

Getting the Procurement/Finance Stars Aligned



FORUM 2015

Presented by
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Spend Matters and
Public Spend Forum

Session Objectives



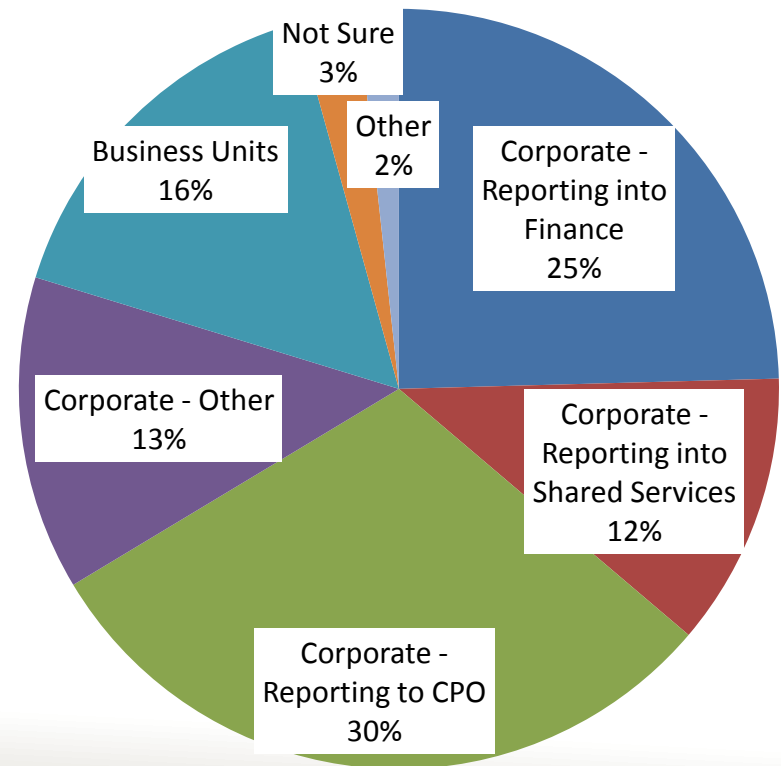
- Discuss insights from a 2015 research study (n=232) performed by Spend Matters and ISM
- Identify the biggest barriers that Finance creates (or removes) related to Supply/Spend Management
- Assess the organizational & financial impact of such barriers
- Evaluate potential approaches to remove these barriers
- Discuss examples to implement these approaches
- Share learnings and insights – with each other

Respondent demographics



- 80% manager and above
- Average of \$5.8B spend
- Forty-seven percent of firms in manufacturing
- Direct/Indirect (55% / 45% all firms; 70% / 30% for mfr's only)
- Indirect Spend Influence 55%
- Direct Influence (Mfr's only) - 77%
- Spend per Procurement Employee \$28.7MM

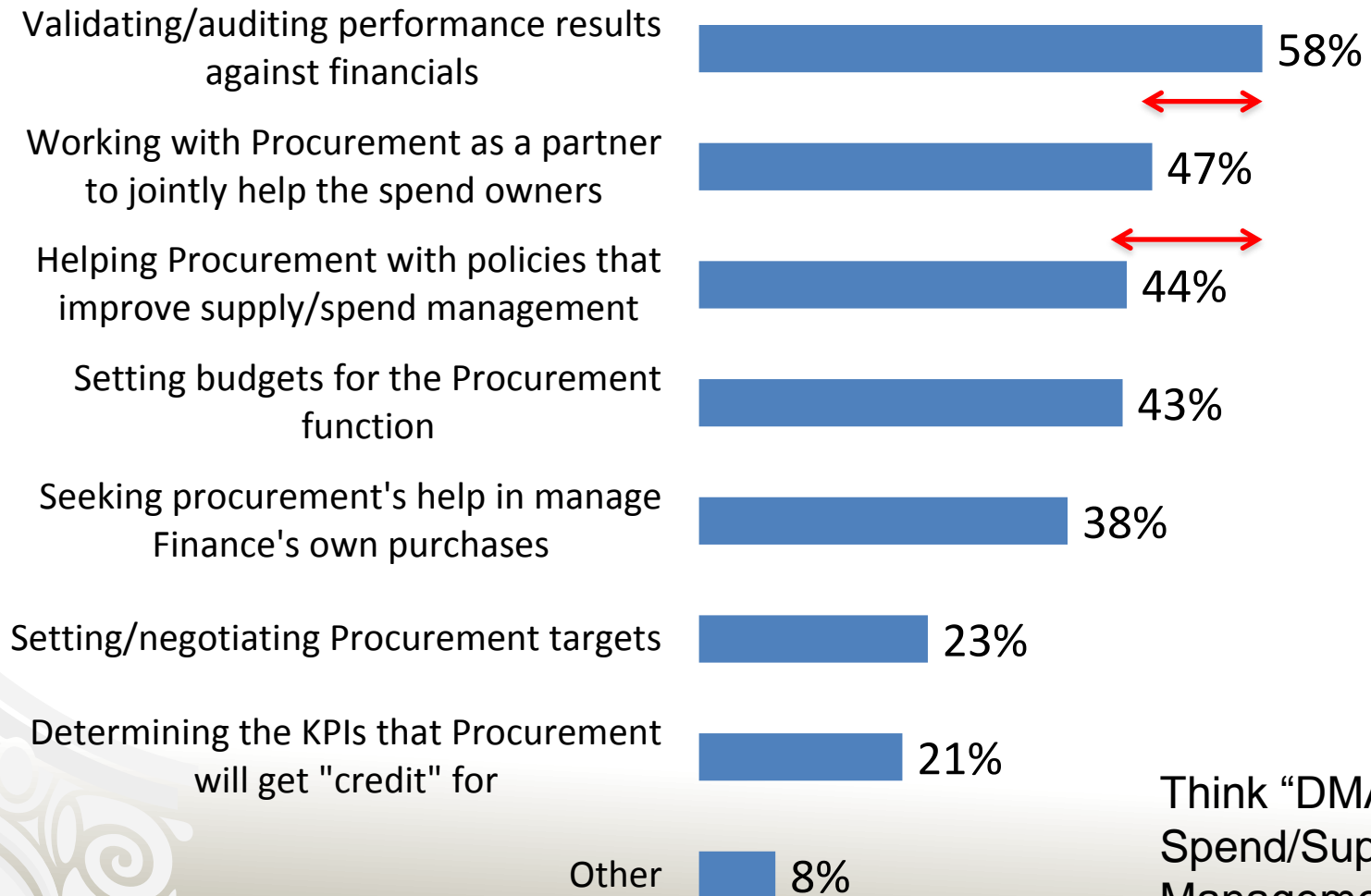
**Procurement Reporting Structure Into Firm
(% of respondents)**



