

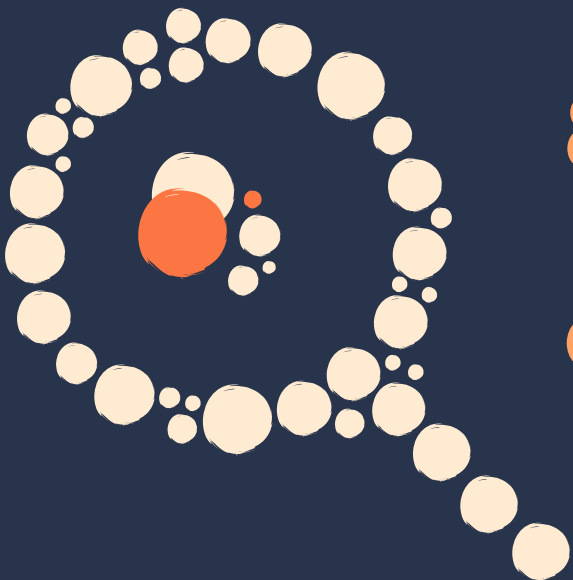
# STRATEGIC PROCUREMENT SIMPLIFIED

This hands-on resource is for procurement professionals, business owners, and everyone else who wants to understand and implement strategic procurement to realize its true economic value.



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# Introduction

**Strategic procurement is an essential topic for businesses across the globe. In the present day and age, every organization wants to develop an effective procurement strategy to help ensure success and maximize its value contribution.**

With a strategy in place, companies get a reference point - that must be updated at least once per year - to ensure that their procurement framework is aligned perfectly with the overall organizational goal.

For these reasons and more, the current procurement landscape demands businesses to turn strategic and regularly identify the highest priorities early in the procurement cycle.

**Strategic procurement is an enterprise-wide process. This long-term plan starts with taking inputs from each and every functional area and department of an organization. Strategic procurement harnesses the power of this data about suppliers, the market, pricing, transactions, and other key facets to determine:**

- **what goods or services are best to meet the organizational needs,**
- **which are the right suppliers,**
- **and what is the right price to pay.**

Strategic procurement then incorporates technology to make sense of this data and simplify, automate, and streamline processes. With strategic procurement in place, users can access valuable and actionable information at their fingertips.

Fueled by data and powered by technology, strategic procurement helps companies get as much value as possible from available resources.

Traditionally, procurement functions were managed by extensive and complex processes, but now, a changing business and technological landscape demand an adaptive function, especially in the current COVID-19 times when widespread disruptions have forced companies to reimagine every aspect of their business, including procurement. Hence, the future for procurement lies in being digital, data-driven, and automated.

**But what strategic procurement really means, and what makes it so crucial for businesses?**

# What is Strategic Procurement?

Strategic procurement is a collective term used to encompass different procurement processes that support an organization's long-term development.

## **But what processes are we referring to here?**

To understand the processes covered under strategic procurement, let's take a step back to look at how procurement is categorized under the headings of processes.

## **There are two types of procurement processes: upstream and downstream.**

In this stream of flowing goods and services, the upstream procurement covers everything between sourcing and contract awarding. In contrast, downstream procurement means everything that happens after the contract is awarded. That said, every activity that occurs in the upstream processes tends to impact the downstream significantly.

