

A discussion of the impact that procurement can have on the bottom-line can be even more powerful when the context of enterprise profit margins are introduced. An enterprise's profit margin, or more specifically, its net profit margin is the ratio of its bottom-line profits to its total revenues. If Ben Franklin had worked in modern industry, he would have quickly realized that the average profit margin across different industries would actually mean that for most enterprises, the benefit of one penny saved is, in fact, much more than one penny earned. The values in Figure 6 below represent the average sales volume needed to generate a bottom-line impact (or profit) of $10 million. As an example, the average airline or specialty retailer (which have similar profit margins) needs to generate $270 million in sales to realize $10 million in profits. It is an interesting exercise for CPOs to take their delivered savings (actual or targeted) and evaluate them in the context of their employer's actual profit margin. This may help inform other executives as to the relative value of investments made in procurement. To be sure, many CEOs are already delivering this message to the investor community (see sidebar).

Figure 6: Revenue, By Industry, Needed to Generate a $10M Profit



Source: Aberdeen Group, April 2009[1]

"…the sequential decline in margins is almost entirely due to volumes. In order to offset this impact, we are very focused upon controlling the controllables [sic] and have made great progress on **cost savings initiatives**…**We are reducing costs**, we are investing in innovative products and services…I believe we are doing what we need to do for this environment."

~ Joseph M. Tucci, Chairman of the Board, President & Chief Executive Officer, EMC
4 / 23 / 09

"We have worked closely with our **strategic suppliers to achieve sustainable cost improvements**, the bulk of which is expected to impact our results beginning in Q2. With our Japanese yen-based suppliers, we have **negotiated lower prices** and where appropriate, we have negotiated to do business with them in currencies other than the yen."

~ Olli-Pekka Kallasvuo, President and Chief Executive Officer, Nokia
4 / 17 / 09

In the next chapter, we will examine the top priorities on the CPO's Agenda for 2009 and highlight the key strategies that the Best-in-Class employ to outperform their peers.

[1] To calculate the total sales required to generate a $10 million profit, $10 million was divided by the average net profit margin for each industry shown. The margins used in these calculations were taken from the discussion of the 2008 "Fortune 500" found at www.fortune.com.

Chapter Two: Benchmarking Requirements for Success

Procurement's State of the Union

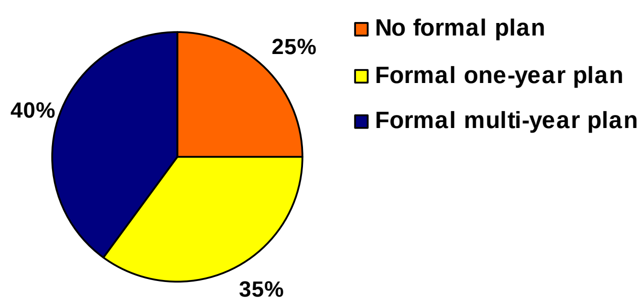
Despite the bleak overall economic outlook, in 2009, the "state" of procurement is generally strong; very strong on a relative basis to other functions within the enterprise. In 2009, the CPO's Agenda is more closely linked to the CEO's Agenda than in any other year in recent memory. Reduce or contain costs? Check. Improve cash positions? Check. Drive efficiencies? Check. Strengthen key internal and external relationships? Check. Improve execution to position for long-term success? Check.

To be certain, the recession has impacted many CPOs' plans this year: **48%** of CPOs are working with operating budgets that have decreased compared to last year; **55%** have already delayed major initiatives this year; and **32%** are expecting headcount reductions, although only **10%** overall are expecting to cut of more than **10%** of total staff. As the **CPO of a Global Chemicals Company** remarked, "the pressure for budget reductions is challenging, but other departments have it much tougher."

Success: When Preparation Meets Opportunity

In the face of steep challenges and pervasive uncertainty, it can be extremely difficult to maintain a focus on the mid-to-long term needs of an organization. Forty percent (**40%**) of CPOs have been able to keep that focus, reporting that they operate from a multi-year strategic plan. Of concern, however, are the **25%** of CPOs who run their departments without a formal plan for the year. Departments operating without some level of planning will be hard-pressed to deliver strategic value in-line with enterprise objectives.

Figure 7: The CPO's Two Year Agenda



Source: Aberdeen Group, April 2009

CPOs that continue to operate their departments without a strategic plan that ties into a larger enterprise plan do themselves and, by association, their organizations a huge disservice.

Fast Facts

√ The Best-in-Class are more than **twice as likely** to have a formal spend analysis program

√ The Best-in-Class are **58%** more likely to utilize their spend visibility to identify sourcing opportunities

√ The Best-in-Class formally source **71%** of their addressable spend

"Our leaders abandoned business as usual early on and focused on what needed to be done in the short-term without ever losing sight of what was important, our customers and our brands. And while we were committed to driving revenue across all channels, an equal focus was placed on improving operational efficiency, driving down costs and lowering inventories."

~ Howard Lester, Chairman and CEO, Williams-Sonoma
3 / 24 / 09

"I don't believe in a procurement strategy. The function exists solely in support of the business. Drill faster, sell more, etc. and we'll take care of these other things for you."