What is Finance's role in influencing Procurement?



(% of Respondents)



Think "DMAIC" of Spend/Supply Management

Perspectives on Finance's involvement



Bad



Good

- *"None"*
- *"There is no real interaction between the 2 groups"*
- *"advisory, aloof"*
- *"Cost control, issuing cost codes"*
- *"Risk"*
- *"Long Term Financial Planning"*
- *"Controller has been very collaborative with procurement on SC management issues, metrics, etc."*

Lest you think that Procurement respondents won't be hard on themselves....

What is biggest upside of Finance owning 'Spend Management'?



“Finance has a better relationship with top management and is seen as an asset where Procurement is seen as a necessary evil (step-child) that everyone hides from and wishes would disappear. Finance could actually be the enforcer and get policy compliance and support.”

What is biggest upside of Finance owning 'Spend Management'?



“Budgets control investment, priorities and is the basis for profitability. That partner, equipped with a clear understanding of the value of moving non-core process to suppliers, and using supplier capabilities to the fullest is the fastest way to drive faster market response, lower cost & risk, and improve LOB performance.”

What is biggest upside of Finance owning 'Spend Management'?



- “Senior Management Influence (especially if no CPO)”
- “Ability to control budgets and cash outflows”
- “Single source of truth and set of numbers”
- “Tie budgets (to P&L) and to contracts to sourcing (and savings)”
- “Money controls decisions. If you can get Finance support, you can implement changes.”
- “Police”

On to the big question!...



“How can Finance reduce misalignment with Procurement and unlock impactful value for your firm?”

First, start with Finance’s Objectives, Strategies/Plans, and Projects...

Where is Finance Coming From?