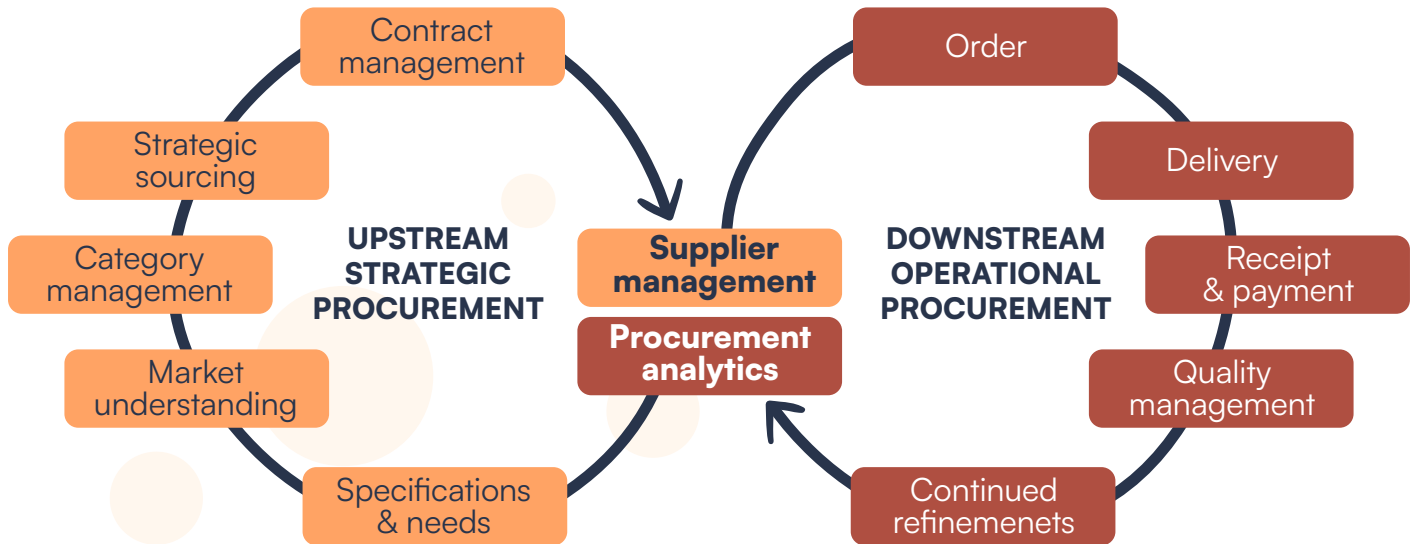
## Upstream Strategic Procurement

**Strategic procurement is a continuous and organization-wide process that helps create value through upstream activities like:**

- Analyzing spend data across categories, suppliers, and business units
- Processes and guidelines for obtaining the best possible contracts / spend in the relevant category
- Bundling or spend consolidation
- Assessment of supplier and product/services delivered
- Managing supplier base to ensure compliance and consistency
- Tendering
- Negotiating contracts and conditions with suppliers.

For a long time and even today, procurement has managed these upstream processes via Excel sheets and fragmented databases, communicating through which is neither easy nor efficient. These pressing challenges arose the need for transforming upstream procurement processes to provide better visibility, market intelligence, and collaboration across the teams, thus making them proactive and agile.

# Strategic Procurement vs. Operational Procurement



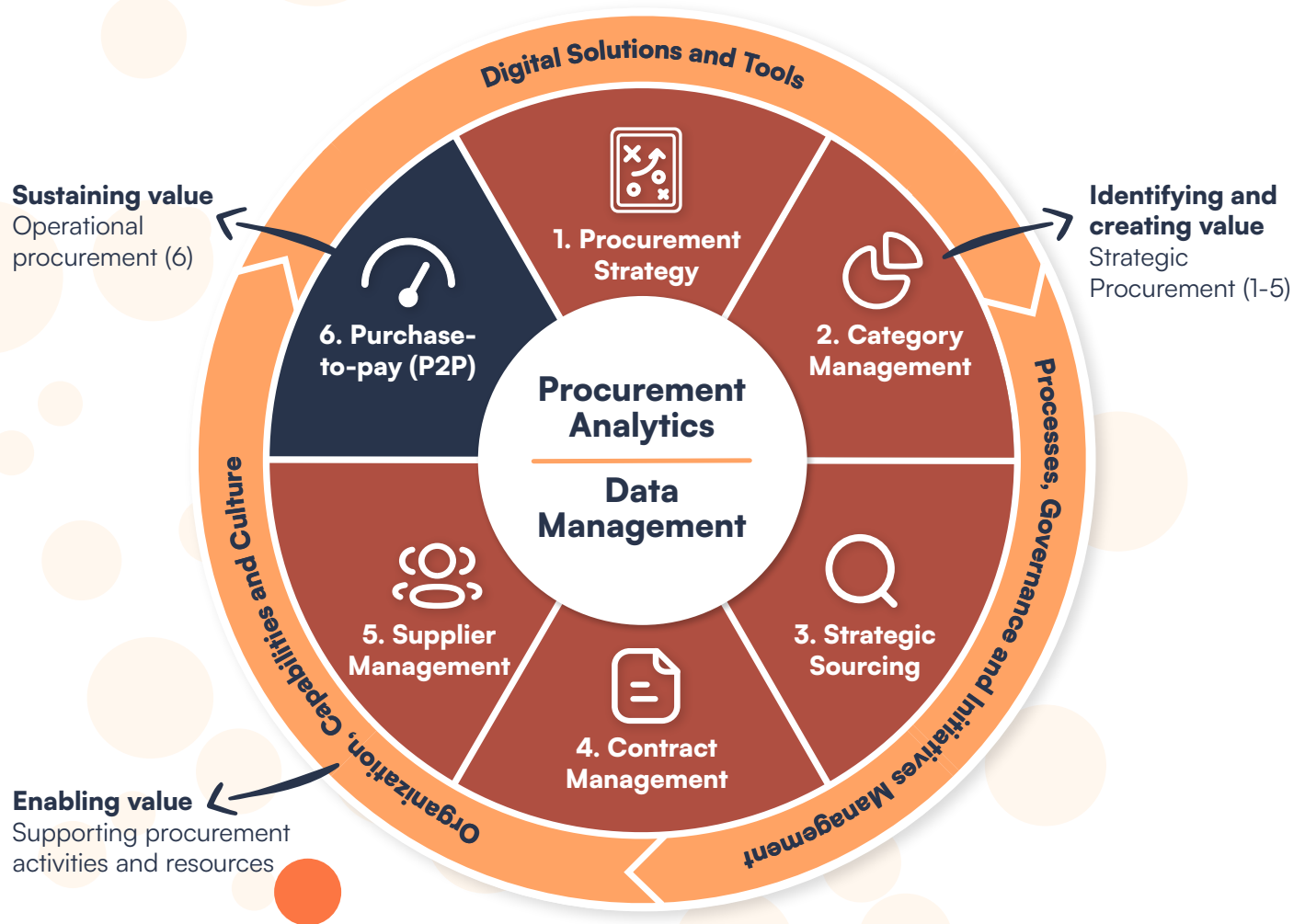
If strategic procurement is for upstream, operational procurement is for downstream processes. As mentioned earlier on the page, downstream processes are related to the product or service's actual order or service (P2P or purchase-to-pay). Thus, it involves transactional and repetitive tasks that take time but carry low strategic significance.

