



# The journey to value

*Transforming procurement to drive the enterprise agenda*

## Executive Report

Chief Procurement Officer

### Study methodology

Working with research partner, The Economist Intelligence Unit (EIU), the IBM Institute for Business Value surveyed 1,023 global procurement executives from 41 countries in North America, Europe and Asia. These executives lead procurement operations in 18 industries, and the companies they serve all have annual revenue in excess of US\$1 billion. The study upon which this report is based is the second largest procurement study ever conducted by the IBM Institute for Business Value, only rivaled in size by the companion CPO study we published in 2013.

After collecting the data from our survey, we analyzed how responses from companies whose revenue and profit performance placed them in the top 10 percent of their industry peer group differed from the organizations at the lower 12 percent of this spectrum. The procurement role models, 102 responses in total, were examined in detail so that all procurement organizations could benefit from their collective wisdom.

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## *The journey to value*

*The 2013 IBM Chief Procurement Officer study revealed that procurement can be a significant contributor to enterprise value and a driver of competitive advantage.<sup>1</sup> To understand the priorities and perspectives of procurement organizations most deserving of a seat at the corporate leadership table, we conducted a follow-up survey with more than 1,000 procurement leaders, paying special attention to procurement role models with the most positive organizational impact on revenue growth and profit improvement. We found that procurement role models tend to focus on enterprise success, anticipate stakeholder needs and embrace technologies that free them from the confines of more traditional procurement support roles. The Chief Procurement Officers (CPOs) of organizations demonstrating these attributes improve not just procurement, but also add significant value to the entire company.*

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## **Executive summary**

The link between procurement performance and enterprise success is widely accepted and well documented; our 2013 CPO study found, for example, that companies with high-performing procurement organizations have higher profit margins than companies with underperforming procurement departments. Indeed, while many CPOs have led companies to dramatic increases in revenue or impressive levels of profitability, few are adequately recognized for these achievements.<sup>2</sup> Those CPOs—the ones we call procurement role models—drive top-line revenue, bring innovation into the company and improve competitive advantage. They contribute to overall enterprise success and, as a result, certainly deserve a seat at the corporate leadership table.

To identify procurement operations worthy of such praise, as well as to understand the underpinnings of their success, the IBM Institute for Business Value and Economist Intelligence Unit surveyed 1,023 CPOs from organizations with annual revenue in excess of US\$1 billion. We also took a close look at the 100 companies that achieved the most impressive revenue and profit performance relative to their industry peers so that we could understand the strategies and actions that account for their uniquely valuable contributions to the enterprise.

Through our research, we identified three common attributes that separate procurement role models from the pack:



**1. They focus** on improving enterprise success, not just procurement performance.



**2. They engage** with stakeholders to understand and anticipate their needs and values.



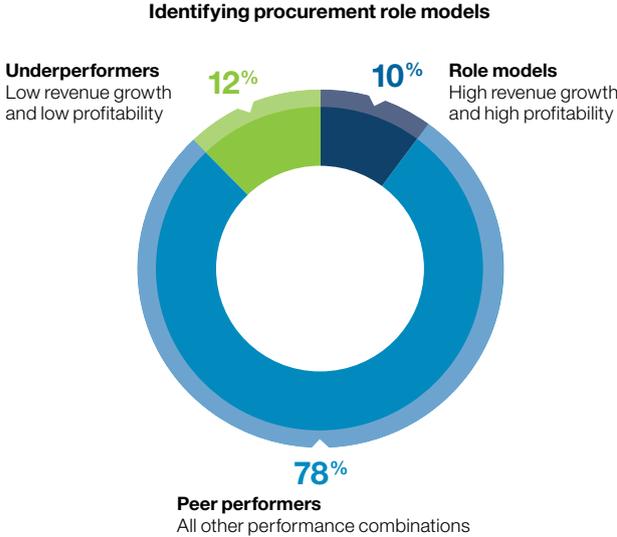
**3. They embrace** progressive procurement practices and tools to drive results.