2015 CFO Key Issues



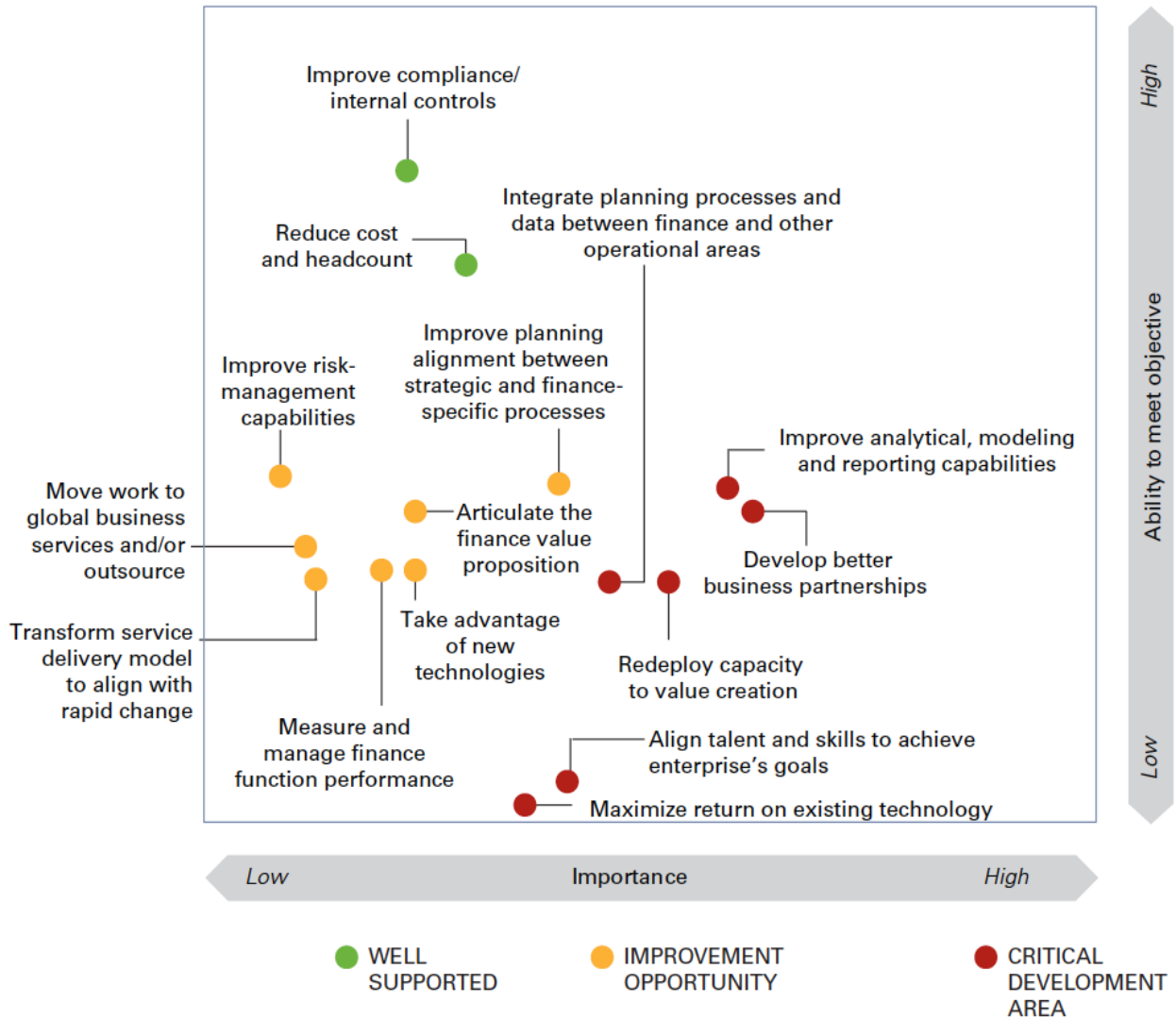
Same as 2014



1. Achieving and maintaining a competitive cost structure
2. Improving decision-making effectiveness

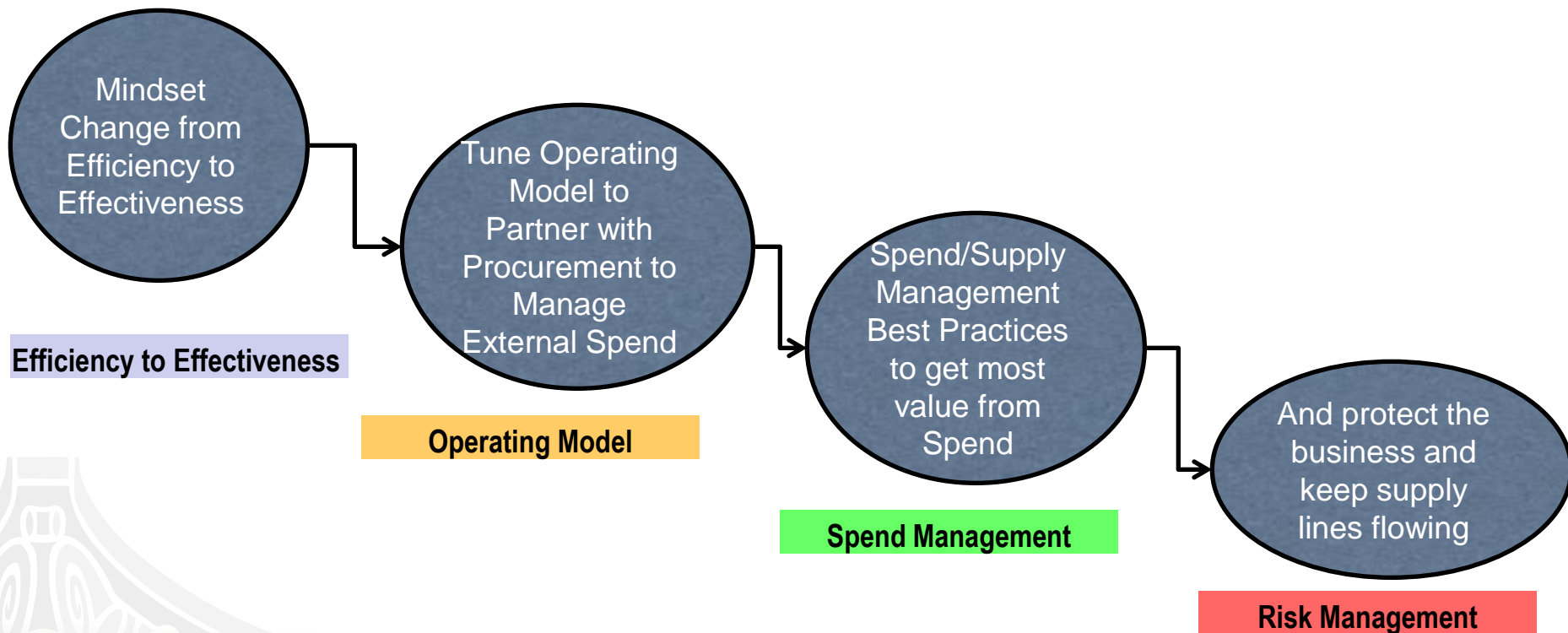
Source: Hackett Group 2015 CFO Key Issues Study

How Does Finance Need to Get There? *Capabilities*





What Does Finance Need to Change?



Breaking Down Barriers...



Efficiency to Effectiveness

Procurement Recommendation to Finance	Rank
Treat procurement as a true partner and a profit center rather than just another cost center	2.7
Move A/P from a payment efficiency focus to a spend management effectiveness focus	3.4
Measure Procurement on value beyond purchase cost reductions (especially PPV)	3.6
Look beyond headcount reductions for project justifications	5.3

Quartile	'Procurement ROI'
4Q	2.3X
3Q	5.8X
2Q	10.4X
1Q	28.1X

“What gets measured gets done”.