Digitization of downstream procurement helps provide consistency and accuracy to these repetitive tasks while improving productivity and compliance.

# Which Procurement Activities Comprise Strategic Procurement

Organizations undergo massive operational and strategic changes with strategic procurement to drive value, simplification, and ease. Later, this translates to upgrading the procurement processes and making them more attractive for stakeholders.

Following are the key players of strategic procurement:



1.

## **PROCUREMENT STRATEGY**

A long-term plan to ensure cost-effective purchases of goods and services from competitive suppliers at the agreed quality, time, and terms.

2.

## **CATEGORY MANAGEMENT**

It means clustering your spend into areas with the same supplier markets. Such categorization helps you analyze the costs and dissect your needs for uncovering savings, risk management, and other opportunities.

3.

## **STRATEGIC SOURCING**

In short, it's analyzing the organization's spending patterns to find and select the best suppliers that align with your business goals. Thus, ensuring efficiency throughout the supply chain.

4.

## **CONTRACT MANAGEMENT**

It's integral to procurement as it lays the foundation of a company's relationships with its suppliers. As the name suggests, with contract management, companies manage the contract creation, analysis, implementation, and follow-up to reduce overall cost and improve their performance.

5.

## **SUPPLIER MANAGEMENT**

This activity takes into account the management of relationships between a company and its suppliers. This significant step helps companies foster a deeper collaboration with their suppliers and build an ecosystem that leads towards the larger organizational goal.

# Data and Analytics Form the Core of Strategic Procurement

In the journey towards intelligent procurement, data and analytics are foundational to any procurement function. This foundation enables procurement professionals to get easy, secure, and quick access to data that was siloed and stored in disparate data sets across the organization and draw meaningful insights.

## **DATA MANAGEMENT**

The process of gathering, organizing, assessing, and maintaining all the data generated by a procurement organization to make this data accessible, accurate, analyzable, and thus, actionable.

## **PROCUREMENT ANALYTICS**

In simple terms, advanced analytics make the diverse procurement data useful by cleaning, enriching, and transforming the data into meaningful insights that aids companies in decision-making.

## Strategic Procurement Enablers

Data, analysis, and insights are just one part of the story; the way you prioritize, plan, and execute initiatives makes the real difference. To tap into procurement innovation and expertise, companies must make use of specific procurement enablers to improve and reinforce each step of the aforementioned strategic procurement activities. These are:

### **DIGITAL SOLUTIONS AND TOOLS**

A cloud-based solution that offers an intuitive and user-friendly interface to make every step of your strategic procurement efforts easier, smarter, and sustainable.

### **ORGANIZATIONAL CAPABILITIES AND CULTURE**

Enabling value while considering the organization's culture to follow the right kind of processes, practices, and decisions.

### **PROCESS, GOVERNANCE, AND INITIATIVES MANAGEMENT**

To make sure you connect the right initiative to the right task and the right people. Thus, helping you complete tasks on time and visualize the progress all along.



“I’m astonished by how many companies today have a CRM-solution in place, but only a few have a solution for strategic procurement. I think we will see a significant change here in the coming years.”