We defined procurement role models as those select few organizations that, relative to their peers, were in the top 20 percent in revenue growth and in the top 15 percent in profit improvement. This exclusive group, approximately 10 percent of the organizations we surveyed, is clearly adding significant value to the companies they serve. They provide rich insights for the rest of the procurement community. Role models think about procurement in broader terms than their peers; they are more likely to embrace priorities that serve more strategic enterprise objectives; they seek to extend procurement's value through collaboration; and they adopt leading-edge, procurement-related technologies and solutions to further simplify the mundane-but-important aspects of transaction support.

In contrast, underperforming procurement organizations chart a very different course. Although they focus more on traditional procurement priorities and basic capabilities, they do not often stretch beyond these basics. These organizations concentrate more on spend savings and corporate profitability and getting involved in purchasing decisions early—the table stakes of procurement—but do not place a high priority on more strategic priorities or innovative initiatives. Not surprisingly, these “table stakes” are also important priorities for procurement role models, but underperformers are stuck trying to perfect the basic mechanics of procurement. Role models, on the other hand, have mastered the basics and lead the charge into the more strategic aspects of the broader business.

In this report, we examine the causes and effects of being a procurement role model. We explore the actions that separate role models from underperforming procurement organizations and we suggest actions that CPOs can take to help drive greater value for the enterprises they serve. These actions can — and should — earn them a prominent and permanent seat at the corporate leadership table.

**Figure 1**  
*Procurement role models contribute to stronger revenue growth and profit improvement, relative to their industry peers.*



## Enterprise success, not just procurement performance

### Procurement role models focus on strategic priorities

Excelling at traditional procurement capabilities is important, but the hope of most CPOs is to influence and improve the way the business operates. In this regard, priorities seem to matter, as procurement role models have a very different focus than their underperforming peers. Fully 38 percent of respondents from top-performing organizations say that introducing innovation into the enterprise from suppliers and other sources is among their top three priorities. This compares to just half as many (20 percent) of procurement underperformers. Similarly, 42 percent of procurement role models say revenue growth and increased competitive advantage are among their top three priorities, while only 28 percent of underperforming respondents share this view (see Figure 3).

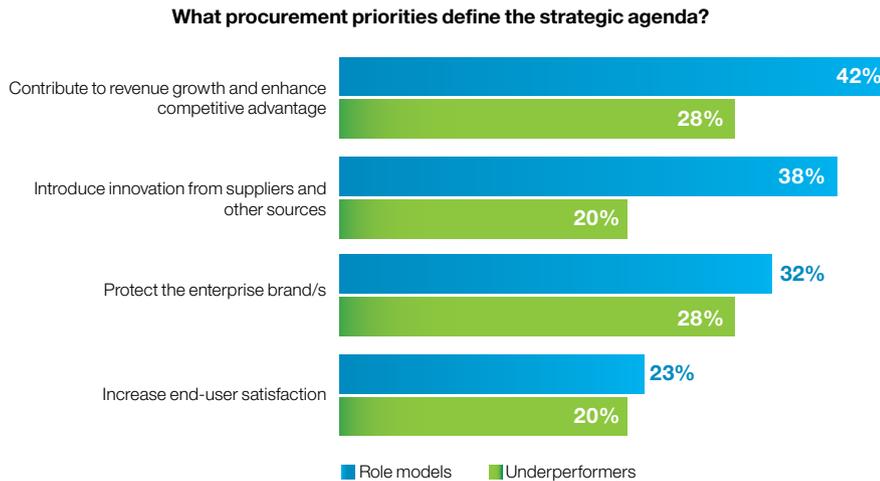
**Figure 2**

*Procurement role models place more emphasis on strategic enterprise priorities, while underperformers focus on procurement basics.*



**Figure 3**

Procurement role models place an oversized focus on more strategic priorities like revenue growth, competitive advantage and innovation.



*38 percent of respondents from top-performing organizations say that introducing innovation into the enterprise from suppliers and other sources is among their top three priorities*

As might be expected, both role models and underperformers broadly agree on several priorities. Reducing costs and delivering sustained savings are high on the list of priorities for both role models (2nd) and underperformers (5th). Both groups also share a desire to increase corporate profitability (3rd and 2nd highest priorities, respectively). The importance of protecting the corporate brand, ensuring continuity of supply and increasing satisfaction among procurement end-users, though relatively low priorities for both groups, were also areas of general agreement.