~ Christina DeLuca, Chief Procurement Officer, Refining and Marketing, BP plc

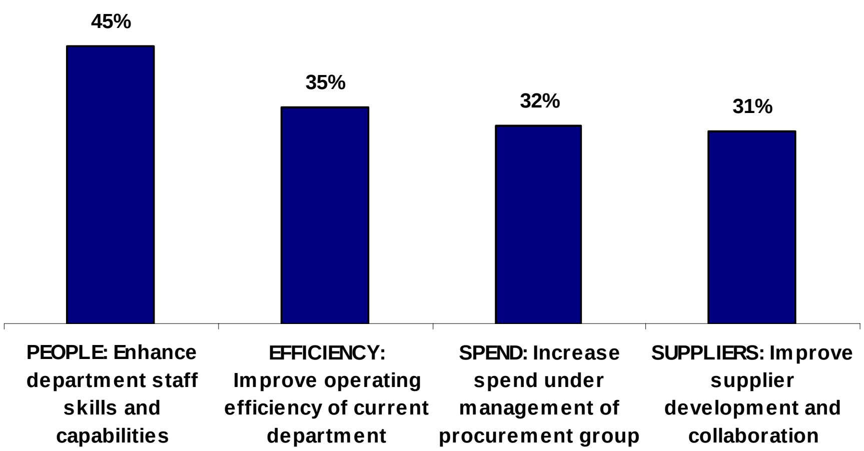
The CPO's Agenda: Up with People!

While desperate times may demand desperate measures from many enterprises today, when prioritizing their two-year plans (Figure 8), CPOs put the management of their people (**45%**) above all else. The scope and success of the procurement department can only scale to a level that its people can support. And if the management of spend is truly a value-added activity, investing in "spend managers," and actively trying to manage more spend (**32%**) both make good sense. As sourcing activity continues to increase into next year (see Figure 3), the need for consistent execution and efficient delivery (**35%**) along the more strategic processes of the procurement department expands.

"My primary challenge is keeping my people aligned and focused while receiving such rapidly changing guidance from our executives…We don't even know what our plan for 2009 is."

~ CPO Global Fortune 100 Company

Figure 8: Top Three CPO Priorities



Source: Aberdeen Group, April 2009

Performing spend analysis (**67%**) which can improve visibility into enterprise spend and help procurement identify new categories (or spend) to be managed is the CPO's top lever to place more spend under management; while **71%** of CPOs plan to improve supplier scorecarding capabilities as a top strategy to improve supplier development.

"Each year, we survey our top 50 to 60 internal users of our services. I sit in on as many of these as I can. It is important for our stakeholders to know that I'm fully vested in our performance and it's motivating for my staff to know that I am getting first-hand feedback on how well they are doing."

~ CPO, Pharmaceutical Industry

Smart Strategy — The Search for Operational Excellence

Ron Carcamo, CPO of Yahoo!, epitomizes the new breed of CPO. A one-time regional CFO with extensive international and operational experience, Carcamo thrives when leading major transformation initiatives that drive higher value-add focus and ROI. The new executive leadership at Yahoo! has introduced a series of initiatives that Ron believes can help accelerate his strategic plan and drive greater value.

continued

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Smart Strategy — The Search for Operational Excellence

"Our new CEO has set a global organization structure with a focus on operations," says Carcamo. "This back-to-basics approach has already jump-started our sourcing initiative and helped us roll the sourcing ball deep into the organization."

Carcamo's team is also focused on developing the next generation of business process outsource (BPO) enablement which consists of both an infrastructure and a standard framework that can be leveraged to support the pursuit and management of BPO opportunities within Yahoo!. This new initiative has introduced a level of rigor to the decision-making process that had not existed in the past as well as an enablement model. The new model utilizes a three-tier management structure: (1) <u>an executive council</u> comprised of the CFO, CPO, General Counsel, and key VP / SVPs involved in outsourcing to set the strategic direction of all BPO programs; (2) <u>a core operating team</u> led by procurement to assist in the development of the business case and provide advisory services throughout the vendor selection process. This team also oversees BPO strategic supplier management that interfaces with each of the business process owners to monitor the specific provider relationship and associated SLAs; (3) <u>an internal support team</u> focused on enabling the BPO providers in their activities across a variety of areas (i.e. IT, security, HR, legal, etc).

For the first time, the internal teams will standardize outsourcing policies and procedures with critical coordination managed by the core team. "While this structure seems a bit bureaucratic, it is based upon the model which operates today in an uncoordinated and inconsistent manner across the enterprise. With this new structure and mandate we've already seen significant benefits from the new program structure in regards to increased savings and outsourcing efficiency," reports Carcamo.

"Earlier this year, we converted our Procurement and Supply Chain team into an independent cooperative that will help support our former parent company's major initiative to convert into a primarily franchise-owned operation. Our future now literally hinges on making our customers successful."

~ David Parsley, President and CEO at Centralized Supply Chain Services, LLC

Barriers

Despite the particular alignment of the CPO's agenda with that of the CEO, **52%** of all CPOs cite a difficulty engaging with business units, functional peers, and other budget holders as a primary barrier to the successful execution of their procurement plan. This can be a two-way street as some CPOs report that a dearth of talent make them less inclined to aggressively engage business leaders, actually hoping to stay below the radar. Noted the **CPO of a US-Based Financial Institution**, "We have a very weak mandate which is okay today, because we are not staffed to enforce a strong [mandate]. We are going to lead with a new e-procurement system to generate momentum."

"We're very focused on the working capital impact of the contracts we negotiate, how inventory is managed, and our payment terms."

~ Matt Marthinson, Vice President of Strategic Sourcing, Hubbell, Inc.

