The State of Strategic Sourcing 2014:
Connecting the Dots

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The speed and complexity of business continues to accelerate, forcing procurement departments around the globe to adapt to new market conditions and react to new opportunities while maintaining discipline and efficiency. Dependence upon supply chains continues to rise and sourcing has never been more critical to overall success. But, more than 30 years after strategic sourcing became a well-defined business process, and almost 20 years after the tools that could automate the process were invented, the key to sourcing success is no great mystery – teams just need to connect the dots.

This research report analyzes the strategic sourcing programs of almost 250 distinct procurement departments and presents the Best-in-Class competencies for improving the sourcing function and its results while also highlighting the market trends that shape strategic sourcing today. This report also utilizes market statistics to quantify and examine what leading sourcing organizations are doing to outperform their peers.

The State of Strategic Sourcing in 2014

In the midst of a global surge in innovation that has spread across all geographies and across nearly every supply market, the winners in business will be the agile organizations that can tap into expertise and find value wherever it exists in the market. In 2014, sourcing has never had a greater potential to impact enterprise performance and sourcing leaders are on point.

Enterprises of all sizes have tunneled a progressive arc from the depths of the Great Recession of 2008 to 2009 towards total economic recovery. And, while business executives still bear the scars of battles waged in those tough times, many of the smart strategies developed and executed by sourcing leaders then remain in full force within procurement departments today. For example, the average procurement department sources almost 40% more in 2014 than it did in 2007. And, while the steady upturn of the economy and the increasing pace of change within most market segments continue to place pressure on procurement departments to source more and source better, the forces behind this pressure to source have begun to shift.

In early 2009, nine out of every 10 Chief Procurement Officers (“CPOs”) were locked in on savings as an almost singular goal for their departments. Five years later, the number has fallen significantly, with only 52% of all procurement leaders in 2014 rating the need to identify more cost reductions and drive greater savings as a top business pressure.

Sourcing organizations are still expected to extract as much value from their assets and operations as they can to drive greater savings, but the intensity of that pressure or expectation has fallen off considerably. In its place, sourcing teams are expected to increase compliance and drive more innovation than ever before. When CPOs were asked to identify their top priority over the next three years, savings was identified by only four out of 10. This is a notable and significant shift. Certainly, general market conditions and the overall business cycle impact a procurement
department’s need to deliver savings, but signs also point towards a slow-moving but broad-based shift in the way these departments and businesses, in general, establish and manage their supply chains. Increasingly, they are emphasizing a value-based approach instead of a cost-based one. Of course, as with most things, time will tell ... and it will take another market downturn to determine how firmly this shift has taken hold.

Sourcing teams, with their myriad strategies, tools, and resources like strategic sourcing and spend analysis, are best positioned to extract greater value from their efforts when they align their systems and processes. But connecting the system and process dots only paints half the picture; sourcing teams also need the expertise to execute their projects and a level of enterprise engagement to ensure that they always work on the most important opportunities. While developing sourcing expertise is more directly controlled by the CPO, procurement’s effectiveness and ability to deliver results depends largely on the level of influence that they wield over internal teams and budget holders within the business and other functional peers as well. Since most procurement teams and CPOs lack the centralized control to drive all sourcing and spending decisions, they feel the pressure to increase their overall influence within the enterprise, particularly as the expectations set for the procurement organization and CPO continue to rise. To that end, another 39% of all sourcing leaders feel the need to increase their overall effectiveness and influence within the enterprise, their second-most urgent business pressure in 2014.

Collaboration: The Link to New Sourcing Opportunities

Sourcing volumes continue to rise, and yet, sourcing teams continue to fish the same supply waters year after year. When a category is competitively sourced for the first time, there is frequently a shock to the system: internally, teams must formalize their complete requirements (often for the first time) in black and white, while incumbent suppliers understand that they may have to be more aggressive to win the business. But, when that same category is sourced year after year (assuming that the sourcing is performed properly each time), the incremental value from each new sourcing effort may begin to recede. This does not mean that sourcing teams should stop frequently sourcing the same categories since the process should become highly efficient and gains can still be had. It does mean, however, that there may be more significant sourcing opportunities available in the categories that have not been sourced and in the spend that is not managed.