## Strong relationships forge shared values

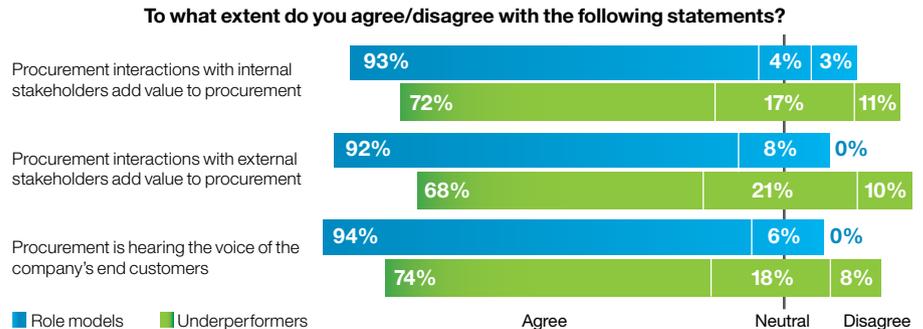
What notably differentiates the two groups is that procurement role models have a more holistic view of the enterprise—in part because of the close connections they form with its various constituents. Role models meet more frequently with stakeholders in multiple arenas, and they deeply value, and in some cases act on, the suggestions these interactions produce. This helps them to deeply embrace the objectives of those they serve, which, in turn, makes it easier for them to deliver against shared enterprise objectives.

### Procurement role models adopt the perspective of their key stakeholders

Like most other departments in an enterprise, procurement tends to thrive when it is well-connected to the rest of the company. Compared to underperformers, which are likely to have a more silo-oriented outlook on the role of procurement, procurement role models believe internal interactions add value to procurement. Indeed, 93 percent of procurement role models hold this view, compared to only 72 percent of underperformers.

**Figure 4**

*Study responses indicate over 90 percent of procurement role models value internal and external interactions, and all but 6 percent believe they are hearing the voice of the end consumer.*



Similarly, procurement role models are more likely to value interactions beyond corporate boundaries, as evidenced by the 92 percent who say they value interactions with external stakeholders, compared to only 68 percent of underperformers.

Role models also strive to understand the needs of the ultimate enterprise stakeholder: the end customer. While role models and underperformers are both likely to believe procurement is effectively hearing the voice of the end customer, 94 percent of role models are confident of this point, versus only 74 percent of underperformers.

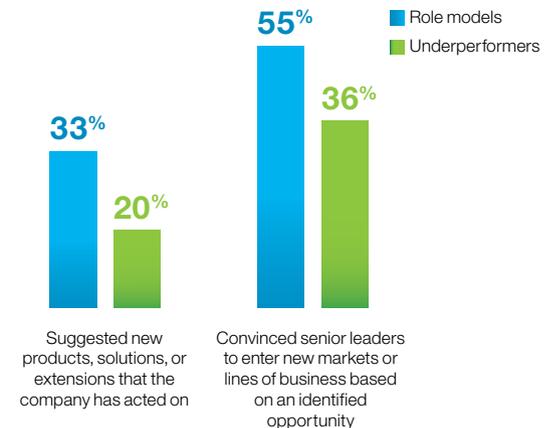
The driver of this perception among procurement role models likely relates to the frequency of strategic interactions senior procurement leaders have with key stakeholders. Fully 39 percent of procurement role models report having weekly strategic meetings with suppliers, and 62 percent have weekly or monthly strategic meetings with the line-of-business leaders to whom procurement reports.

The relative importance procurement role models place on stakeholder interactions and frequent strategic engagement with key leaders, provide powerful and important links to the value procurement delivers to the enterprise. Procurement role models also value innovation, which is why they embrace structures likely to bring innovation into the company. Thirty-three percent of procurement role models believe procurement should suggest new products, solutions and extensions to the company, compared to only 20 percent of underperformers. Similarly, 55 percent of role models have successfully convinced their leaders to enter new markets or lines of business. In contrast, this is true for only 36 percent of underperforming procurement organizations (see Figure 5).