Still, another **CPO, who leads a Global Energy Company,** discusses a more mature operation that benefits from a very strong mandate and its own past successes: "Procurement is center stage. Our plan for 2009 is built into the P&L [profit and loss statement] of each business unit. In the past, we have been key to them making their plan." Given the pressure on operating budgets, more line-of-business managers may be open to a dialogue; CPOs interviewed for this report say that more are proactively seeking the support of procurement. CPOs should therefore, take inventory of their organizations capabilities, work to enhance them, and then seek to support as many business leaders as possible. This is not a time for the meek-hearted.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (2) **organization** (3) **knowledge management** (4) **technology** (5) **performance management**. These characteristics identified in Table 3 serve as a guideline to benchmark operational activity, and to understand best practices and key drivers of Best-in-Class performance.

"Leave the sourcing to us"

Joe Delaney & Eddie Kerr have come a long way since they made their case for e-sourcing at First Group plc., a leading bus and train transport company, in the fall of 2005. Their initial sourcing foray was a four month e-sourcing trial period where according to Kerr, "several 'low-hanging fruit' sourcing projects were run, with good results." The duo moved pretty quickly to deploy the e-sourcing solution and with some outside help, introduced a new sourcing process to the organization. Several years later, the e-sourcing program is still running on all cylinders, just experiencing a year-over-year growth in the program of 250%. Originally focused on categories described as non-strategic, the team is now driving the sourcing of major direct categories like vehicles, parts, and fuel. While hesitant to share their impressive savings numbers, the duo believes e-sourcing has been a dramatic enabler of the team's total makeover.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Ability to leverage spend data to drive sourcing projects		
	79%	56%	40%
	Percentage of addressable spend that is formally sourced		
	71%	52%	32%
	Formal spend analysis program		
	74%	38%	31%
	Conduct regular reviews contract compliance		
	61%	33%	31%
Organization	Center-led procurement organization		
	56%	45%	20%
	Cross-functional collaboration with finance, HR, product, travel, etc.		
	74%	55%	45%
Knowledge	Formal supply risk management program		
	43%	30%	18%
	Enterprise-level spend visibility across all categories		
	62%	48%	39%
	Training to improve supply market knowledge		
	55%	26%	16%
Technology	Supply management solutions currently in use:		

	Best-in-Class	Average	Laggards
Technology	▪ 65% Automated Spend Analysis ▪ 64% Supplier Performance Management ▪ 50% Supplier Networks or Portals ▪ 38% Optimization-based sourcing analytics	▪ 36% Automated Spend Analysis ▪ 49% Supplier Performance Management ▪ 32% Supplier Networks or Portals ▪ 14% Optimization-based sourcing analytics	▪ 24% Automated Spend Analysis ▪ 36% Supplier Performance Management ▪ 27% Supplier Networks or Portals ▪ 8% Optimization-based sourcing analytics
Performance	Performance measurement capabilities:		
	▪ 82% Track the percentage of spend under management ▪ 81% Track and maintain a strategic sourcing pipeline ▪ 81% Track implemented savings ▪ 57% Include individual savings quotas in determination of bonuses	▪ 60% Track the percentage of spend under management ▪ 55% Track and maintain a strategic sourcing pipeline ▪ 64% Track implemented savings ▪ 38% Include individual savings quotas in determination of bonuses	▪ 47% Track the percentage of spend under management ▪ 37% Track and maintain a strategic sourcing pipeline ▪ 37% Track implemented savings ▪ 26% Include individual savings quotas in determination of bonuses

Source: Aberdeen Group, April 2009

Capabilities and Enablers

Best-in-Class procurement organizations differentiate themselves by the strategies they employ, the capabilities that they utilize, and the solutions that they leverage. A few key areas are discussed below.

Process and Knowledge Management

Aberdeen defines strategic sourcing as the process of identifying, evaluating, negotiating, and implementing the optimal mix of goods and services that best support the objectives of the enterprise. With the average enterprise now planning to source just slightly more than **half of its addressable spend in 2009**, sourcing is back in fashion. Best-in-Class sourcing operations are true "super models" utilizing their superior levels of spend visibility **(62%)** to drive more sourcing activity **(71% of addressable spend)** and achieving a higher percentage of savings on overall spend to boot. The Best-in-Class sourcing "diet" consists of a blend of process, category, and supply market expertise; technology can be a valuable enabler of the strategic sourcing process, whether by providing visibility into enterprise spend to help identify sourcing opportunities or by automating the sourcing process to gain efficiencies or delivering superior price discovery through competitive bidding.

While sourcing will help procurement teams focus on identifying the best potential savings opportunities, there are some other opportunities that are "hiding in plain sight." For sourcing teams that have already negotiated superior contracts, the potential for savings leakage (see side panel) can have a significant impact on overall results. The Best-in-Class are **91% more likely** to conduct regular contract compliance audits. The comparison of purchase orders, invoices, and payments against underlying contracts can be a quick way to generate cash by identifying overpayments.

Organization

Center-led procurement structures are **56%** more common in Best-in-Class enterprises than in all other enterprises. This organizational structure mixes centralized policies and control with decentralized resources and decision-making. Despite a few recent, high-profile 'reversions' to a decentralized structure where departments were effectively disassembled, centralization (center-led and centralized) of the procurement department remains the most common approach and remains a significant force in increasing automation adoption levels and aiding procurement to place more spend under its management. But the days of a one-size-fits-all approach to organizing procurement departments are starting to recede. More recently, some CPOs, like **Ron Carcamo of Yahoo!**, are thinking about their organizational design and management strategy at the category level. For example, utilizing center-led category teams for highly complex categories that have spend leverage opportunities, while centralizing the management of less complex categories that also have spend leverage opportunities, and offering a center of excellence to support the distributed management of low spend leverage categories.