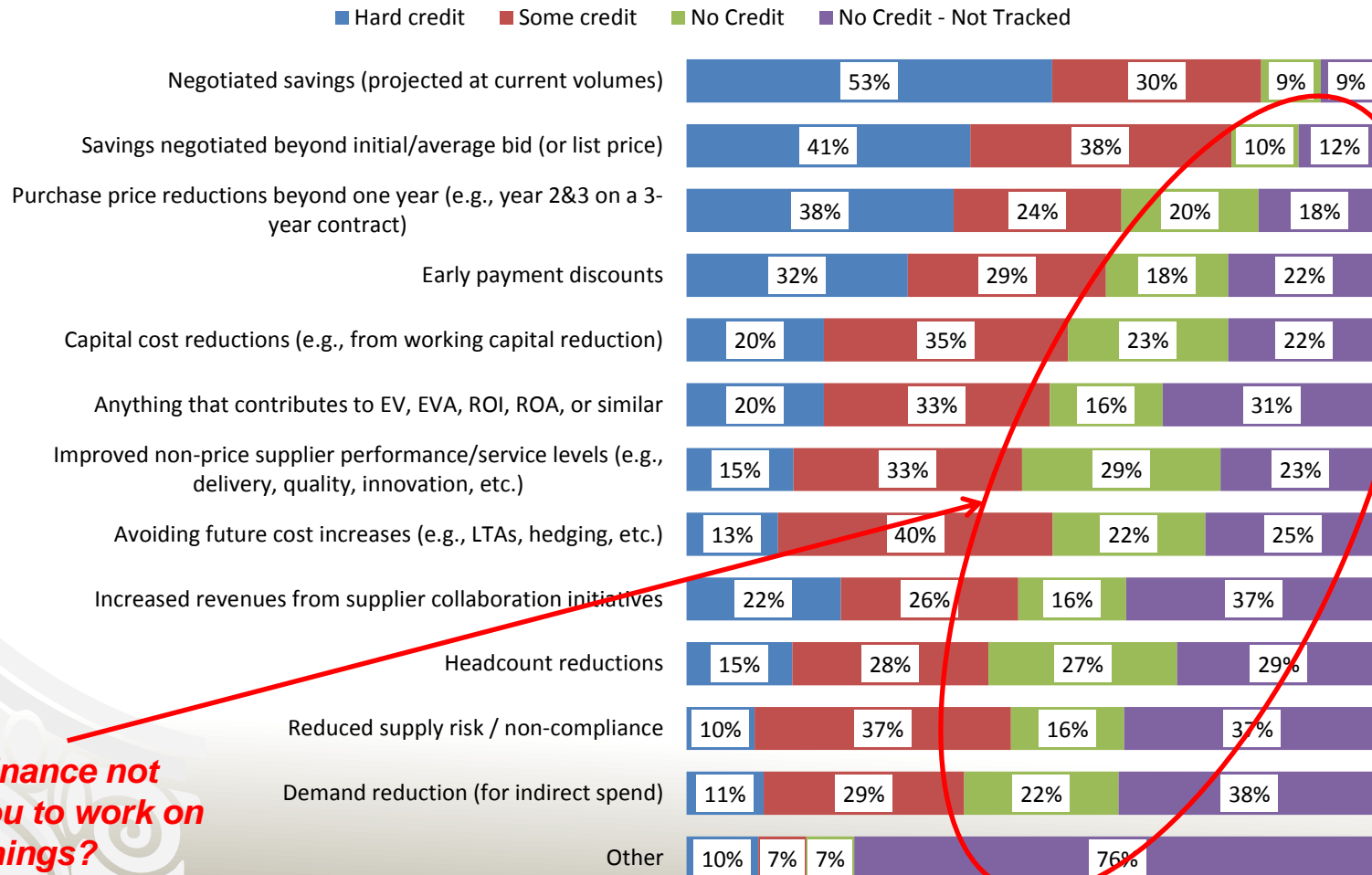
So, what’s getting measured?

Let’s find out!...

Level of "Credit" by Procurement Value-Add



Efficiency to Effectiveness



Does Finance not want you to work on these things?

Breaking Down Barriers...



Operating Model

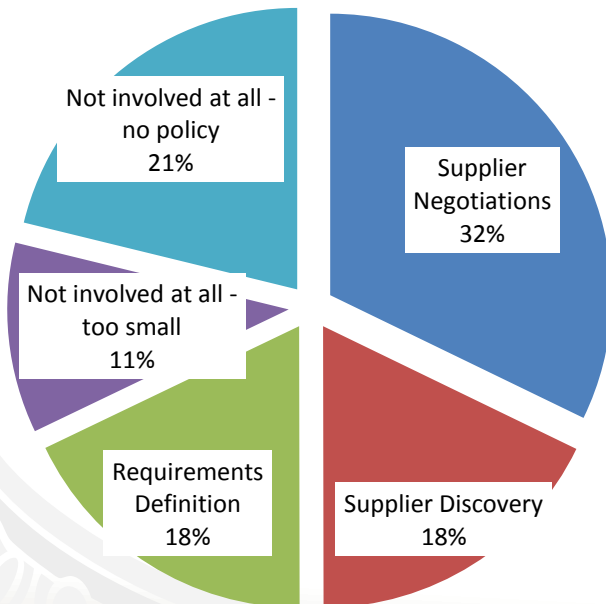
Procurement Recommendation to Finance	Rank
Include Procurement in upstream strategy & planning activities (M&A, JVs, Innovation, Tax Efficiency, Variabilization, etc.)	2.9
Establish a more effective procurement involvement/approval policy and process	3.1
Provide Internal Auditors and Controllers as change agents to help Procurement	3.9
Get a supplier master data management process and policy that works for everyone	4.1
Help get Legal involved appropriately in the contracting process as an enabler and partner	4.3

The Carrot: Better/Earlier Spend Influence Pays Off...