**Figure 5**

*Role models bring new product ideas into the company and convince other executives to enter new lines of business.*

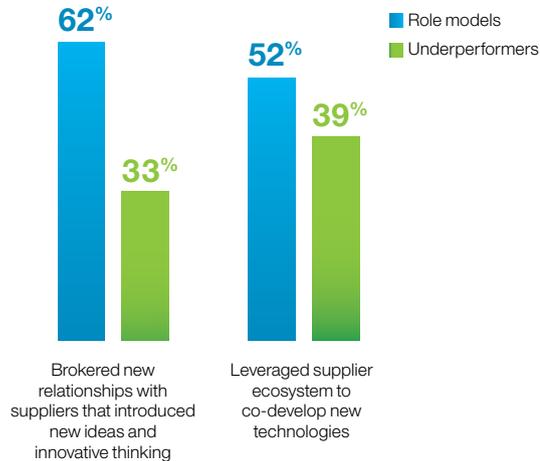
**What role has your procurement function played in introducing innovations to the rest of the organization?**



**Figure 6**

*Role models have a defined role in bringing innovation into the company, which is a key driver of enterprise value.*

**What role has your procurement function played in introducing innovations to the rest of the organization?**



The source of these innovative ideas is often the supplier community, as demonstrated by the part procurement role models play in bringing innovation into the company. Procurement role models are much more likely to broker new relationships with suppliers that introduce new ideas and innovative thinking (62 percent of role models, versus 33 percent of underperformers). What's more, role models are also better at leveraging supplier ecosystems to co-develop new technologies, as demonstrated by the 52 percent of procurement role models that exhibit this trait, versus just 39 percent of underperformers (see Figure 6).

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## Embracing solutions that deliver enterprise value

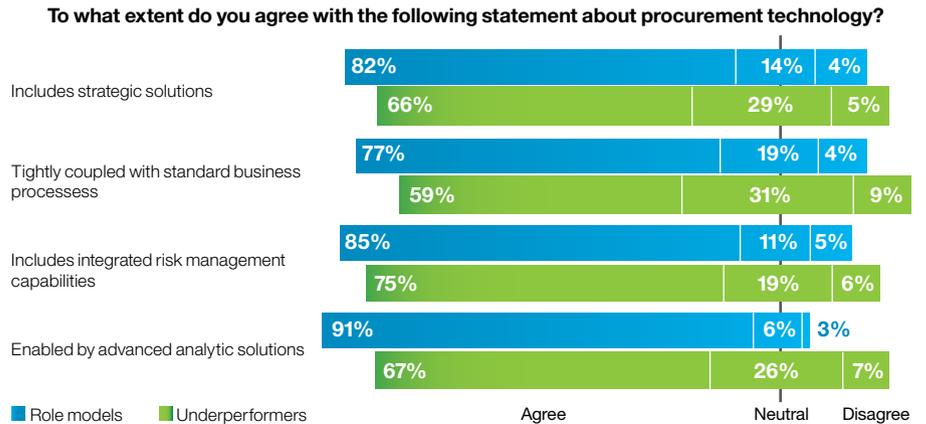
Procurement role models are also less restricted by the traditional methods of procurement execution than their underperforming counterparts and are more willing to embrace innovative procurement solutions. For example, procurement role models take a more comprehensive approach to procurement technologies, are significantly more committed to procurement automation and eagerly apply more advanced analytics to the decisions they make. These actions confer real advantage and may go a long way in explaining the success of procurement role models.

### **Procurement role models automate the ordinary...**

Technology is a reality of modern procurement, but this truth is even clearer among firms with over US\$1 billion in revenue. The extent to which procurement organizations embrace the full scope of technical possibilities varies considerably. Procurement role models, for example, are much more likely than underperformers to believe that procurement technology includes strategic solutions such as supplier management (82 percent of role models, versus 66 percent of underperformers). They are also more likely to believe that procurement technology is tightly coupled with standard business and or procurement processes (77 percent of role models, compared to 59 percent of underperformers). Over two-thirds of underperforming respondents believe procurement technology includes integrated risk management capabilities, compared to 85 percent of role models (see Figure 7).

**Figure 7**

*Procurement technology is seen by procurement role models as more integrated with the business, more comprehensive in its scope and more advanced in its analytic sophistication.*



In addition to seeing procurement technologies as more integrated with the business, more comprehensive in scope and more advanced in their analytic sophistication, procurement role models are also significantly more likely than underperformers to have automated procurement operations. Fully 72 percent of procurement role models said that procurement actions at their company are automated, with an additional 22 percent saying these actions are somewhat automated. Just 47 percent of underperformers, on the other hand, reported automated procurement actions, with 26 percent saying procurement is somewhat automated. These are big differences, with potentially significant impacts.