Technology

While Best-in-Class procurement organizations have, on average, higher levels of technology usage across all facets of the source-to-settle process, they also understand that process automation is not the ends, but rather the means to their goals and objectives. Process design and mapping, training, and change management are but a few areas that must be bridged for a technology launch to have a chance of succeeding. The Best-in-Class performers in this research effort utilize strategic sourcing tools like automated spend analysis (**twice as often** as all others) and sourcing optimization (**three times more often** as all others) and achieve higher aggregate savings. The Best-in-Class procurement organizations also leverage supplier development / collaboration tools like supplier networks (**67% more often** than all others) which can help streamline all or part of

Savings Leakage

Savings Leakage: Aberdeen research has shown that the average enterprise fails to implement 21% of the total identified savings per sourcing project.

Identified Savings: Beyond the simple identification of savings opportunity, this tier of savings is characterized by sourcing activity and negotiated pricing, where savings potential is attainable.

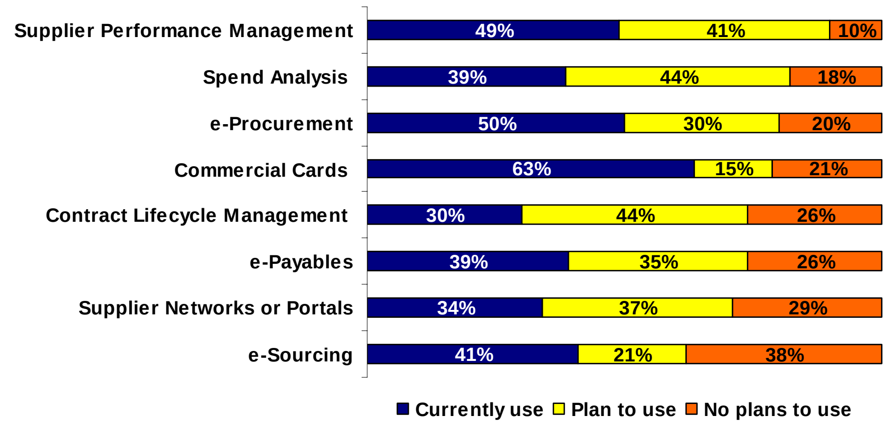
Implemented (or Realized) Savings: After the contract has been executed, enterprises begin to realize the potential of previously identified savings opportunities. This tier is characterized by purchasing, receiving, invoicing, and settlement activity and ensured by contract compliance and strong end-user adoption.

CFO's View of Procurement: Same Page, Different Language; November 2007

"We have a very detailed database that helps us understand and track our suppliers' cost structures. We then collaborate with our suppliers to find areas to drive out additional costs."

~ Joern Stelzner, CPO, Freudenberg Nonwovens the source-to-settle process and supplier performance management tools (**45% more often** than all others).

Figure 9: Supply Management Solutions: Usage and Intentions



Source: Aberdeen Group, April 2009

While the discussion above highlights areas where the Best-in-Class have utilized solutions to a greater and greater success, more broadly, the full automation of the holistic source-to-settle process remains the exception, not the rule. Based upon the respondents in this study (Figure 9), commercial cards (**63%**) and e-procurement (**50%**) are the solutions with the greatest adoption, while contracts, (**44%**) spend analysis (**44%**), and supplier performance management (**41%**) top the list of solutions for currently planned for deployment. While 55% of CPOs have delayed major initiatives this year, others are undeterred. Many CPOs discussed their plans for process automation projects in 2009 including the **Head of Procurement at a European Manufacturer**, "We have a big initiative to move to completely automated workflows, with a global roll-out of a procurement system this year." Inevitably, the markets will rebound; until that time, budgets will face greater scrutiny. CPOs will be wise to arm themselves with clear and detailed business cases on the potential return that their proposed investment in a solution or solution set can deliver. Additionally, there may be a higher tolerance from investment committees for solutions with faster, albeit smaller returns.

Performance Management

Aberdeen research has shown that enterprises save between 5% and 20% on every dollar of spend that is brought under the management of procurement. If procurement can add value to the overall management of spend, then an ability to track the percentage of spend that it does manage, which **82%** of the Best-in-Class can do, serves many purposes. This visibility can provide a current snapshot of the overall scope of the organization and also the potential new opportunities, both of which could justify additional investment in the group. Visibility into this number can also help CPOs

"We are focused on process improvements and improving our use of technology. In some cases, we already have the technology in place and need to increase adoption and expand our capabilities."

~ CPO, Government

The CPO's Top Five KPIs

The list below represents the top five procurement KPIs and the percentage of CPOs who track them.

- √ Identified cost reduction savings **63%**
- √ Percentage (%) of total spend under management **49%**
- √ Implemented / realized cost reduction savings **48%**
- √ Procurement ROI (savings / operating costs) **41%**
- √ Cost avoidance **39%**

develop strategies to "attack" spend that is not currently managed. A similar argument can be made regarding the ability to track and maintain a strategic sourcing pipeline, which **81%** of the Best-in-Class can do. In both examples, (managing spend and sourcing activity) greater throughput substantially increases the likelihood of increased savings.