In this vein, Ardent Partners research shows that the three most common strategies that CPOs and their sourcing teams have been executing in 2014 to improve their performance are aimed at improving collaboration with internal stakeholders and external suppliers while also leveraging

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technology to greater impact (see Figure 1). In order to drive better results from the sourcing process, 53% of procurement departments are focused on improving the level of collaboration that they have with the line-of-business leaders that control budgets. Gaining influence over spend and sourcing projects can be driven via executive mandates and governance policies, but the ideal sourcing situation is when the business pushes projects for procurement to manage instead of procurement pulling control from the grasp of business leaders. Sourcing projects work best when teams are engaged early, aligned on both the process and their roles, and can fully tap into the expertise of all members. No matter the level of influence and control that a procurement department may have, collaboration with business leaders should remain a top strategic priority for sourcing and procurement executives.

If many of the largest sourcing opportunities exist beyond what is currently managed, another large value potential exists beyond the four walls of the enterprise itself – in its supply chain. If the traditional sourcing mindset is locked on a “zero-sum gain” vendor relationship, the need to find more value and innovation in the market should unlock it. Forty-six percent (46%) of all sourcing teams have a focus on improving supplier collaboration over the next 12 months. The underlying reasons why they are doing so are manifold — some are mentioned above and some are linked to the maturation of trading partners who now understand that “going it alone” is a strategy that dooms many to failure and many more to irrelevance. As the sourcing picture continues to expand, suppliers have become another critical dot in the frame.

**Figure 1: Top Strategies to Improve Sourcing Performance**

- Improve collaboration with line-of-business leaders: 53%
- Improve collaboration with suppliers: 46%
- Improve use of technology (invest in new systems / improve current systems): 41%

Another 41% of sourcing leaders plan to improve the way that their teams and enterprise use technology. This can mean either an investment in new solutions like spend analysis and supplier performance management or the optimization of the automation tools currently in place. Technology tools, like eSourcing, can be what makes sourcing a more strategic business process and, when fully-leveraged, can be true enablers for greater sourcing effectiveness and ultimately,
better sourcing results. But, any technology investment will be wasted if the users are not properly trained and incentivized to leverage the system. This highlights a significant challenge for sourcing teams, as they find that it may be easier to modernize their technology infrastructure and systems than it is to modernize and overturn their workforces.

**The Challenges to Sourcing Success**

Although most sourcing leaders have identified effective strategies to overcome persistent business pressures, they also remain challenged to implement them. For example, 60% of respondents indicated that they remain hamstrung by staff or talent constraints. In some respects, there is a war for talent being waged around the globe. As a result, many enterprises remain pinched for skilled talent – both quantitatively and qualitatively. Corporate budget constraints and a hesitancy to make permanent investments have hindered procurement’s ability to rebuild sourcing teams to their pre-recession numbers. Thus, many sourcing teams have had to continue to “do more with same” for quite some time.

Ardent Partners research has also shown that many sourcing teams’ skill levels are average or below average (as judged by the CPO) across multiple sourcing skill sets, like managing sourcing processes or supplier performance. Improving processes and deploying technology solutions that perform more of the “heavy lifting” can compensate for staff shortfalls, but only if the staff can effectively execute and capture the gains across the wide range of strategic sourcing sub-process areas. Investment in the workforce, training, and time will eventually yield a more skilled and capable sourcing workforce. For now, persistent skills or talent challenges remain for the average procurement organization and its strategic sourcing program.

Procurement executives indicated that a general lack of engagement with budget holders and line-of-business executives is another critical challenge. Although sourcing teams are usually led by a Chief Procurement Officer, these leaders and their equivalents generally lack authority over budget holders. Procurement’s impact has been linked, at least over the past half-decade, to the performance of the greater enterprise in the wake of destructive economic conditions. The key measures of procurement’s impact on the enterprise – quality and cost – are constrained if the CPO and sourcing team are not sharing information, communicating regularly, and collaborating on projects. Thirty-five percent (35%) of all sourcing teams cite a lack of engagement with budget holders and business executives as a major hurdle to their sourcing success.