**... to accentuate the extraordinary...**

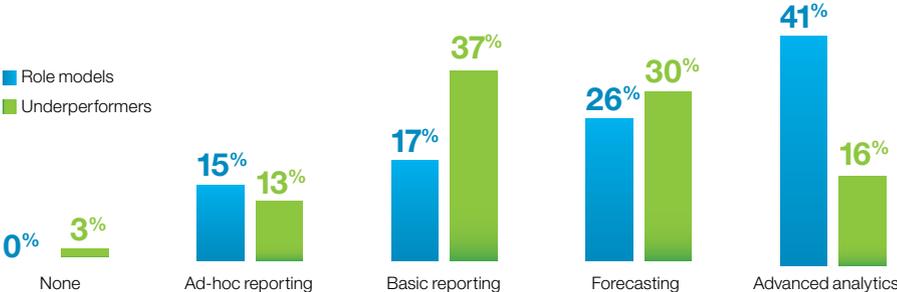
In addition to the fact that 91 percent of procurement role models believe procurement technology includes advanced analytic solutions (compared to just 67 percent of underperformers), procurement role models are also much more likely to have integrated sophisticated analytics into their everyday procurement operations. Half of all underperformers have either no or just basic analytic capabilities, whereas 41 percent of role models have integrated advanced analytics. In other words, not only are procurement role models more likely to have automated procurement operations that are far reaching in their functional scope, but they are also likely to be leveraging advanced analytics to understand and perfect ongoing operations (see Figure 8).

*41 percent of role models have integrated advanced analytics*

**Figure 8**

*Procurement role models enjoy the benefit of advanced analytics in the procurement function, while underperformers make use of more simple forms of reporting and analysis.*

**What degree of analytic capability has been integrated into procurement actions?**

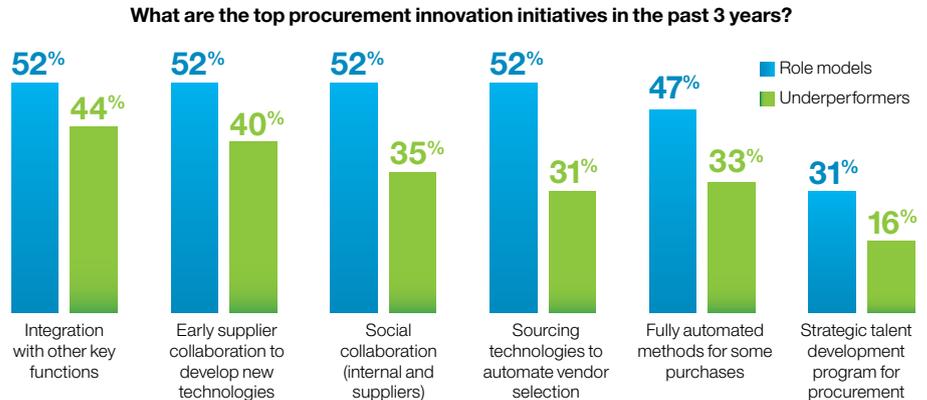


### ...and to innovate

Another key contribution by leading procurement operations, however, goes beyond the procurement function itself. Innovation is a topic many procurement leaders discuss, but it is the procurement role models that most fully embrace innovation. In the past three years, over half of all procurement role models had initiatives dedicated to innovation that integrated procurement with other functions, implemented early supplier collaboration on new technologies and used internal and external social collaboration technologies. They also started using sourcing technologies that automated vendor selection activities. Underperforming procurement organizations, however, were between 9 and 21 percent less likely to have undertaken these same initiatives. On the whole, this data underlines the willingness procurement role models have to experiment with new ways of doing business.

**Figure 9**

*Top performers are, by a considerable margin, more adept than underperformers at using procurement technologies to advance strategic priorities and drive value to the enterprise.*



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Taking stock of the entire set of responses procurement role models provided about advanced solutions, it becomes clear that role models are much closer to the cutting edge than underperformers. They embrace technology and automation, and they get as much as they can from advanced analytics. Finally, role models adopt new solutions, such as social collaboration tools and mechanisms that automate vendor selection more quickly than their underperforming counterparts. In blunt terms, procurement role models take up the newest tools, learn how to use them effectively and then apply them to drive positive results. Underperformers tend to wait and see what will work and then take tepid steps toward a future that is quickly becoming the past.