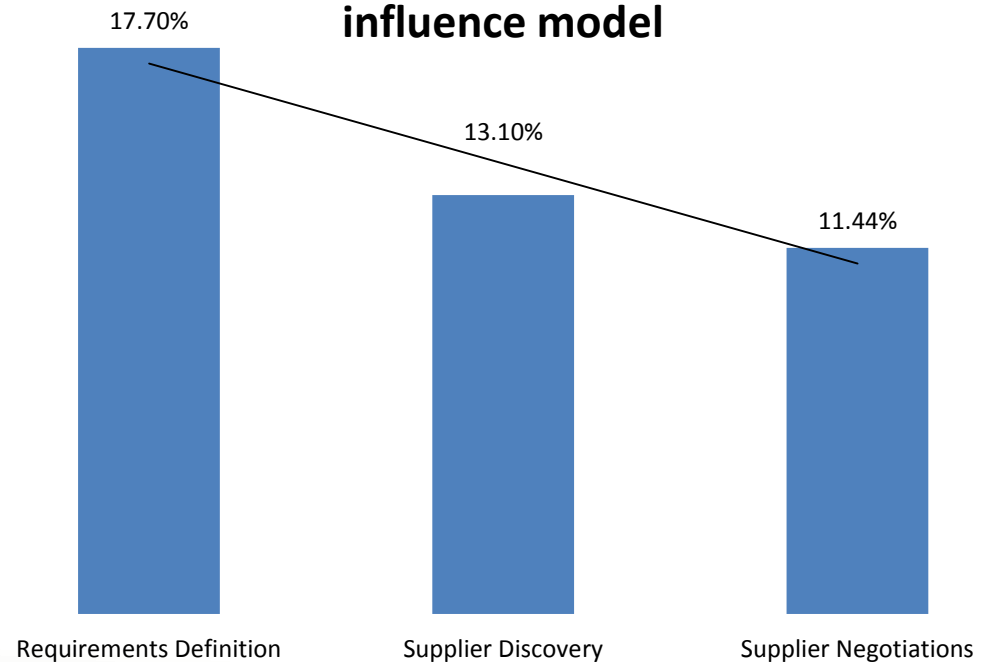


Operating Model

What % of annual indirect contract deals (spend-weighted) have procurement first involved at:



SOURCING SAVINGS for indirect based on influence model

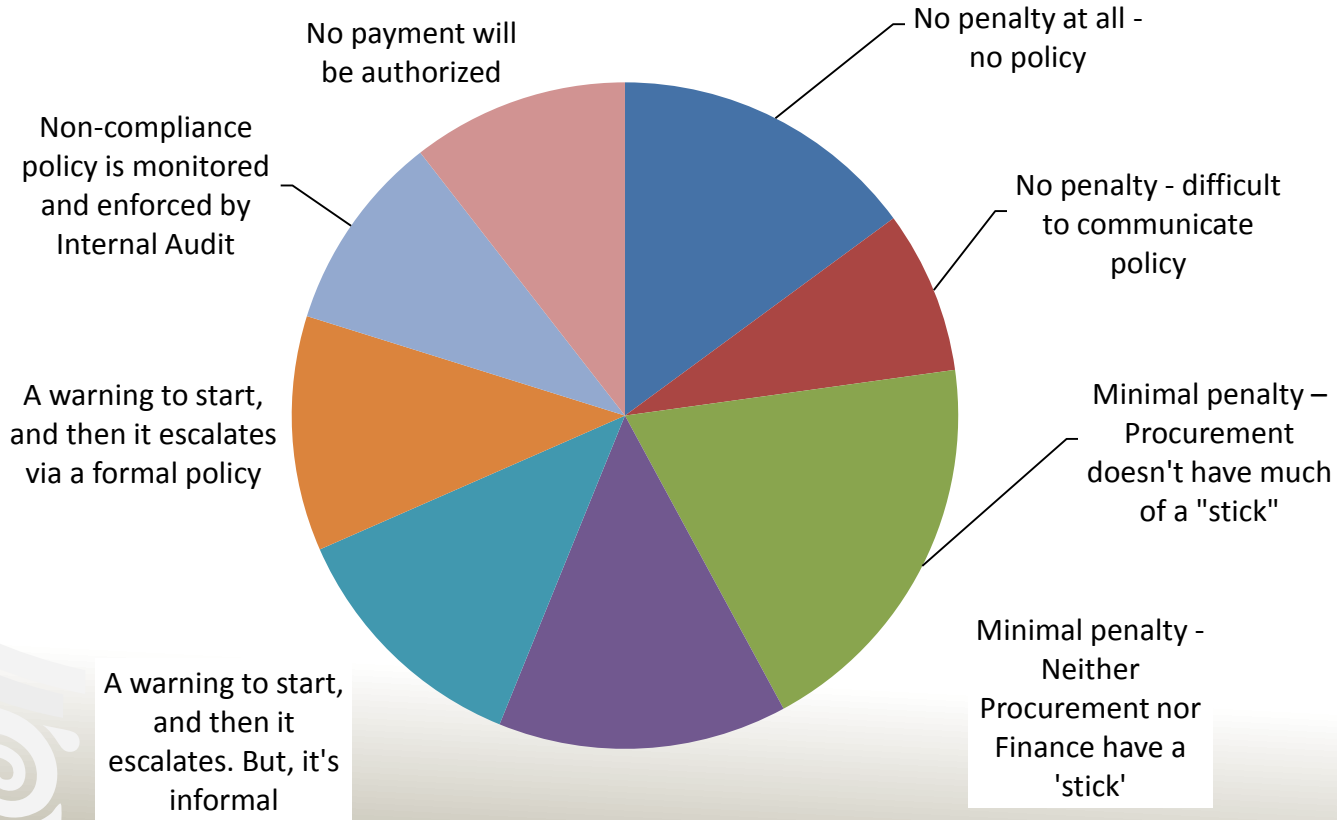




Nobody is carrying a big stick ...

Operating Model

If Procurement is bypassed when a deal is signed, what is the penalty to the requisitioner?



How have you used Finance to help in spend enforcement?