Sigbjørn Nome,  
CEO & Co-founder,  
Ignite Procurement

# Importance of Strategic Procurement

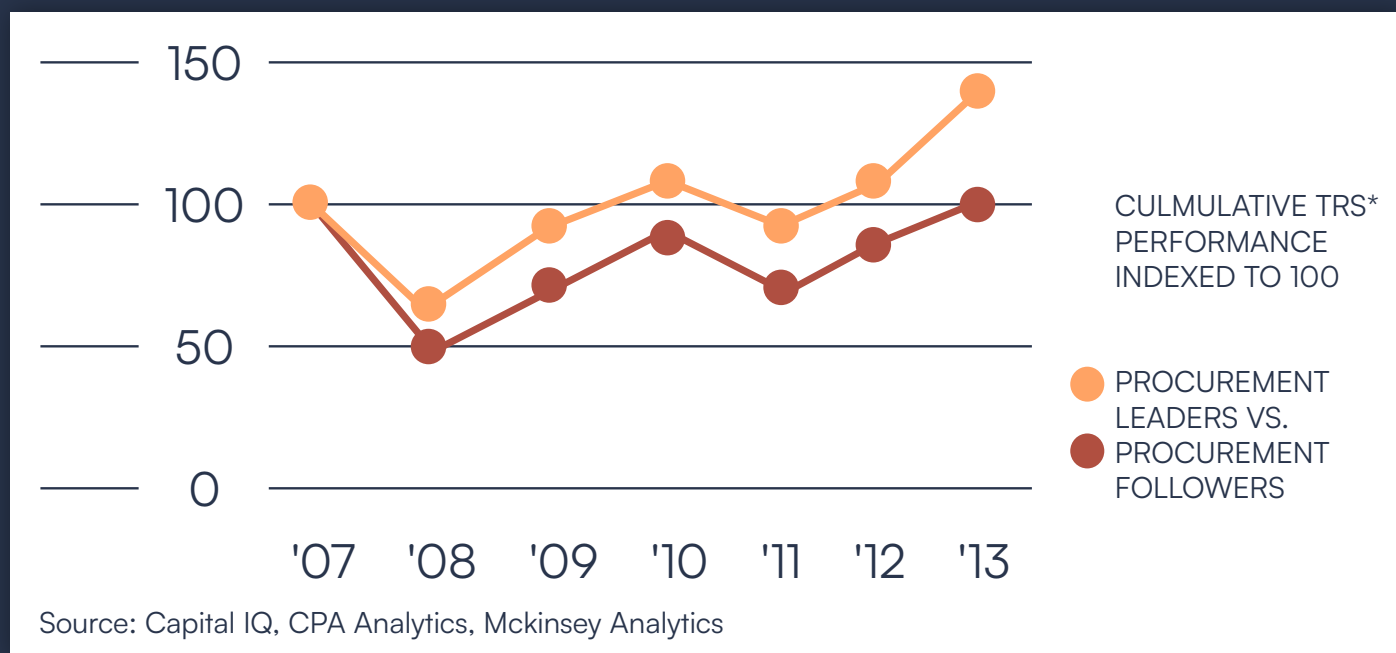
We often hear that procurement deserves a seat at the table; it does, but if procurement for you is only about doing tactical work that does not contribute to the organizational objectives, it doesn't deserve that seat.

It's important for procurement to turn strategic to become a part of the solution that moves the entire organization forward.

To understand the importance of strategically driven procurement, let's look at this research from Mckinsey and Company:

As per this research, in the five years immediately following the 2008 global financial crisis (GFC), the total return to shareholders (TRS) for companies with top-quartile procurement capabilities was 42 percent higher than for companies whose procurement operations were in the bottom quartile.

## High-Performing Procurement Functions Helped Companies Recover From 2008 Global Financial Crisis

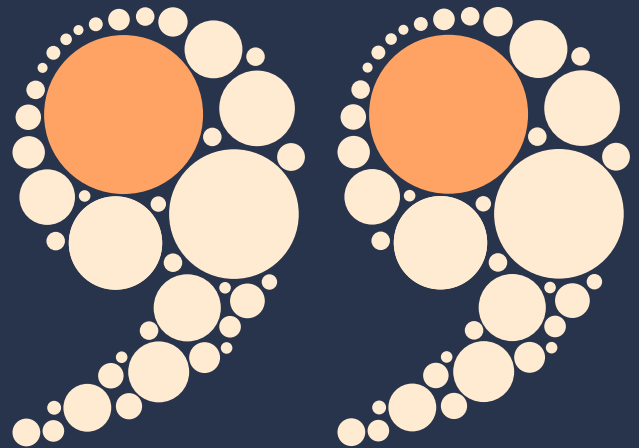


The COVID-19 pandemic and the subsequent disruptions across the industries have underscored the need for procurement transformation. According to an Accenture report, 94% of Fortune 1000 companies saw supply chain disruptions, and 75% had negative or strongly negative impacts on their businesses due to the pandemic.

Even in the midst of these challenging times, organizations that had the right procurement processes and technologies in place were able to mitigate the risks and stay agile, proactive, and profitable. The fact is, through these disruptions, the pandemic has just highlighted the flaws or weaknesses in the way companies perceive and do procurement.