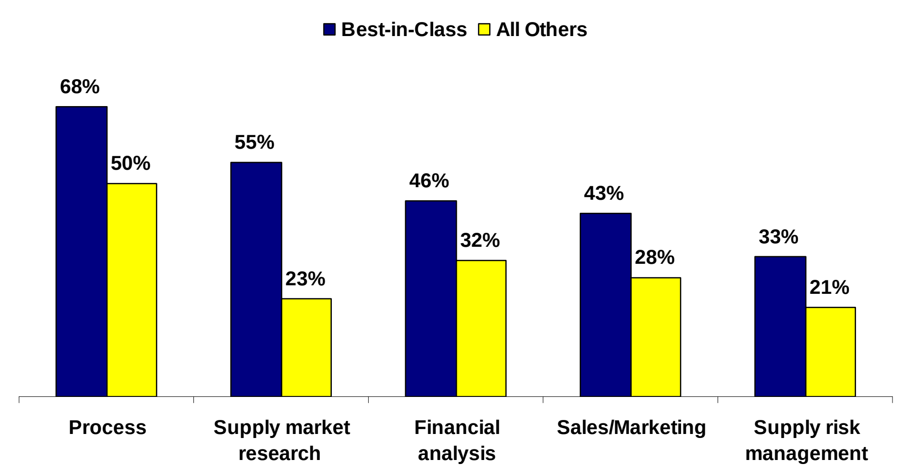
Best-in-Class Strategy: Up with Training!

While people management, and specifically the enhancement of staff capabilities, tops the CPO's two-year agenda, the Best-in-Class distance themselves from the others when the amount of training available to staff is considered. As seen in Figure 10, Best-in-Class enterprises are **36% to 139**% more likely to offer distinct procurement training classes. Since **two-thirds** of all CPOs cite the "need for staff with different skills" as a major staffing challenge, an investment in training programs makes abundant sense. Process and supply market training can be leveraged to ensure that projects are executed with precision and generate optimal results. As procurement departments place more spend under management, its constituency will also grow by a similar degree. New category knowledge will be needed to manage the new spend and a broader set of business skills within the department will ensure that the larger group of stakeholders are managed in a more sophisticated and more efficient manner. To enhance capabilities, CPOs should also investigate the soft job market as a source for top talent.

"One of our major initiatives is staff training. We've developed three classes (1) Building Sourcing Fundamentals which is a four-day class that half our staff will attend this year (2) Six Sigma / Lean Training that will enable graduates to earn a green-belt and (3) Collaborative Leadership which has a goal of driving innovation; Everyone in the department will participate in this training."

~ Bruce Kilkowski, Vice President and Director of Procurement and Strategic Sourcing,, JCPenney

Figure 10: Current Staff Training: Best in Class versus All Others



Source: Aberdeen Group, April 2009

Aberdeen Insights — The E-Sourcing Manifesto (Part 1)

A fear has been haunting procurement organizations around the world for a decade, the fear of e-sourcing (and reverse auctions in particular). The interests of many stakeholders within the enterprise (including some in procurement) and the interests of many beyond it have allied to thwart e-sourcing from becoming the default platform for negotiation between buyer and supplier. It is time that these fears, myths and misconceptions are met with a definition of e-sourcing and a discussion of why e-sourcing should be the default platform for all supplier negotiations - **the e-sourcing manifesto.**

Buyer And Supplier

The history of business began when the first buyer traded for a good or service. For centuries, proximity to supply was the limiting factor to trade. But as advances in transportation, manufacturing, and technology arose, quality and marketing began to drive business relationships; the earth started to flatten. As trade evolved, so too did transactions, contracts, and negotiations. Fast forward through the industrial revolution to today's "flat world" marketplace and it is innovation and complexity that define trading partner relationships. Unfortunately the evolution of negotiations has lagged behind other parts of the buyer-supplier relationship.

E-sourcing Defined

Technology-enabled sourcing, or e-sourcing, is the use of a web-based application and decision support tools to automate the strategic sourcing (and / or spot sourcing) process. E-sourcing is most commonly associated with the supplier negotiation process where a buyer creates an online request for information / price / quote that contains the following four items: a) defined business and category requirements, b) rules that define and control the bidding process, c) an opportunity for suppliers to provide the requested data, and d) some type of evaluation criteria.

Most commercially available e-sourcing applications have the ability to model the traditional offline strategic sourcing process. Common sourcing event or negotiation types include RFI, RFP, RFQ, tender, reverse auctions, and one-to-one or one-to-many negotiations. E-sourcing negotiations can be focused on price or non-price attributes or some combination of the two. Advanced e-sourcing capabilities enable value-based decision-support that is often beyond the capabilities of a spreadsheet-driven analysis. These advanced capabilities include bid optimization, cost modeling, matrix or tiered pricing, flexible bidding, product lifecycle sourcing, as well as team and automatic scoring.

Many systems now offer robust knowledge management capabilities, including e-sourcing template creation, document repositories, and standardized workflows that enable rapid sourcing event creation.

Part 2 continues at the end of Chapter 3

Chapter Three: Required Actions

Whether a Chief Procurement Officer is trying to move his / her department's performance from Laggard to Industry Average or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements. While Aberdeen benchmarks provide actions by maturity class, the recommendations listed below should be considered by all CPOs and procurement executives. To start, all CPOs should pursue all avenues that responsibly contain costs and save money. Beyond sourcing, these strategies include the development of programs and policies to manage demand, drive higher utilization of current assets, drive innovation, identify cheaper alternatives for current goods and services, and work with strategic suppliers to help identify similar cost containment opportunities within their operations and supply chain.