Unsurprisingly, 30% of sourcing leaders cited budget constraints as another top challenge for sourcing success over the next few years. As noted previously, the global economy has improved significantly since the last economic downturn, resulting in recouped jobs, rising salaries,
resurgent industries, and economic optimism. But, procurement operating budget constraints persist despite, or perhaps because of, the rebounds in many markets, industries, and economies. Enterprises across industries have had to learn how to do more with less – in terms of manpower, processes, spend, and/or technology. Thus, the general expectation remains that sourcing teams find cost-competitive solutions that provide greater value for the organization without eroding the bottom-line.

The gaps also extend to technology, with a “lack of technology” cited by 30% of all strategic sourcing and procurement professionals as another significant hurdle to sourcing success. In a way, technology constraints are inextricably linked to staff/talent and budget constraints. The global economy may have turned a corner a few years ago, but memories are fresh and hesitancy remains high to make significant investments in people and technology – even when there is a clearly-demonstrated return on investment (ROI). Thus, many sourcing teams have been unable to invest in more modern technology solutions to automate the strategic sourcing process. Technology gaps are but another long-held roadblock for those procurement teams that seek the additional resources (whether it be people, technology, or services) that they believe will push their sourcing programs to the next level.

Of course, when a sourcing team succeeds without additional investment in one operating period, it may actually be harder to make the business case for an investment in the next one. The reality, however, is that many sourcing teams do not succeed and that an incremental investment in sourcing capabilities would yield sizable returns.

**Strategic Sourcing: A New Definition**

For nearly a decade, Ardent Partners analysts have defined 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.” While this remains a solid baseline definition that covers the basic tenets of the process, it does not account for the changes in business and widespread technology adoption that have occurred in the last few years.

Globalization, driven by improvements in technology and communication, has accelerated changing business needs in recent times. Many supply markets have been redefined in a global context while business cycles and product lifecycles grow increasingly shorter. Solutions now exist such that any business today can source and procure virtually any commodity or product via electronic means and bypass manual, paper-based processes if it so chooses. Thus, a more modern and relevant definition of strategic sourcing should incorporate agility to account for the increased competition and complexity that exists today and process automation that is needed to make any business process truly strategic.
• **Agility**, in the context of strategic sourcing, requires enterprise sourcing teams to become “light on their feet” in regards to each sourcing opportunity and category managed. Agility translates into the ability to quickly leverage alternative suppliers for a given commodity, part, or service in the event of a supply disruption. It could also mean adjusting service-level agreements (SLAs) with suppliers in the event of sudden business changes. While a strategic sourcing program should follow standardized processes, larger sourcing events will likely require greater analysis, process rigor, and tighter execution than smaller, tactical sourcing events. Thus, being agile – being able to tailor processes and solutions to meet given needs and being able to quickly shift strategies and approaches – is more important now than ever before.

• **Process automation tools** are the pinnacle of the modern strategic sourcing program. Solutions like automated spend analysis, eSourcing, automated contract management, and supplier performance management (either alone or packaged in suites) do not change strategic sourcing processes – they *enhance* them. They enable enterprises to keep pace with the rapidly-changing business needs of today and tomorrow by being force-multipiers for sourcing teams that have experienced staff cuts or that have suddenly become understaffed as procurement’s responsibilities continue to expand. No modern strategic sourcing program can be considered truly strategic without sourcing process automation tools with repeatable, value-added capabilities.

Considering the speed and complexity of the modern business environment, and the leverage that smaller sourcing teams can wield with automated sourcing processes, Ardent Partners offers an updated definition for strategic sourcing: “**Leveraging process automation tools to quickly identify, evaluate, negotiate, implement, and adjust the optimal mix of goods and services that best support the constantly evolving objectives of the enterprise.**” This newer definition should allow sourcing teams to counter the hazards and threats that they may face in the modern business environment and grant them the speed and flexibility to meet market challenges now and in the future.