Operating Model

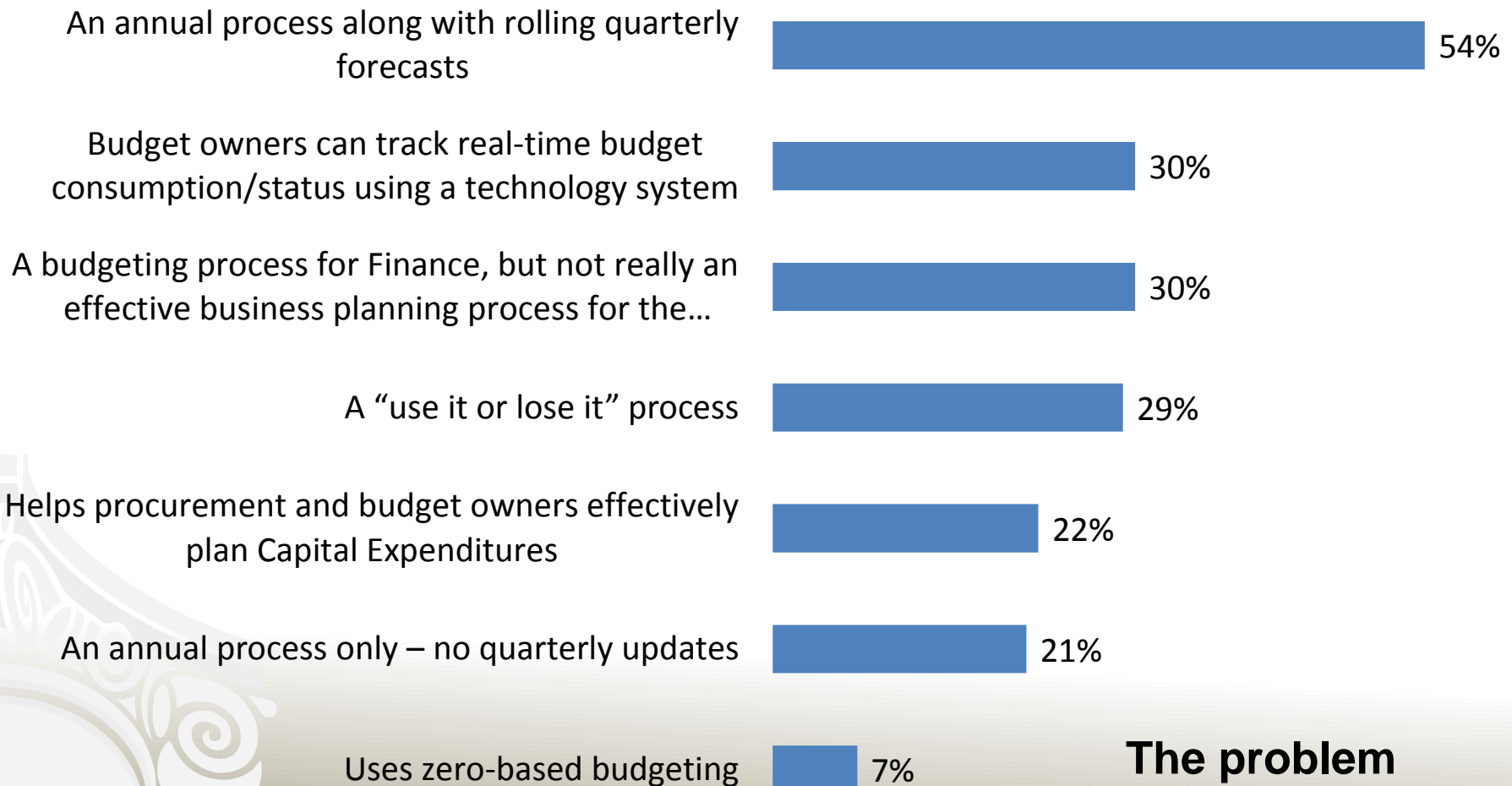
- “e-procurement platform that all spend must go through enables us to have visibility.”
- “Global Supply Chain policy adherence and training more so than Finance involvement”
- “Insist in contracts and make sure legal will not sign off without procurement's approval.”
- “Nothing can be purchased without a Purchase Order, and only Procurement has the ability to create the PO.”
- “Possible corporate audit of process compliance.”
- “Purchasing reviews all check requests to ensure that the Purchasing process has not been avoided”
- “We use the capital approval committee and legal to drive items to procurement.”
- “Delegation of Authority”

How would you describe your firm's planning & budgeting process?



(Multiple responses allowed)