Fast Facts

√ Best-in-Class CPOs, on average, manage **88%** of total enterprise spend

√ Best-in-Class CPOs, on average, delivered savings equal to **8.5%** of total enterprise spend in the last full year

Laggard Steps to Success

- **Perform spend analysis on a regular basis.** Visibility into enterprise-level spend is the foundation upon which all other procurement activities should be based. Aberdeen has quantified the benefits of spend analysis on key performance areas (see side panel) The Best-in-Class are **twice as likely** as all others to have a spend analysis program. Departments with limited or no level of visibility into spend unknowingly restrict their strategic contribution to enterprise performance. CPOs who run their departments without visibility into enterprise spend are guilty of procurement malpractice.
- **Develop and track a pipeline for spend under management.** In the same way that sourcing teams develop pipelines to manage their sourcing activity, CPOs should make a deliberate effort to place more spend under management. Best-in-Class CPOs are **74%** more likely than Laggards to have the ability to track spend under management, they also manage almost **four-times** the percentage of total spend. This pipeline should include a detailed plan that targets specific categories and devises an approach to engage specific budget-holders. The pipeline should be revisited on a regular basis.
- **Incorporate savings quotas (or bounties) in the staff's incentive plan.** Much as the CPO's agenda should align with the CEO's top priorities, the procurement staff's individual goals and objectives should have direct linkage to their CPO's plan. Procurement professionals may work with passion, but they are also motivated by incentives. Target behaviors and results should be clearly identified and justly rewarded and, should also be quantifiable and measured. The Best-in-Class are **60% to70%** more likely to use

The Impact of Spend Analysis

Enterprises credit, on average, the following incremental benefits to key procurement metrics:

√ 93% increase in sourcing savings

√ 40% increase in spend under management

√ 31% increase in contract compliance

√ 16% reduction of maverick spend

Spend Analysis: Pulling Back the Covers on Savings; October, 2008 team and individual savings quotas to help determine bonus eligibility.

Industry Average Steps to Success

- **View strategic sourcing as a holistic process and leverage process automation wherever possible.** While e-sourcing solutions provide the key capabilities required to automate the sourcing process, contract lifecycle management and spend analysis systems should be viewed as a part of a comprehensive strategic sourcing approach. The Best-in-Class are **twice as** likely to automate their spend analysis programs and **88% more likely** to automate the procurement contract process. But it is their view of strategic sourcing as a single process as much as their linkage through process automation that helps them outperform their peers.
- **Enhance supply risk management capabilities.** For many years supply risk has been a huge blind spot for procurement (and overall enterprise) operations. Despite the fact that **71%** of CPOs believe that supply risk has increased over the past 18 months, only **30%** of all enterprises have a formal supply risk program in place. And, while it is difficulty to gain consensus on the definition of supply risk, CPOs must work to develop an institutional capability to "know it when they see it." Aberdeen recommends the development of a program that establishes clear ownership of supply risk within the enterprise and incorporates training (including contingency planning fire drills) for those involved in it. The program should define and track metrics for strategic and other key suppliers that have the ability to impact revenue, production, and reputation. The metrics should focus on financial risk, operational risk, geopolitical risk, and industry risk among other areas at the supplier and but also more broadly across the supply chain. Ideally the program will attempt to aggregate risk across the entire supply base to enable an enterprise-level perspective.
- **Conduct regular contract compliance audits.** Aberdeen research has shown that the cost of non-compliance is **22%** for every dollar that is spent off contract. Tracking compliance in a regular and timely manner will improve compliance and reduce maverick spend. The Best-in-Class are **91% more likely** to conduct regular contract audits to ensure and raise compliance. Higher contract compliance rates usually translate into greater implemented savings, improved spend control, and a higher percentage of spend under management. Informing the larger enterprise that these audits will regularly occur can help shape behavior that will reduce maverick spending.

"With the recent announcement of plant shutdowns and an assumption that more are coming, a larger population of Suppliers that have been hanging on by their fingernails will not be able to weather these shutdowns…There is not enough time or money to truly protect this industry. We expect to see a tsunami of supplier bankruptcies in the next 60 to 90 days."

~ CPO, Tier 1 Supplier, Automotive Industry

Best-in-Class Steps to Success

"If an invoice does not have a PO, it is sent back to the supplier with directions on what to do. Over the past four years this, as well as other process changes, have helped us go from ~60% non-PO spend to less than 10%."

~ Price Marr, Manager Strategic Sourcing, Ameren

- **Lead your team…and defend it.** Peter Drucker once discerned leadership from management by saying that "management is doing things right; leadership is doing the right things." While an effective CPO must be a strong leader and a highly capable manager, in times of duress, the staff will seek, and ultimately prize, leadership above management. Whether or not you believe that certain leadership traits are inherent or can be developed, having a greater physical presence with your staff, increasing direct communication to the department and to individuals within it, and visibly promoting the departmental successes across the enterprise are small actions that can pay big dividends by maintaining a sense of calm and focus within the department that may carryover to the larger enterprise.
- **Engage the CFO to develop cash management strategies.** According to CFOs, "Cash is King." Aberdeen's recent survey of finance executives identified cost containment (**73%**) and cash management (**70%**) as the issues at the top of the CFO's Agenda. Cash or liquidity is valued in today's market since it provides greater assurances to investors, employees, customers, and supply chain partners of on-going solvency and an ability to perform against current and future contracts. While CPOs are equipped to achieve these objectives independently, they should take advantage of the current alignment they have with their CFO and engage in a proactive dialogue regarding savings and cash optimization opportunities.
- **Hire category experts from industry (i.e. energy, steel, chemicals, services).** Many enterprises that benefited from the commodity bubble on the way up are now being forced to make deep cuts to right-size their cost structures. This is happening in the midst of a labor market that is both volatile and soft. The combination of these factors may present a unique opportunity for CPOs to reach out into specific industries and hire seasoned professionals with deep category expertise for their departments. These professionals who have been on the 'other side' of the table, may lack a background in procurement but they may bring a body of knowledge and a distinct perspective on category management to the team as well as a much clearer understanding of category pricing and the most effective negotiation strategies. These attributes can benefit the enterprise by driving savings, fostering innovation and identifying superior sources of supply.

