In Search of Spend Optimization

Key Considerations for the Chief Procurement Officer

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#KeyProcure
Coupa’s Mission

Delivering software innovation that breeds responsible spending while impacting the company bottom line.
Coupa’s Explosive Growth

- 180% Bookings YOY
- +95% Renewal Rate YOY
- 150% Platform Usage YOY
One World, One Platform

10 Languages

40 Countries

100,000 Users
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<th>Retail</th>
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As the global economy changes over the next decade, the landscape for how organizations attain goods and services makes technology a vital yet dynamic element for achieving supply management efficiency and corporate competitiveness. Through his benchmarking and analysis of fact-based research, Limberakis examines how organizations look to improve their usage of spend management technology and how to achieve Best-in-Class status. Constantine’s research is also focused on analyzing how organizations adopt trends such as Software-as-a-Service (SaaS), Business Procurement Outsourcing (BPO) and key areas of procurement specialization evolving within spend management today.
Pressures & Barriers with traditional Spend Management today
Top Pressures for the CPO today

- Top down directive to identify and cut costs: 65%
- Inflationary pressures on critical spend categories / commodities: 48%
- Increased complexity in supply chain due to globalization: 41%
- Increasing supply risk (suppliers' financial health and ability to perform): 41%
- Lack of category expertise in strategic spend areas: 34%
- Lack of proper data to drive category strategies: 31%

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
# The Best-in-Class Maturity Framework

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

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<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
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| **Best-in-Class:** Top 20% of aggregate performance scorers | ▪ 85% of total spend under management  
▪ 60% of formally negotiated savings realized |
| **Industry Average:** Middle 50% of aggregate performance scorers | ▪ 70% of total spend under management  
▪ 18% of formally negotiated savings realized |
| **Laggard:** Bottom 30% of aggregate performance scorers       | ▪ 21% of total spend under management  
▪ 5% of formally negotiated savings realized |

Source: Aberdeen Group, June 2011

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Barriers for the CPO

- Inadequate technology infrastructure for spend management: 22% Best-in-Class, 37% All Others
- Lack of supplier interest or readiness to implement change being recommended: 15% Best-in-Class, 13% All Others
- Organizational reluctance to follow or adopt recommended processes: 26% Best-in-Class, 36% All Others
- Lack of staff with the appropriate skills: 33% Best-in-Class, 47% All Others
- Procurement is not seen as strategic: 33% Best-in-Class, 37% All Others

Percentage of Respondents, n=121

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Traditional View of Spend Management

• Spend management has been the *traditional approach* that most CPOS and procurement organizations have adopted for improving spend processes

• Spend management implies that procurement is entirely in the domain of Purchasing and dictated as such

• Spend management implies focus on *cutting operating and other costs associated* with doing business

• The concept of spend management is also one that from a *technology perspective* has evolved from the beginning of eProcurement in the late nineties
Problem: Spend management alone lacks in its ability to promote procurement process and technology within the organization without key aspects in place.
In Search of Spend Optimization…..

Recent Aberdeen research allows us to infer the concept of Spend Optimization.

- Based on results of primary research surveys
- Conversations with CPOs and other procurement leaders
- Observations and changes in the Source to Settle marketplace
What is Spend Optimization?

“Spend Optimization is a strategy that adopts dynamic approaches both internally and externally for creating an organizational culture that understands and accepts procurement's value.”
Five Pillars to Spend Optimization

• Be Profit-Center Minded

• Always on the Mind of the Executive

• Be Talent-Oriented and Focused

• Organize through a Center-Led Approach

• Lead through Innovation and Technology
Spend Optimization Requires a Leader to be Profit-Center Minded
The Role of the CPO

• According to CAPS Research the Chief Procurement Officer or (CPO) is defined as:
  – Most senior or top level executive in a firm’s corporate (executive level) office or major division such as strategic business unit
  – Has formal authority and responsibility to manage his or her firm’s purchasing, buying, or sourcing functions for the procurement of goods and services from external suppliers

• Aberdeen Research has found -
  – Role is defined by ability to deliver and collaborate
  – 25% of CPOs typically report to the CFO
  – Most CPOs stay in their role between 3 – 5 years
  – 2 out of 3 typically moves to a similar position outside company
  – Communication is the most important competency (67%)
Value of the CPO

Percentage of Respondents, n=121

Source: Aberdeen Group, June 2011
Procurement's contribution to the Wider Organization

- Regular achievement of savings targets (driving dollars to the bottom-line): 71%
- Initiatives that reduce or mitigate supply risk: 53%
- Unification of disparate purchasing processes: 47%
- Identification of new revenue/profit opportunities: 22%

Source: From Preservation to Prosperity: The CPO's Agenda for a New Decade AberdeenGroup, 2010
Related Examples of Leadership

“Today transformation is happening on a daily basis and I am being asked to do things differently by challenging the organizations, while increasing the breadth and depth of procurement’s value delivery.”