Besides driving the post-pandemic recovery, strategic procurement goes a step further to redefine procurement completely and help organizations stay competitive for years to come.

Bob Derocher, principal and leader of the strategic sourcing and procurement practice at The Hackett Group, said:



**“Companies recognize that procurement is no longer limited to a back-office function and that they will lose a competitive advantage if procurement is not making a strategic contribution.”**

# Goals of Strategic Procurement

The goals of procurement functions in an organization are usually the same, but what sets strategic procurement apart is the way it leverages procurement insights from spend data, suppliers, and markets to identify new scopes of long-term value creation.

However, the strategic goals might differ from organization to organization; in order to understand the impact of strategic procurement, understanding its major goals is essential.

Following are the major objectives of strategic procurement:

## Cost reduction:

Cost savings has always been on the agenda of CPOs, but now, more than ever, stakeholders want to implement advanced analytics and technology to support these efforts. Strategic procurement acts as a sledgehammer against unnecessary and maverick spending, optimizes costs, and uncovers saving opportunities like negotiating better rates with suppliers, bulk purchasing, etcetera.

## Risk management:

In procurement, risks are littered all along the way; from inaccurate analysis, delays, data errors, non-compliance, and poor vendor choice in terms of factors like quality and capacity issues, the list seems endless. Luckily, a little planning, attention, and technology are all you need to sail through these risks and curb them from unfolding into a bigger problem.

## Execution speed and insights:

Cost optimization and risk mitigation have long been the leading value drivers for procurement. However, as we look into the future, speed of execution and insights are set to dethrone them. As the technology slowly and steadily seeps into the procurement functions, insights into the markets, suppliers, and buying behaviors will increasingly be used for value creation and staying competitive in the market.

## Managing supplier base to capture negotiated savings and drive value:

Procurement owns and overlooks the supplier relationships. This significant position lets procurement negotiate favorable payment terms with the suppliers and maintain quality relationships with them. Covid and the unprecedented supply chain disruptions were a hard lesson for many businesses about how imperative it's to have relationships with dependable suppliers who can deliver quality goods on schedule. Hence, more so than ever before, finding reliable suppliers and maintaining relationships with them has become a key procurement goal.

## Procurement innovation:

According to a recent Accenture Strategy research, 76% of the business leaders believed current business models would be unrecognizable in the next five years. These numbers point towards the importance of innovation and the certainty of positive outcomes it can bring. Still, many procurement executives who perceive innovation as risky and not as a strategic priority increase the likelihood of falling behind their competitors. Procurement as a function is poised to empower and support organizational growth through innovation. With access to tools like negotiations, procurement can shape suppliers' terms, conditions, and compensation to influence business outcomes. However, it's also true that too many companies fail to move in this direction because they either find it hard to start or over-think about it. Strategic procurement can make the stride towards innovation easier by leveraging data, measuring and analyzing the progress, and implementing suggestions, all while learning along the way to deliver long-term, agile, and innovation-based procurement.

## Sustainability:

In the current climate-change landscape, customers pressure companies to keep a check on unethical behaviors and expect them to take action against climate risks. If a company fails to match up to these sustainability expectations, it might result in trust erosion that can soon affect the overall value. Going green is the need of the hour, especially if your competitors are already practicing sustainable procurement practices.