Aberdeen Insights — The E-Sourcing Manifesto (Part 2)

Why e-sourcing?

E-sourcing is a negotiation tool or platform used for price discovery. While competitive bidding can be a powerful mechanism, supplier bidding in e-sourcing does not need to be competitive.

continued

Aberdeen Insights — The E-Sourcing Manifesto (Part 2)

E-sourcing is more than a negotiation tool, it is a communication platform, a process enabler, a collaborative platform, and a knowledge repository. A detailed description of these capabilities cannot be given justice in the context of this larger Aberdeen research report, but Aberdeen believes that CPOs can derive tremendous value from these capabilities and can easily research them for more information.

The Fear of e-sourcing

The initial fear of using e-sourcing generated among potential sourcing stakeholders has served to create a series of myths or standard arguments commonly used by stakeholders to bypass e-sourcing. They include:

- Certain categories are too specialized or complex to be sourced
- Price is not the only factor / consideration in this evaluation
- The current contract is with the highest value (i.e. best) supplier in the market
- The incumbent supplier has already agreed to the targeted reduction
- Reverse auctions are inappropriate to use with trading partners or strategic suppliers or with any supplier
- E-sourcing is not needed because the procurement / sourcing team possesses master negotiation skills
- The technology cannot support what is needed
- The suppliers will not participate

These and similar justifications take a view that the current opportunity is fully optimized and that no potential benefit can possibly result from a change in the current sourcing strategy. While fear of change and / or a general misperception of e-sourcing may contribute to these explanations, there is also an underlying thread of arrogance that is used to defend the status quo. These excuses should trigger an immediate red flag for CPOs and other procurement leaders, since supply markets are rapidly changing, commodity prices are often volatile, and innovation continues at an unprecedented pace. It is certainly possible that a specific category is optimally sourced from the highest value supplier at one point in time. It is highly unlikely that this is true for all categories in a spend portfolio. In any case, it is easy to validate the expertise and opinions of a sourcing / category team by simply conducting the e-sourcing event anyway and examining the results. Beyond gaining potentially improved pricing, process, collaboration, knowledge sharing benefits will accrue to the department as a result of this practice.

continued

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Aberdeen Insights — The E-Sourcing Manifesto (Part 2)

When to use e-sourcing

E-Sourcing should be used when the enterprise has loosely defined some level of need (i.e. a set of category requirements) that is expected to be above the value of a p-card transaction (or other set dollar threshold) and plans to investigate potential pricing from one supplier or series of suppliers.

This should describe the vast majority of sourcing opportunities and that is exactly the point. E-sourcing should be used whenever possible.

E-sourcing Policy

CPOs should establish e-sourcing as the default platform for all negotiations above some nominal value. It should be a requirement that any staffer responsible for managing a bid must use e-sourcing or have an exception approval given by someone at the VP-level. Additionally, audits should be conducted, no less than quarterly, to ensure that the e-sourcing activity that was conducted on the platform led directly to actual contracts and / or purchase orders. (Aberdeen will continue this entire discussion online).

CPOs of the world, unite! Set an aggressive e-sourcing mandate!

Appendix A:
Research Methodology

Between February and April 2009, Aberdeen examined the priorities, intentions, and performance of the Chief Procurement Officer and other procurement leaders of more than 220 enterprises utilizing a web-based survey.

Aberdeen supplemented this online survey effort with telephone interviews with select Chief Procurement Officers (by title and / or organizational role) across a broad range of enterprises to understand (1) the current perspective on the economy and its impact on procurement operations (2) the top priorities and challenges facing procurement (3) the smart strategies being employed in these tough times (4) other themes and important considerations for CPOs.

The study aims to present key research findings in a framework that allows for a competitive comparison with other enterprises.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job roles: CPO (36%); EVP / SVP / Vice President (5%); director (27%); manager (13%); other C-level (9%) and others (10%).
- *Job function:* Seventy percent (70%) of respondents were in procurement; supply chain / logistics (9%); business development (6%); operations (3%); IT (2%); finance (2%); and others (8%).
- *Industry:* The research sample included respondents from: manufacturing (12%); high tech (7%); food / beverage (6%); and 34 other industries.
- *Geography:* The majority of respondents (62%) were from North America. Remaining respondents were from EMEA (27%); Asia-Pacific (8%) and South / Central Americas (3%).
- *Company size:* Fifty-three percent (53%) of respondents were from large enterprises (annual revenues above US $1 billion); 28% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 19% of respondents were from small businesses (annual revenues of $50 million or less).