**Strategic Sourcing Technology Adoption**

The following section will provide an overview of the core elements of strategic sourcing – notably, eSourcing, spend analysis, contract management, and supplier performance management. It will also discuss some collaborative capabilities that enable strategic sourcing programs to pull both internal and external stakeholders into the process. When the core strategic sourcing and specific collaborative capabilities are connected, procurement departments can elevate their sourcing programs to a truly strategic level.
To be “strategic,” sourcing teams in 2014 must leverage technology. A sourcing process that intentionally bypasses process automation can no longer be considered a truly strategic process. It fails to connect the sourcing dots and leaves an unfinished picture. Business process automation tools are central to the modern strategic sourcing program; they have been proven to help business executives identify sourcing opportunities from within enterprise spend, find preferred vendors to deliver needed goods and services, increase contract compliance, and ensure greater supplier performance throughout contract lifecycles. When deployed well and used effectively, these tools provide sourcing teams with a holistic view of their sourcing efforts, and help them achieve superior performance.

“We’ve been working with our suppliers, and trying to work on our contract terms and conditions where we want ongoing cost savings – how do [they] help us get better at our business? How do we run our plants better? How do we manage our inventory better? How do we use less chemicals because we aren’t doing the application the right way? They’re the experts in those fields, so we look at them to also help us.”

_Alicia Ralston, Director, Global Sourcing and Procurement, Archer Daniels Midland_

**Spend analysis tools** enable companies to analyze historical spend, which can uncover a wealth of useful intelligence and answer many important questions, including: What was purchased? From which suppliers and at what price? Where is the spend generally concentrated? Are there better deals elsewhere? Spend analysis allows enterprises to reevaluate their decisions, and possibly save them money. Ultimately, spend analysis is the “drilling tool” that allows sourcing executives to tap into the power of data, and aggregate, cleanse, and classify it for maximum spend (and supplier) intelligence.

Figure 2 shows that nearly 40% of enterprises currently use automated spend analysis. While adoption of these tools has certainly risen over the past decade, the majority of procurement organizations have not yet bought into the concept of “Big Data” and the value that spend analytics and reporting can deliver via intelligence insights, key spend patterns, and sourcing trends.
**eSourcing tools** allow enterprises to complete the entire sourcing or supplier bid process within one consolidated system, wherein they can identify, evaluate, and negotiate for the goods and services needed to support the business. Enterprise sourcing teams can pull in spend intelligence (from spend analysis efforts) to help them make better-educated sourcing decisions, and increase the likelihood that they will receive the optimal mix of goods and services for the best possible price supporting the critical and evolving objectives of the business.

As Figure 3 shows, eSourcing tools, including reverse auctions, remain the top automated tool in use by strategic sourcing professionals at 46.3%. Integrated sourcing suites make it that much easier for sourcing teams to complete the strategic sourcing process; eSourcing tools are foundational for such programs.

**Contract management tools** act as single systems of record for all contractual documents related to a given sourcing program. Unless a team connects the dots between its supplier negotiation and contract execution – including the clear communication to contracting officers of what has been negotiated as it relates to pricing, terms and conditions, and service level agreements (“SLAs”) – and ensures the contract captures the full negotiation, sourcing teams risk eroding the value of the time and effort they invested in the process. Of particular concern is the loss of savings or “savings leakage” due to process and knowledge gaps during contract execution and implementation.

Contract management automation is a crucial tool in the sourcing arsenal. Many traditional procurement executives (such as Chief Procurement Officers) consider contracts the “lifeblood” of an enterprise, in that these agreements hold the keys to a supplier relationship including potential cost and quality parameters. Despite this, automated contract management tools are in place at only a quarter of all enterprises today (see Figure 4).
Supplier Performance Management (“SPM”) tools give organizations visibility into the effectiveness of an enterprise’s total supplier base. SPM solutions can be critical in today’s procurement world as sourcing teams must carefully manage an array of suppliers across multiple industries, geographies, and, frequently, contracts with unique milestones, delivery dates, and quality parameters.

Automated supplier performance management tools, like their contract management brethren, currently have low adoption among all respondents (see Figure 5), but a majority of respondents plan to deploy them within the next 12 to 18 months. While this group is probably optimistic in their intent to adopt SPM tools, it does indicate that more and more enterprises realize that supplier performance management can be a catalyst for improving sourcing performance.

Best-in-Class Sourcing

This section will discuss the performance, strategies, and capabilities of Best-in-Class sourcing organizations as compared to all others. Ardent Partners defines Best-in-Class performance in this research effort as the 20% of enterprises with the highest annual cost savings and the highest percentage of addressable spend that is formally sourced. These metrics are the first and third most-common metrics used to evaluate sourcing team performance, so Ardent believes its evaluation is very much in line with the market. Sourcing leaders can use this section to benchmark their performance, understand what the Best-in-Class are doing to outperform their peers, and identify gaps in their own sourcing programs.