# Procurement Strategy

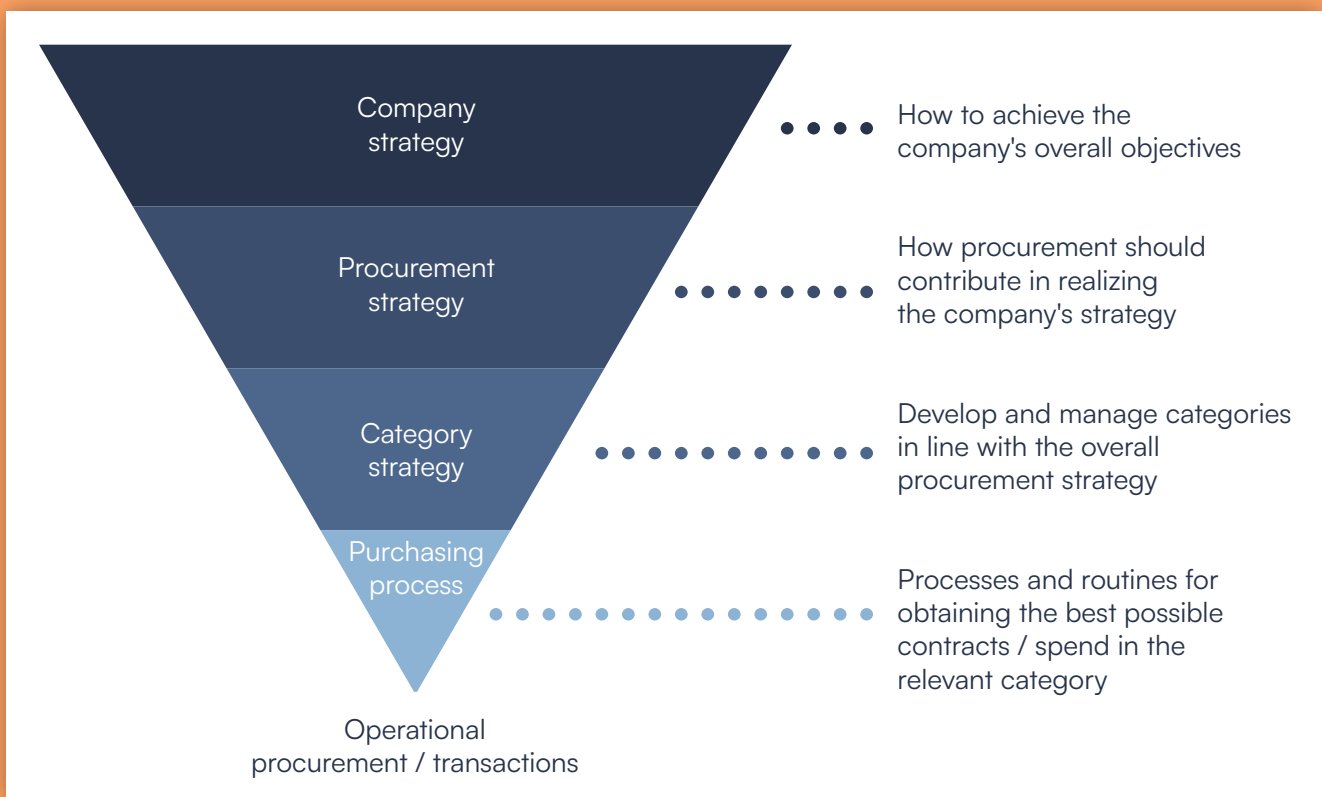
In business, procurement means the process of purchasing goods or services on a large scale.

When the purchasing scale is diverse and extensive, organizations need a robust procurement strategy to improve performance and remain competitive.

## What is a procurement strategy?

A procurement strategy focuses on all the steps involved in the procurement process to monitor a business's operational performance closely. Once established, this strategy allows organizations to identify areas for process optimization and cost reduction.

A solid procurement strategy is important for the business and the procurement function. However, the process of creating a successful strategy is not always straightforward. Usually, the procurement strategy depends on a number of factors such as timeline, budget constraints, potential risks, and more.



The procurement strategy and processes should support the company's overall strategies and focus on alternatives like reducing costs, mitigating risks, and increasing corporate social responsibility. According to a recent study by Deloitte, cost reduction is the top priority for CPOs from a strategic perspective.

# How to Develop a Successful Procurement Strategy in 8 Steps

A solid procurement strategy will identify savings opportunities, reduce maverick spend and ensure policy compliance. Below we have listed eight steps for developing a successful strategy.

## 1. ANALYZE SPEND

Start by analyzing what you are buying and how the spend is distributed by performing procurement and spend analysis. Spend analysis is, or at least should be, the basis for the work in all procurement functions, but also serves as the foundation for a fact-based procurement strategy. Note that other analyzes, such as total cost of ownership (TCO), may also provide useful insights into other cost drivers.

## 2. DETERMINE NEEDS

To build a strategy that provides the best outcomes, it's vital to understand your organization's current and future needs - and how these are aligned with the company's overall business strategy. This insight will help you align and prioritize your strategy across other functions and goals.

## 3. ASSESS THE MARKET

In the next step, you need to take a closer look at external factors; the supplier markets and the market conditions. Relevant data will typically include supplier and market information. A number of models may be appropriate for this type of analysis, such as Porter's Five Forces - identifying and analyzing five key sources of competitive pressure within an industry - and PESTEL - to analyze the Political, Economic, Socio-Cultural, and Technological changes in your business environment.

If you already have knowledge of the relevant supplier markets, which we recommend all procurement functions to continuously focus on, this step will be relatively easy.

## 4. SET CLEAR OBJECTIVES

All procurement strategies should outline clear objectives and goals - and how these can be measured. The information you collected in the previous steps will provide valuable input when determining the objectives.

To prioritize the different objectives, we recommend ranking the objectives based on their importance or "bottom line" impact.

5.

## CREATE A LIST OF PROCUREMENT INITIATIVES

Now that you know what needs to be addressed, you should create a list of procurement initiatives to improve processes and eliminate inefficiencies.

For example, you can start by modifying the current policies to address the identified risks or weaknesses. Ideally, procurement policies should meet the need and guide all relevant users in your organization.