## Procurement role models will elevate their seat at the table

It comes as no surprise that procurement role models have a seat at the corporate leadership table within the companies they serve. They are more apt to adopt enterprise-level priorities, are more collaborative with internal and external stakeholders and blaze a path toward new and beneficial procurement solutions. Even more, they have a track record of delivering meaningful results to the company as measured by both profit improvement and revenue growth.

**Figure 10**

*Procurement role models are structurally positioned to augment enterprise value.*

### Implications and opportunities



#### What we learned from all CPOs

- The basics of sustained savings, supply and risk are fundamental to procurement success, but leading organizations go beyond these priorities
- Improving supplier performance and working closely with business units is a lasting feature of procurement success
- No procurement organization succeeds on its own; partnerships are an essential ingredient to achieving desired results



#### What outperformers do differently

- **Procurement role models** prioritize revenue growth, competitive advantage and innovation
- **Role models are in tune** with their constituents, meeting with them more often and discussing issues that are more strategic to the enterprise
- **Role models differentiate** procurement performance with better automation and deeper analytic insights

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## Are you ready to become a procurement role model?

Underperforming procurement leaders also sometimes have a seat at the corporate leadership table. After all, many procurement departments have increased their impact on company finances, and some report having some influence over matters of strategic and tactical importance to the company. A central challenge therefore, is to figure out how CPOs that are adding the most value to the enterprise are also the ones whose voices are being heard most clearly.

CPOs can take a few simple steps to help ensure their procurement organizations are positioned to make the most contribution to overall enterprise performance:

- 1. Find and rectify operational weakness**—CPOs should be brutally honest about procurement pain points and areas of improvement. They should work on perfecting and eventually automating areas of operational inconsistency and they should strive to align as closely as possible to their internal and external stakeholders.
- 2. Act to embrace the enterprise agenda**—CPOs should strive to ensure the entire procurement team is in sync with corporate objectives. They should have frequent and meaningful dialogue with stakeholders and, where possible, align performance metrics and rewards with those of the business areas they serve.
- 3. Adopt an innovation mind-set**—CPOs need to make innovation a priority by leveraging procurement's unique position in the enterprise. They should foster interactions with suppliers and customers so that external innovations from these sources are heard inside the company. Finally, they should continue to be the vanguards of leading-edge technologies and solutions for both procurement and for the company as a whole.

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**For more information**

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Corporate leaders who have secured a seat at the table, as well as the CPOs who have not, should ask and answer a few questions:

- Is procurement more focused on objectives that drive enterprise success, or on the performance of the procurement department?
- How well does procurement understand the actions, priorities and decisions that take place outside of procurement?
- Is procurement leveraging its diverse network of stakeholders to bring new innovation into the company?
- Does procurement think as much about top-line growth as it does about bottom-line results?

## About the author

Steve Peterson was the author of the 2013 Chief Procurement Officer Study that concluded that procurement can and does contribute to the competitive advantage of the enterprise. He followed this research up with the 2014 study, The Journey to Value, to understand more about what actions and decisions are being made by procurement leaders to drive value for the organizations they serve. He can be reached at [steve.peterson@us.ibm.com](mailto:steve.peterson@us.ibm.com)

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## Notes and sources

- 1 Peterson Steve, Lori Webber, David Rosselli and Bill Schaefer. "Chief Procurement Officer Study: Improving competitive advantage through procurement excellence." IBM Institute for Business Value. May 2013. [http://www-01.ibm.com/common/ssi/cgi-bin/ssialias?subtype=XB&infotype=PM&appname=GBSE\\_GB\\_TI\\_USEN&htmlfid=GBE03561USEN&attachment=GBE03561USEN.PDF](http://www-01.ibm.com/common/ssi/cgi-bin/ssialias?subtype=XB&infotype=PM&appname=GBSE_GB_TI_USEN&htmlfid=GBE03561USEN&attachment=GBE03561USEN.PDF)
- 2 Ibid

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