Table 1: Strategic Sourcing Performance Metrics, Best-in-Class vs. All Others

<table>
<thead>
<tr>
<th>Sourcing Performance</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spend under management</td>
<td>77.0%</td>
<td>57.1%</td>
</tr>
<tr>
<td>Savings (Actual)</td>
<td>9.2%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Savings (Planned)</td>
<td>9.6%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Addressable spend that is sourced</td>
<td>81.4%</td>
<td>39.1%</td>
</tr>
<tr>
<td>Spend that is contract compliant</td>
<td>74.2%</td>
<td>54.9%</td>
</tr>
<tr>
<td>Transactions that are contract compliant</td>
<td>76.6%</td>
<td>66.6%</td>
</tr>
<tr>
<td>Contracts stored in a central, searchable repository</td>
<td>69.7%</td>
<td>63.2%</td>
</tr>
</tbody>
</table>

As shown in Table 1 above, Best-in-Class sourcing teams consistently and significantly outperform their competitors when it comes to many baseline performance and operational metrics. Specifically:
• **Best-in-Class procurement departments manage 35% more enterprise spend.** Spend under management is one of the most important, if not the most important, indicator of procurement success. Every dollar of spend that a procurement department can manage ultimately saves the enterprise additional dollars across the source-to-settle process. Spend under management is the best representation of procurement’s impact and influence upon the entire organization, as a greater rate of spend under management almost always translates into greater control and visibility into non-payroll, non-tax-related spending across the enterprise. More spend under management usually translates into higher savings rates too.

• **Best-in-Class sourcing teams save more. Full stop.** While Ardent Partners frequently argues that savings in and of itself is a poor indicator of overall procurement success, it is, nonetheless, important. It is also the metric used most frequently by enterprise executives to judge procurement. The sourcing leaders that comprise the Best-in-Class far outshine their competitors in actual savings delivered, driving almost 40% higher average savings rates in the last year.

• **Best-in-Class sourcing teams also report a 35% higher percentage of on-contract spend,** indicating that these teams drive more spending against established contracts with preferred suppliers than their peers. Strategic sourcing is a valuable business process for procurement teams, but if buyers and end-users in the business are not using the negotiated contracts and preferred suppliers as their primary source for goods and services, they erode the sourcing team’s value. The notion of savings leakage, a term utilized to describe the loss of savings between what was identified at contract award and what was ultimately implemented, can result in an extraordinary loss of money for the average organization and this is due, in no small part, to poor contract management.

• **Likewise, Best-in-Class sourcing teams place more than double the percentage of their addressable spend into a formal sourcing process each year.** Formalized sourcing efforts leverage the main components of strategic sourcing (analytics, contract management, eSourcing, and SPM) to ensure that the highest value suppliers in the market are the primary sources of the enterprise’s goods and services. To maintain such high volumes of sourcing activity, procurement departments must ensure that their strategic sourcing professionals are leveraging the same, repeatable processes for all categories of spend; Best-in-Class enterprises actively and formally source more of their spend; this is a clear link to their superior performance.

**Spend Under Management:**

The measure that captures the percentage of total enterprise spend that a procurement organization manages or influences. Ardent Partners’ research has found that for every new dollar that is placed under management of the procurement department, the average enterprise realizes a benefit of between 6% and 12% during the first contract cycle.
Spend analysis capabilities provide the kind of visibility into current and historical spend that allows sourcing teams to assess their sourcing habits, needs, and arrangements, as well as key spend patterns and trends. Visibility leads to actionable business intelligence, which leads to informed business decisions that result in more spend under management, more spend strategically sourced, and a higher percentage of on-contract spend. Finding and realizing cost savings remains the top pressure for a majority of supply management leaders in 2014, and has been a top pressure for quite some time. Spend analysis can deliver a veritable “gold-mine” for the typical strategic sourcing program, in that these tools can drill into current, historical, and budgetary spend data to identify areas for supplier consolidation or category optimization. When strategic sourcing events are developed and executed, they are generally more successful if the “dots” can be connected between “spend intelligence” and sourcing activity.