6.

## INVEST IN DIGITAL TOOLS

All procurement functions need digital tools to support them in their strategic work to unlock their full potential. In addition, proper tools help increase the productivity of your procurement department, giving you more time to focus on strategic, value-adding activities.

It would be best to analyze every step of the procurement process (from source-to-pay), identify where the need for digital tools is most significant, and prioritize implementation accordingly. Here, a spend analysis tool can help companies improve productivity and enhance value dramatically.

7.

## OUTLINE THE STRATEGY

With the help of the information obtained and analyzed in the previous steps, you can now draft your procurement strategy. The strategy should describe the current situation, list the desired goals (or targets) and include a plan for achieving the goals.

There are numerous tools you can use for this purpose. For example, the Kraljic Matrix can be helpful to strategically evaluate your categories and a SWOT-analysis may be used to better understand your strengths and weaknesses (e.g. the procurement function).

Your goals must be measurable, time-sensitive, and realistic. The plan should also reflect the necessary actions and measures that'll be used to achieve the goals and details on responsibilities and roles.

8.

## EXECUTE AND FOLLOW UP

The last - and most vital - step is to start implementing the strategy. To maximize the likelihood of success, you need to track and measure progress to ensure that prioritized measures give the desired impact. Again, internal status meetings and reporting are recommended to provide focus and share experiences.



# Procurement Strategy Framework

The procurement strategy should always be documented, which may include the following elements:

## **Strategy document:**

Basis and rationale for the strategy

## **Objectives and timeframe:**

Description of goals and deadlines

## **Plan:**

How to implement the strategy with measures and allocation of responsibilities

## **Analysis and supporting data:**

Spend analysis, TCO, SWOT analysis, etc.

## **KPIs/OKRs:**

Metrics to evaluate the progress and process

# The Seven Most Important Strategic Procurement KPIs

In procurement, there's a saying, "what you cannot measure, you cannot control"; holds true as ever and for every other function as well. Process improvement is only possible when you are consistently tracking the outcomes.

Even though key performance indicators are unique to every company, we share a list of strategic procurement metrics or KPIs that are most commonly used to monitor how the various procurement functions are performing.

Here are the 7 most important KPI (key performance indicators) for strategic procurement:

## 1. KPIs Related to Cost and Savings

**These KPIs focus on keeping the cost down and being smarter with spending.**

### Cost development

- Track change in cost over time and the effect of savings.

### Savings

- Identify a percentage of actual savings year over year. To get the true saving figures, do not forget to take into account reasons for unavoidable cost increase like inflation, energy, etc.

### Cost reduction

- $\text{Cost Reduction} = \text{Actual Purchasing Price} - \text{Last Price Paid}$ . The quest for cost reduction makes negotiating better prices for products and services, process optimization, and automation a regular practice for procurement.

### Cost avoidance

- This metric helps avoid extraneous future costs and is often referred to as "soft saving" KPI as opposed to the "hard saving" cost reduction KPI. Examples of cost avoidance are entering into long-term contracts to avoid future price fluctuations or investing in new technology to eliminate spending into compensation costs now and in the future.

### **Purchase price variance**

- Purchase Price Variance (PPV) = (Actual Price — Standard Price) x Actual Quantity of units purchased. Hence, PPV measures a procurement organization's effectiveness in meeting cost savings goals. A positive variance in PPV means the price paid to buy an item is higher than the budgeted range and is hence considered bad. While a negative variance of PPV is favourable and desirable.

## **2. KPIs Related to Spend**

### **Spend under management (%)**

- (Dollar Amount of Expenses Managed by Procurement / Total Company-Wide Expense) \* 100. Spend under management or SUM refers to the portion of a company's expense that is overviewed by the procurement department. With the rise in a company's spend under management, the potential for cost-optimization and forecasting also increases. A low value of this KPI means the company has higher proportions of maverick or rogue spendings and ill-defined procurement processes. A low SUM also means missing out on the considerable cost-saving/reduction opportunities that regular spend analysis, supplier evaluation, and contract management can bring.

### **Maverick spend**

- Maverick or rogue spend means spend that does not follow the defined purchasing policy. The maverick spend % KPI compares the supplier invoices without a reference to a purchase order with all the supplier invoices. The top reasons for maverick spending are lack of understanding of processes, not having a centralized purchasing system, and heavy indirect spending. Organizations that fail to address maverick spend witness continued loss of compliance and benefits.

## **3. KPIs Related to Contracts**

### **Contract prices and compliance**

- Contract compliance is essential to the success of any procurement organization. Set a KPI to ensure that contract pricing is maintained across buyers and suppliers. This ensures that suppliers give you agreed-upon pricing, and people within your organization buy on contract.