Operating Model



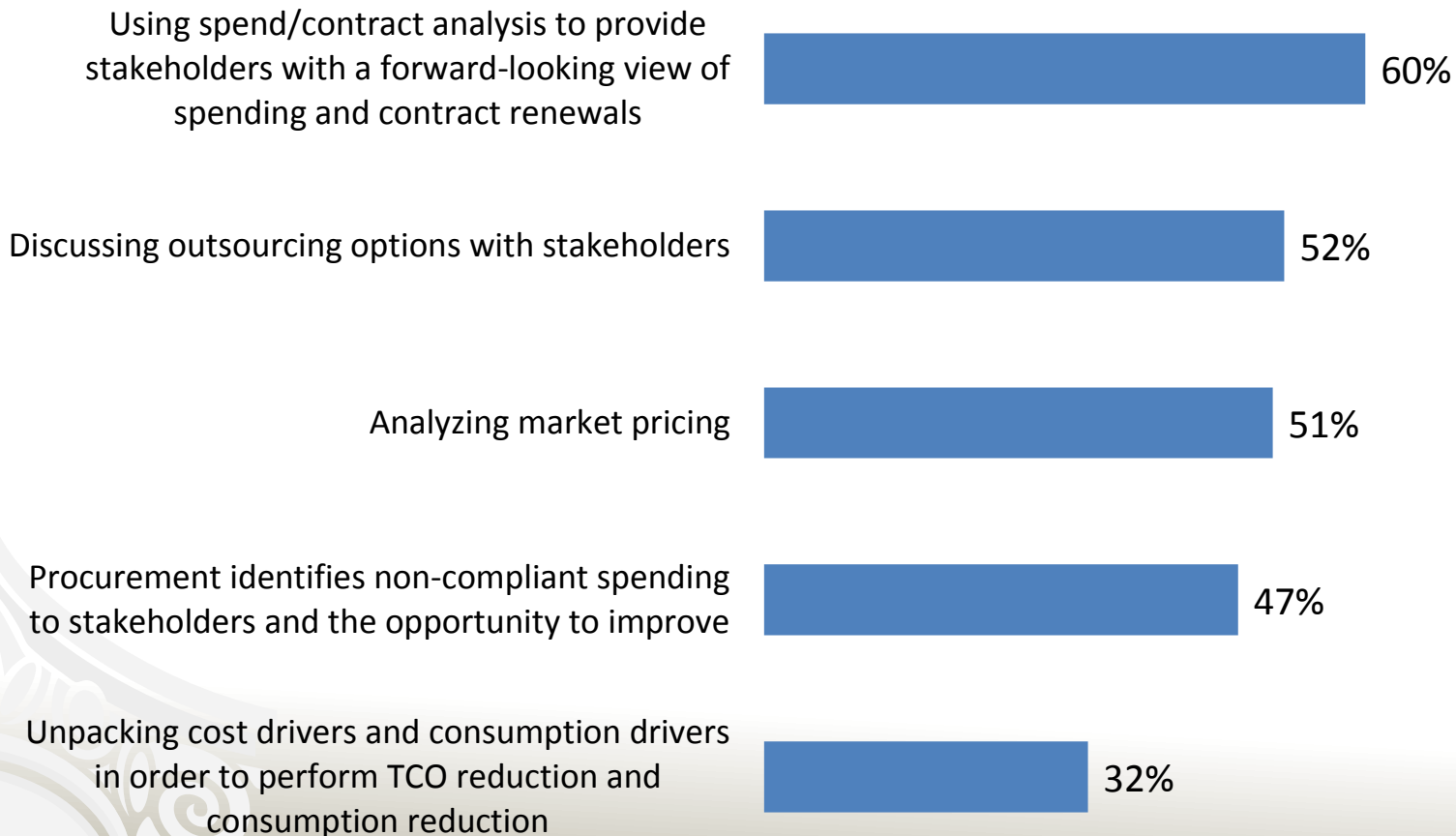
The problem with "Spaving"

Top 5 Procurement Activities During the Planning & Budgeting Process



Operating Model

(Multiple responses allowed)





Breaking Down Barriers...

Spend Management

Procurement Recommendation to Finance	Rank
Be an advocate, enabler, and leader for strategic cost management processes/practices	2.8
Provide more resources to get spending, contract, and savings visibility in place (for mutual benefit)	3.6
Help manage external expenditures with the same rigor that is applied to internal expenditures	3.7
Fix the "use-it-or-lose-it" budgeting process that encourages end-of-period spending	4.1

A critical issue. Complex, and unsexy, but critical! And finance is not always leading here: multi-tier cost modeling, estimating / forecasting, scenarios, benchmarking, supplier collaboration / training, etc.

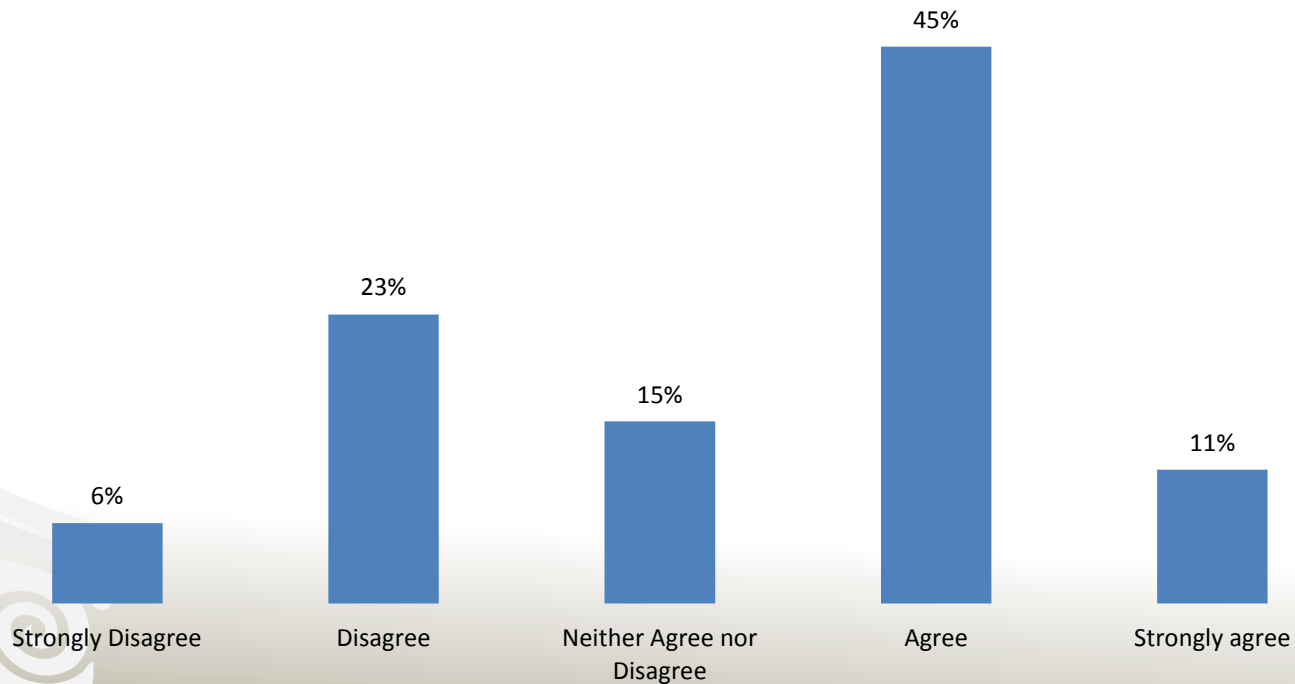
The most dysfunctional spend management process: spend it all so that you can lock in the ability to keep spending next period – whether or not you really need the goods and services. Is this a problem?...