A higher percentage of contract compliance and better overall contract management (due to visibility into contracts afforded by agreements stored in a central, searchable repository) among the Best-in-Class suggests that they are also more effective at managing their suppliers’ performance and holding them accountable to contract terms. Storing, locating, and retrieving contractual documents from a central location fosters greater contract compliance among internal stakeholders. Here too, enterprises gain when the “dots” of a sourcing project and an executed contract are connected.

**Best-in-Class Capabilities**

Leveraging automated, repeatable, and scalable sourcing tools can be much more efficient than performing these tasks manually. And, although these tools are the building blocks for a solid strategic sourcing program, not all programs are built the same. More to the point, some sourcing teams are more capable than others when running their strategic sourcing programs. To illustrate this point, sourcing organizations surveyed for this study were assessed along a series of key performance indicators (KPIs) and the leaders were categorized as the Best-in-Class. All respondents were also asked to rate their sourcing teams’ level of automation usage and prowess as well as their overall sourcing and collaborative capabilities.

**Collaboration Seals the Deal for Best-in-Class Sourcing**

While the Best-in-Class were generally better at standardizing processes and leveraging technology, it is the difference in the quality and quantity of connections that they make and keep
with other stakeholders that was the most dramatic. As procurements’ mission and priorities converge with those in other departments, it becomes critical for sourcing teams to better align themselves with these departments. Collaborating with key line-of-business budget holders is critical for sourcing teams, as they need “friends” in high places to recognize the value that strategic sourcing initiatives bring to their departments and business units and rightfully support these endeavors and commit the necessary resources. Sourcing teams must work with their supply base to ensure that supply and supplier risks, performance, and information are managed – otherwise, they risk potential failure in the event of a supply disruption. Supply risk management is not the only positive attribute of procurement-supplier collaboration as shown below.

The Best-in-Class understand the significance of collaboration – of building relationships and influencing without authority – as procurement’s mission continues to expand across the enterprise and its success becomes more closely linked with other departments. Procurement’s expansion across the enterprise has placed a strain on many sourcing teams, forcing more and more CPOs (and their teams) to realize that the value they generate can be amplified with the support of other key functions and stakeholders. Although many Best-in-Class CPOs wield strong influence within the enterprise, their teams often do not have a seat at the planning and operations table, leaving sourcing teams without the proper inroads to engage early on sourcing projects. And, despite having C-level leadership to support them, procurement and sourcing teams often lack authority over other departments to align the enterprise-wide goals, processes, and systems needed to operate a successful strategic sourcing program. Rather than shun these interdependencies, the Best-in-Class leverage them.

Best-in-Class sourcing teams realize the value of supplier collaboration. They understand that supplier relationships are assets that can grow in value. Suppliers can conduct a needs-wants analysis for the sourcing team and help that team prioritize and optimize spend over a period of time to save money. Suppliers can also provide a risk assessment of their own markets and solutions to ultimately help sourcing teams determine if they can accept or mitigate certain kinds or levels of risk. Suppliers can also help to educate sourcing teams on new or emerging products in the market, price fluctuations, or volatility, and advise them if or when it is advantageous to lock in certain terms or rates. High-quality suppliers often know the markets, risks, and customer needs better than the sourcing team. Thus, partnering with them and leveraging their market knowledge and experience can give enterprises a leg up on the competition, particularly those that run on autopilot and renew contracts each year without considering if or how things could be improved. An advanced sourcing team regularly work with their suppliers to assess needs, negotiate favorable contract terms, mitigate risks, ensure contract compliance, and manage inevitable change.

"Managing supplier relationships is a lovely thing to do if you can do it. … you really should be able to tap into the supplier base to try to get the latest and the greatest thing, especially now, when everything is changing at the speed of light."

Dr. Nick Nayak, Ex-Chief Procurement Officer, U.S. Department of Homeland Security

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Tighter linkage between the two groups also helps sourcing hold their suppliers to SLAs, which in turn helps procurement preserve the value that they negotiated throughout the sourcing process. Ensuring adherence to SLAs helps keep all stakeholders in tune with contract compliance.