Solution providers recognized as sponsors of this research effort had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Study Focus

Responding procurement executives completed a web-based survey that included questions designed to determine the following:

√ The role of people, process, and technology in their course of business and on their 2009 Agenda

√ The impact of the current business environment on the procurement operations

√ The degree to which procurement's role in their company's strategic operations has changed over the past three years

√ How procurement supports company financial and performance goals

√ Leading strategies that procurement organizations are employing to transition to a value-creation function

√ The benefits, if any, that have been derived from these strategies to date

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Table 4: The PACE Framework Key

Overview
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows: **Pressures —** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) **Actions —** the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy) **Capabilities —** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing) **Enablers —** the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: Aberdeen Group, April 2009

Table 5: The Competitive Framework Key

Overview	
The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance: **Best-in-Class (20%) —** Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance. **Industry Average (50%) —** Practices that represent the average or norm, and result in average industry performance. **Laggards (30%) —** Practices that are significantly behind the average of the industry, and result in below average performance.	In the following categories: **Process —** What is the scope of process standardization? What is the efficiency and effectiveness of this process? **Organization —** How is your company currently organized to manage and optimize this particular process? **Knowledge —** What visibility do you have into key data and intelligence required to manage this process? **Technology —** What level of automation have you used to support this process? How is this automation integrated and aligned? **Performance —** What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, April 2009

Table 6: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.

Source: Aberdeen Group, April 2009

Appendix B: 2008 Global Supply Management Achievement Awards

At the fourth annual CPO Summit held in November, 2008, Aberdeen's Global Supply Management practice presented five companies with Global Supply Management Achievement Awards for excellence demonstrated in five specific areas. Twelve finalists were selected from the pool of Aberdeen research survey participants conducted in 2008. From this shorter list, five Achievement Award Winners were selected. They are:

Con-Way won the Executive Stewardship Award for achieving performance heights due to direct involvement and leadership from executive management.

Air Transat won the Business Evolution Award for managing information flow across internal functional practices to achieve measurable business growth.

JCPenney won the Innovation in Technology Award for maximizing technology solutions to solve pressing supply management issues and positively impact company performance.

Cisco won the Performance Excellence Award for harnessing the performance impacts of supply management activities and mastering methodologies for financial, operational, and supplier-centric performance excellence.

Verizon Service Corporation won the Process Excellence Award for demonstrating process ingenuity, agility, flexibility and scalability in addressing changing business requirements.

"Transformation has been our organization's primary objective over the past three years – with a focus on leveraging our economies of scale to reduce operating costs, driving speed to market to serve our customers more efficiently and effectively, and overall enabling Verizon to be more competitive to drive greater shareholder value," said **Jim Gowen, Executive Director of Supply Chain, Verizon Service Corporation** during his acceptance speech. "This award is a great honor in that it verifies we have been doing the right things and that our team is delivering best-in-class results. We are very proud of this recognition."

Aberdeen is pleased to recognize the 2008 winners for their outstanding efforts and extraordinary results in achieving Best-in-Class performance in procurement.

The CPO Summit

"The CPO Summit is designed to deliver thought-provoking content from leading industry executives and analysts, heighten the awareness of the pressing challenges facing today's CPO, and provide a world-class roster of procurement decision-makers the opportunity to learn and network in an intimate setting,"

~ Andrew Bartolini, VP Research, Aberdeen Group.

Appendix C: About the Author

Andrew Bartolini - Vice President & Group Director, Global Supply Management

Andrew Bartolini is a recognized expert in sourcing, procurement, and supply management who focuses his research on helping enterprises develop and execute strategies to achieve operational excellence within their procurement and finance departments. As the head of Global Supply Management (GSM) research at Aberdeen Group, Andrew is responsible for all associated research, services, and programs including the globally-recognized CPO Summit.

Since joining Aberdeen, Andrew has published over 100 thought leadership pieces of research and analysis on aberdeen.com that address the blend of people, processes, and technologies needed to achieve organizational transformation. His weekly Analyst Insight reaches more than 60,000 subscribers in 40 countries. He also actively covers the technology marketplace and has been published or quoted in leading business publications including Business Week, Investor's Business Daily, and Fortune, as well as the major trade publications focused on supply management.

Advisor to CPOs and leading solutions companies alike, Andrew is a sought-after presenter, having lectured and presented worldwide on the firm's behalf more than 50 times in seven different countries.

Prior to joining Aberdeen Andrew held leadership roles at Ariba and Commerce One where he developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000. Additionally, his experience in strategic sourcing, business process transformation, and software implementation provides a 'real-world' context for his research.

He has twice been named a "Pro to Know" by Supply and Demand Chain Executive and holds a B.A. in Economics from the College of the Holy Cross and an M.B.A in Finance from Indiana University.

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Appendix D:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

Executive-Based Research

- *CPO Rising: The CPO's Agenda for 2008*; February 2008
- *The CFO's View of Procurement*; November 2007

Source-to-Settle Research

- *Procurement Contracts: Real Value, Real Returns*; March 2009
- *Spend Analysis: Pulling Back the Cover on Savings*; October 2008
- *E-Payables: A / P Strategies for Success*; September 2008
- *The Advanced Sourcing and Negotiation Benchmark Report*; January 2007
- *E-Procurement 2.0*; August 2006

Complex Category Research

- *Contract Labor Management: Superior Workforce Strategies for a Demanding Environment*; January 2009
- *T&E Expense Management: Leveraging Data to Drive Performance*; April 2008
- *Strategic Meetings Management*; February 2008

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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