Confidence in tracking spending & savings



Spend Management

We can confidently track and tie our supplier spend and our procurement-led cost savings to our financial statements

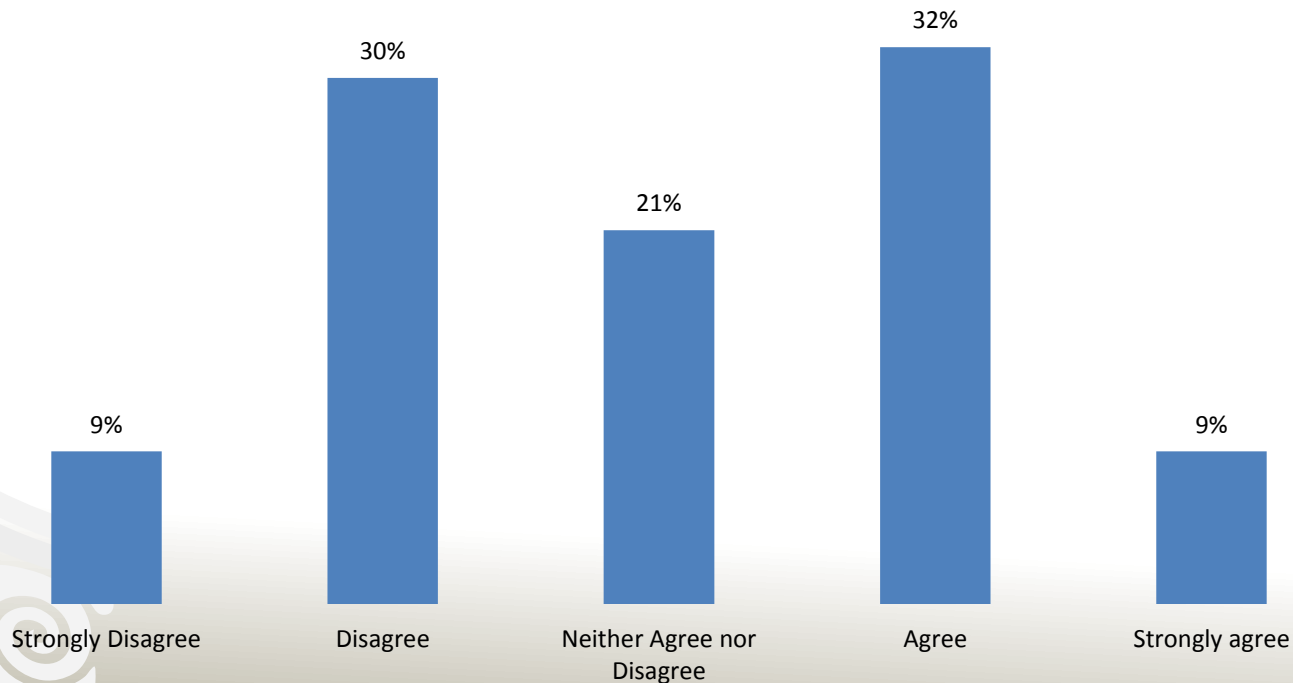


Only 41% have resources they need



Spend Management

We have the processes and needed investments in resources (people, tools, etc.) to provide this level of visibility



The Curious [Business] Case of “Use it or Lose it”



Spend Management

What % of Indirect Spend is Sourced in the Last Few Weeks of Fiscal Period?	26%
What % of these end-of-period deals stem from "use-it-or-lose-it" spending?	58%
% of indirect spend pegged to 'use it or lose it'	15%

Couldn't this money be put to better use?

Breaking Down Barriers...



Risk Management

Procurement Recommendation to Finance	Rank
Help coordinate and prioritize corporate risk/compliance activities that should be taken out to the supply base coherently	4.0
Invest in needed supply risk management capabilities to help protect the business	4.5
Don't reduce working capital at the expense of supplier health and TCO	4.7

- Extend Enterprise Risk & Compliance requirements coherently out to supply base
- Tailor these processes flexibly to your Supplier/Category attributes
- Look at trade financing options broadly to help reduce TCO
- Use above processes to generate supplier intelligence
- Put a number to supply risk (e.g., profit at risk)
- Do some level of multi-tier
- Explain the 'options' to Finance and the potential cost of doing nothing

Summary / Recommendations



- Increasing Finance-Procurement alignment will improve procurement 'service':
 - Value (i.e., what you do and value that adds)
 - Performance (how well you actually do it)
 - Capabilities (what allows you to perform)
- Finance should be asking you what they can do to help you, but if not, engage them proactively
- Use this research to start a discussion
- Shouldn't Finance/Procurement be fundamentally aligned on 'spend management' (and therefore supply management)?!



Questions and Answers



Thanks! Questions?



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