Taken together, these findings suggest that collaborating with key stakeholders inside and outside of the enterprise is a key capability for driving superior sourcing performance. And, as the Best-in-Class sourcing teams consistently demonstrate, greater collaborative capabilities are critical to sourcing success.

**Strategic Sourcing Technology – The Foundation of Sourcing Success**

Best-in-Class sourcing teams are more likely to embrace business process and system automation. In fact, nearly two-thirds (64%) of Best-in-Class sourcing teams are working towards an automated and integrated strategic sourcing suite over the next three years, compared to less than 25% of all others (chart not shown). But, as seen in Figure 2, these leaders are not there yet. Their aspirations show that they have largely embraced the notion of “connecting the dots” in relation to these key processes under the greater sourcing spectrum.

**Figure 6: Strategic Sourcing Technology Adoption**

Across the board, Best-in-Class sourcing teams are more likely to adopt core strategic sourcing technology solutions than rival sourcing teams. Automated sourcing solutions, or eSourcing, are the most frequently adopted solutions by all organizations and automated spend analysis is now in place at a majority of Best-in-Class enterprises.
Automated spend analysis provides sourcing teams with generally superior visibility into spend, which allows them to make better decisions. For example, automated spend analysis can show sourcing teams what and where they have spent in the past, where and how they are currently spending, and illuminate opportunities for them to more effectively spend in the future (i.e., rationalize suppliers, improve financing terms, improve compliance, run a new sourcing project, etc.).

“For its part, eSourcing can provide a strong return on investment ("ROI") for sourcing teams seeking the suppliers that provide the best products and services for the greatest value. With eSourcing, buyers and suppliers connect on an online platform, where buyers can issue RFxs and suppliers can respond to such queries in an open and frequently transparent environment. The types of supplier negotiations that buyers can run on an eSourcing platform is impressive. Buyers can conduct one-to-one negotiations as easily as they can run reverse auctions, where suppliers competitively bid down in an open forum to win contract awards. Rather than finding three quotes and selecting the one that “feels” like it is the best value, eSourcing solutions can help deliver more competitive bids from suppliers, more quickly in this manner. While there are other facets of securing value throughout the strategic sourcing process, sourcing the right vendors to deliver the right goods and services for the best cost and under the right terms is a critical step for delivering high value to the enterprise.

Contract management tools provide a wealth of opportunity for sourcing teams to extract value. For starters, a solid contract management system provides a central repository for contracts and contractual documents, allowing all internal stakeholders to view and abide by them (i.e., use them and buy against them) and maintain contract compliance. For example, with a contract management system, stakeholders and category managers will have access to SLAs, which can help keep both parties – buyers and suppliers – in contract compliance. If suppliers agreed to perform a service or deliver a commodity but neglect to, contract administrators can quickly access the SLA and hold suppliers accountable. Likewise, having a contract management solution can maintain contract templates, allowing fast and easy repetition so that efforts are not continuously duplicated year after year. Better contract organization, contract compliance, and the reuse of appropriate documents saves contract teams time and money and preserves the value derived from the supplier negotiation.
Lastly, deploying a supplier performance management ("SPM") system not only helps sourcing teams track supplier performance, it also allows them to collaborate with suppliers and work to improve it. Since SPM solutions allow business stakeholders to rate suppliers using simple tools like supplier scorecards, a broad and comprehensive view of the supplier and its performance can be captured. This is powerful because in a globally dispersed business, it can be difficult to understand if a supplier is consistently meeting the contractual delivery dates, milestones, quality, pricing, etc. Rating and analyzing suppliers along these measures can help sourcing teams ensure that they drop poor performers and continue to work with the top-performing suppliers.

**Recommendations**

Businesses in all regions and of all sizes are increasingly global; as a result, the need to support business relationships with global trading partners has become a priority of the first order. And, while globalization, innovation, and the resulting increase in competition have helped to streamline and improve business performance, business volatility and supply management complexity have also increased. Strategic sourcing remains procurement’s primary method to combat these concerns and navigate the fast-changing landscape. The teams that adeptly connect their tools, resources, and expertise to support the evolving needs of the business will succeed above all others. Ardent recommends the following strategies and approaches for procurement executives looking to build and maintain a leading sourcing program:

- **Connect the “sourcing dots” and ensure that strategic sourcing processes are effective and repeatable across the greater enterprise.** Link processes and technologies to drive value across the entire strategic sourcing process. This means sourcing teams should (1) link spend analysis to the development of sourcing pipelines and the execution of sourcing events as well as managing compliance, (2) link sourcing award decisions to the contracting process, and (3) ensure that supplier performance is being tracked for strategic and critical suppliers and used in ongoing supplier evaluations and negotiations.