~ VP of Global Procurement, Global Medical Devices & Technology Manufacturer

“Our focus as a business is on scaling operations and driving operational efficiencies. As a result, one of my main goals is staying in front of demand placed on the ecosystem.”

~ VP of Global Procurement, Travel & Disbursements Silicon Valley Enterprise Cloud Computing Company
Spend Optimization requires Executive Buy-In
Direct Reporting Relationship for the CPO

Percentage of respondents, n=121

- COO / VP of Operations: 29%
- CFO: 25%
- CEO: 17%
- VP/Director Supply Chain: 14%
- Other: 14%

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Examples of Executives Buy-In

“Our CEO has shown his personal commitment to me and my team by approving our significant investment in procurement over the past two years. More importantly he has visibly supported the initiative by increased staffing from the bully pulpit.”

~ CPO, CPG Industry ( Fortune 500 Company)

"Our main priority for our procurement organizations is to develop the procurement team in order to further integrate it into the business while having the ear of the CFO."

~ Vice President
Procurement
UK Based Media Firm
Spend Optimization requires Talent-Oriented and Focused strategies for Procurement
Primary Cost Reduction Strategy

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Challenge of Category Management

Lack of data to drive category strategies
- 15% Best-in-Class
- 34% Industry Average
- 40% Laggards

Lack of category expertise
- 22% Best-in-Class
- 43% Industry Average
- 27% Laggards

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Formal Training in Procurement

- Strategic importance of the commodity / category: 78%
  - Best-in-Class: 43%
  - All Others: 50%

- Legal Contracts: 70%
  - Best-in-Class: 50%
  - All Others: 40%

- Specialized training related to what business sells: 58%
  - Best-in-Class: 40%
  - All Others: 52%

- Financial Analysis: 52%
  - Best-in-Class: 34%
  - All Others: 68%

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Examples of the Talent Focus

"If I could change one thing about my procurement organization I would eliminate the long term utility-minded employees, and replace it with financial experts."

~ VP of Procurement / Director of Operations
US-Based Diversified Energy Holding Company

“I often look to outside sources for building models in my procurement team. For instance, what can I do in the procurement center of excellence that is like the sales support organization?"

~ Chief Sourcing Officer
Mid-West Mid-sized Bank
Spend Optimization Requires Organizational Buy-In
Organizational approaches for Procurement

Center-Led - Centralized sourcing and policy-making with decentralized execution
- Best-in-Class: 59%
- All Others: 39%

Centralized - Most procurement processes and decisions are made by a central organization
- Best-in-Class: 33%
- All Others: 32%

Decentralized - Procurement processes and decisions standardized at a division / business unit level
- Best-in-Class: 8%
- All Others: 25%

Percentage of respondents, n=121

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Example of Organizational Buy-In

“As a company with more than $600B under management with over 6200 employees spanning 20 countries, a key priority is to increase cross-functional collaboration and expand procurement's sphere of influence globally.”
~ CPO & Head of Global Corporate Services, Global Investment Firm

“We work in three year chunks. Before you can serve your customer well, you have to understand what your business really is. That is why we take a fresh look at what we are doing every three years.”
~ CPO, East Coast Ivy League School

“In my four years as CPO we increased spend under management from 50% to 90% and successfully shifted the mentality of how procurement is viewed beyond savings into an end-to-end process owner.”
~ CPO, Fortune 100 Company
Spend Optimization Case Study
The VP of Procurement of a leading global medical technology company approached the CFO and President with the concept of driving business change.

The goal was to cut unnecessary costs on direct materials in production of goods by identifying ways to limit the impact changes have on the customers through cross-functional internal teams.
- From these discussions, the company set out on a six week "Efficiency Blitz“.
- Co-chairing the steering group, the VP of Procurement ran the program with one of the VP General Managers in May 2011.
- Each team was comprised of 10-to-12 hand-picked associates
- Essentially leaders working within various parts of the organization representing quality control, regulatory, operations, sustainability, sales, marketing, finance, and R&D.
During the six weeks, the business platform leaders took competitive ownership of each team and had a procurement person to support and facilitate all the cross-functional influences on the platform.

Each team would also work on one of five of the largest product platforms based on revenue generation and opportunity (i.e. where they were giving up price and losing margin).

Efficiency blitz program brought the company closer together through improving understanding of respective business areas and improved efforts for future collaboration and planning.
"The competition between the teams was critical to the success of the session. This was primarily due to the rivalry of the different business platform leaders and the involvement of an Executive President, who reported directly to the CEO and took on a heavy sponsorship role."
As a result of the sessions, the organization has been able to build **$25M worth of cost savings into the first year's budget** on top of the normal book of business.