### **Contract Loyalty (%)**

- Spend bought through a contract / total spend

### **Contract coverage (\$)**

- Spend where a contract exists / total purchase

## 4. KPIs Related to Suppliers

### Number of suppliers and supplier spend

- Track how many suppliers you are spending with, and aim to limit 80% of the spend through 20% of your suppliers.
- Percentage of spend with sustainable suppliers.

### Quality performance rating

- One or more KPIs should be identified to evaluate supplier performance in price, delivery, quality, and service.
- Percentage of suppliers evaluated/audited.

### Procured suppliers (%)

- Spend from suppliers who have been through procurement process / Total spend

## 5. KPIs related to Competition

### Total Procurement ROI

- This means the reduction in costs (including avoided expenses) resulting from procurement work compared to the total operating costs of the procurement department. This means the reduction in costs (including avoided expenses) resulting from procurement work compared to the total operating costs of the procurement department. This metric is a ratio of the amount spent over revenue earned. Benchmarking this KPI ensures your company is competitively and financially strong enough to pursue its goals.

## 6. KPIs Related to Processes

- The number of procurement processes completed per negotiator per year.
- Time spent from RFQ to signed contract.
- Time spent per procurement process (requires reporting of time).
- Time spent per process step in the procurement process (requires reporting of time)

## 7. KPI Related to Customer Satisfaction

- Survey of how satisfied suppliers, purchasers, employers, and partners were.

# Linking KPIs to Strategic Objectives and Technology are Key to Improve Procurement Performance

The use of KPIs is widespread, yet many companies struggle to get a high benefit from them. The reason being: KPIs as just a tool to rate performance on an operational level. In such a setup, companies miss the vast benefits they can get by linking KPIs to their overall strategic objectives.

## What do linking KPIs to strategic objectives mean?

Simply put, it means aligning KPIs or performance measures correctly with one another and to the things that matter the most to your organization, like your mission, strategy, or purpose.

Such a KPI framework makes sure everybody in the organization sees the relationship between KPIs and their contribution to organizational success. Thus, helping each team take a closer look at the overall company strategy and focus on the most potent influences for data-driven decision making. Still, keeping control and track of these KPIs doesn't look like an easy task. But with the right procurement solution in your arsenal, you can keep visibility and analytics on top of these KPIs and monitor them with ease to ensure the success of your procurement efforts.

By providing information transparency and business intelligence capabilities, strategic procurement helps businesses create a competitive advantage over their competitors and gives them a new and easy way to stay informed and fast decision-making with clearly demarcated roles and responsibilities.

It wouldn't be an overstatement to say that strategic procurement is a panacea for corporate success. However, it's pretty obvious that the way it overhauls key business functions, implementing it wouldn't be possible without friction.

**While procurement professionals agree upon the importance of strategic procurement, a significant chunk of procurement organizations still find it difficult to implement it.**

## So, what's the catch?

One of the biggest roadblocks to strategic procurement implementation is the general lack of awareness of the advantages it can bring to an organization.

In simplest terms, a broad majority of procurement leaders are well aware of technologies and innovation in the procurement space. Still, sadly, only half of them understand why it's crucial to their success.

Furthermore, the challenge of overcoming the inertia that keeps procurement away from digitization comes as a close second on the list of challenges. This appears to be a particularly problematic issue for smaller or resource-scarce organizations, which, in addition, lack the appropriate skills set and knowledge to drive a procurement strategy.

**We live in an era of constantly changing and disrupting technologies. And change brings along challenges and complexities, which demand forward-looking companies to foster innovative procurement practices. Again, the results strategic procurement initiatives can bring to an organization are astounding.**

### **A strategically driven procurement helps in:**

- significantly improving performance and compliance,
- putting a far greater proportion of spend under management,
- potentially increasing overall savings, and
- reducing risks.

Building a strategically driven, digital procurement organization is, therefore, a competitive necessity for most businesses. But implementing these changes to procurement is no small feat and require time and significant investments. Fortunately, amidst these challenges is the omnipresence of technology and the assurance of the results it can bring. If change is uncomfortable and competition is the battle zone, technology acts as a comfort factor that helps you overcome the common procurement challenges and gives your organization a head start.

**Embracing a comprehensive, cloud-based solution like Ignite Procurement enables companies to overcome these challenges and offers a number of modules to help organizations streamline their procurement processes and steer towards strategic procurement success.**



# About Ignite Procurement

We empower organizations to unlock the full power of strategic procurement.

Ignite Procurement's value comes from being a best-of-breed spend management platform with industry-leading technology and expertise.

Ignite Procurement supports your strategic procurement efforts through Procurement Analytics, Data Management, Category Management, Contract Management, Supplier Management, and Initiatives and Tasks Management.

From procurement professionals to business owners, Ignite Procurement helps organizations beat their everyday challenges.

**Book your demo**