- **Make spend analysis the crux of the strategic sourcing program.** The “gold” that runs through the walls of any given enterprise can only be tapped into and utilized via spend analysis and reporting. The notion of “Big Data” permeates within the procurement and sourcing world, and the enterprises that extract, classify, and cleanse their spend data are afforded insights and true “spend intelligence” that can be leveraged to great benefit in any strategic sourcing initiative.

- **Understand that collaboration is the key to the future.** The concept of “collaboration” within the supply management universe means much more than an environment with open communication; it involves the hand-in-hand development (and execution) of cross-functional processes and capabilities. Procurement’s collaboration with its suppliers will be a critical attribute of the next-generation sourcing program and used to consistently
drive results, help the enterprise grow and adapt, and enable greater influence on strategic decisions by the Chief Procurement Officer and the entire procurement team.

- **Develop measures to track overall sourcing performance, not just savings.** Best-in-Class strategic sourcing programs may drive higher rates of cost savings, but this should not be the only measure of programmatic success. Understanding sourcing volumes and cycle times is also important, as are non-cost sourcing attributes like quality. Supplier performance measures can drive better visibility into the overall supplier base, while tracking, gauging, and managing contract compliance will absolutely ensure that the efforts and results of strategic sourcing professionals are maximized.

**Conclusion**

We have entered an “Age of Innovation and Collaboration” where the speed and complexity of business will only continue to accelerate. In this age, compliance, control, and efficiency will remain important even as they become table stakes. The winning businesses will be agile organizations that can tap into expertise and find value wherever it exists in the market. Connecting the people, process, and technology “dots” to source the right suppliers will be mission critical to achieving both a sustainable advantage and overall enterprise success.
ABOUT ARDENT PARTNERS

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the CPO Rising and Payables Place websites. Register for exclusive access to (and discounts on) Ardent Partners research at ardentpartners.com/newsletter-registration/.

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Andrew Bartolini is a globally-recognized expert in sourcing, procurement, accounts payable, and supply management. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their procurement and finance departments. Andrew is also the publisher of CPO Rising, the first independent media site written for and about Chief Procurement Officers and other supply management executives (www.cporising.com).

Advisor to CPOs and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 170 times in seven different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their sourcing, procurement, accounts payable, and supply management operations. His research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor’s Business Daily, Forbes, and Fortune, as well as the major trade publications focused on supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than $500 million in aggregate client spend), business process transformation, and software implementation provides a ‘real-world’ context for his research and writing.

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RESEARCH METHODOLOGY

Ardent Partners follows a rigorous research process developed over years spent researching the supply management market. The research in this report represents the web-based survey responses of 249 CPOs and other procurement and business leaders captured in 2014 as well as direct interviews with 12 CPOs and procurement leaders (10 of whom took the survey). These participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class procurement performance and understand what levers the leading groups pull to obtain their advantage. Roughly two-thirds of the total participants shared some personal insight and commentary to help provide greater context to the results. This primary research effort was also informed by the experience and analysis of the report author and the entire Ardent Partners research team. Complete respondent demographics are included below.

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REPORT DEMOGRAPHICS

The research in this report is drawn from respondents representing the following demographics:

- **Job Function:** 82% procurement; 8% supply chain; 6% finance; 4% other
- **Job Role:** 39% VP-level or higher; 38% director-level; 14% manager-level; 9% staff-level
- **Company Revenue:** 68% Large (revenue > $1 billion); 19% Mid-market (revenue between $250 million and $1 billion); 13% Small (revenue < $250 million)
- **Region:** 64% North America; 27% EMEA; 8% Asia-Pacific
- **Industry:** More than 25 distinct industries are represented. Public Sector, Health Care, Financial Services, High-tech, and Manufacturing are the largest industries in the survey pool; no industry represents more than 11% of the overall survey respondents.