Blitz sessions have now been expanded to focus onto Indirect materials.
Spend Optimization Requires Technology & Innovation
Technology Enablers

- **Category Specific Solutions (Expense, VMS, SMS)**
  - Best-In-Class: 50%
  - Industry Average: 25%
  - Laggards: 14%

- **eProcurement (Requisitioning/PO Generation)**
  - Best-In-Class: 54%
  - Industry Average: 57%
  - Laggards: 46%

- **Contract Management (repository, authoring, compliance)**
  - Best-In-Class: 58%
  - Industry Average: 43%
  - Laggards: 55%

- **eSourcing (RFx - RFI, RFQ, RFP, reverse auction)**
  - Best-In-Class: 59%
  - Industry Average: 39%
  - Laggards: 32%

- **Spend Analysis**
  - Best-In-Class: 89%
  - Industry Average: 63%
  - Laggards: 46%

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Technology Enablers – Plans in next 12 mos.

- **Category Specific Solutions** (MSP, VMS, Expense, Strategic Meetings, etc.):
  - Best-in-Class: 31%
  - All Others: 36%

- **eProcurement** (Requisitioning/PO Generation):
  - Best-in-Class: 28%
  - All Others: 33%

- **Contract Management** (Repository, Authoring, Compliance):
  - Best-in-Class: 31%
  - All Others: 39%

- **eSourcing** (RFx - RFI, RFQ, RFP, reverse auction):
  - Best-in-Class: 15%
  - All Others: 35%

- **Spend Analysis**:
  - Best-in-Class: 7%
  - All Others: 29%

Source: Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist, AberdeenGroup, 2011
Challenges to adopting eProcurement

Percentage of respondents, n=156

- User knowledge of system capabilities: 34%
- System and process alignment: 32%
- Ease of using the system / UI Navigation: 29%
- Perception of system’s utility/purpose: 25%

Established ongoing communication plan for change management

% of respondents: 41%

End-user participation in the design/implementation of the eProcurement system

% of respondents: 53%

Established guide to processes for training/on-boarding new users of procurement system

% of respondents: 41%

Instituted measures for adherence to internal policies

% of respondents: 49%

"We had no procurement systems. We had no procurement process. Literally, when people wanted to buy things, they would write it on a napkin from lunch, a piece of paper from the printer and drop it off to the accounts payable person and say ‘Would you please buy this and make sure it gets paid?’ ……I took the opportunity at that point in time to go look for procurement solutions that would help us add some process, make it easy to use for our particular customers – meaning, the rest of the departments”.

~ CFO, Cloud Media Leader

“From a startup perspective [we] are going to a cloud service is actually easier to do because when you’re a startup you don’t generally have all the IT resources you need and when you use a cloud service those IT services are basically there for you so when you start using the application it’s already been thought out for you and they simplify it for you so you can just start using it right away.”

~ CFO, Renewable / Solar Energy Leader
Spend Optimization Case Study
Innovation with Supplier Networks

- A $3 billion rent-to-own operator with over 23 retail installments was challenged to improve the management of its indirect spend. The task of improving the management of $500M worth of indirect spend was given to the Senior Director of the Procure-to-Pay (P2P) who directly reported to the CPO. The procurement team also consisted of a manager reporting to the senior director.
- Reporting to the manager were 11 people, three of which were specifically focused on procurement.
Not new to e-Procurement and supplier networks, the Senior Director was familiar to the space with two previous implementations of e-Procurement platforms prior to the current tool.

Today, the indirect spend landscape is managed using a new SaaS-based e-procurement tool for procure to pay processes.

Separate upstream platform is used for managing spend analysis, strategic sourcing and contract management.

The selection of the supplier network in question came “hand-in-hand” with the e-procurement platform.
Looking for something with core functionality that was not overblown and was easy to use for end users and easy to administer for the procurement team.

The procurement team was ultimately looking for a way to gain efficiencies through a simpler straightforward procurement tool and an easier means to use the supplier network to its full potential.
As part of the process of on-boarding suppliers, the e-procurement tool directly integrated the on-boarding of the supplier with the supplier network which made the process for inviting suppliers to join the network a relatively seamless process.

Once a submission is made, the supplier master in the e-procurement tool denoted the supplier as linked, and thus is added as part of the supplier network.

The list suppliers for products today is still very small, but currently the organization has implemented four punch-out catalogs and roughly 30 on-board catalogs with suppliers on the supplier network.
In conjunction with the supplier network, there has been an “efficiency kick”– i.e. high-volume / low-dollar invoices and funneling those types of suppliers into the supplier network.

The cost to processing hasn’t changed much from one system to the next - the cost to process and invoice has relatively stayed the same at around $3.60 per invoice.

But efficiencies gained today from converting manual processes to automated ones for supplier on-boarding, PO processing and invoice handling, has allowed the organization to reduce overhead and cut costs by removing resources.
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Reach Out!

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