

# 2023 Procurement Value Measurement Study Results



# Executive summary

## Value measurement trends

The most impactful economic disruptor for 2023 was inflation, cited by 50% of respondents, followed by economic downturn/recession reported by another 35%. Supply shortages, a main focal point for many procurement teams over the past two years, appear to be a lower priority with only 7% of respondents specifying this disruptor. More than half of the respondents are in the process of updating or have already made changes to their procurement savings reporting methodology in light of the current economic environment. Key changes are related to business partnering to provide a higher level of visibility to procurement savings as well as broadening the discussion around the value that procurement brings beyond just price reductions.

## Quantifying value

To elevate procurement's role as a value business advisor, it is vital to have close alignment between procurement's performance objectives and the objectives of business stakeholders. Only 21% of respondents report clear alignment of their scorecard with business objectives. The most common value elements included in procurement's scorecard are year-over-year savings and cost avoidance, aligning well with procurement's primary commercial focus. The next three elements (i.e., diversity, equity and inclusion, responsible procurement, and risk management) reflect the trend of procurement teams being asked to add more value beyond just commercial benefits. Only 34% of procurement teams report having a seat at the table during the business planning cycle to work collaboratively with business partners to establish realistic, stretch targets for the upcoming year. Opportunity exists for procurement teams to enhance their value contribution to business results.

## Savings tracking methodology

An organization's procurement savings methodology will define how different value elements are treated. For example, will it be classified as purchase cost reduction (i.e., hard savings), cost avoidance (i.e., soft savings) or not counted at all? The vast majority of companies treat a reduction from previous price paid (i.e., purchase price variance [PPV]) as a hard savings. For other value elements, there is a wider range of variation in the approach used to classify savings. Despite the importance of managing cash flow when interest rates are high, 79% of organizations do not recognize working capital benefits. Other areas excluded from savings tracking include revenue uplift (86%), currency hedging (86%) and supply risk management costs (75%). However, teams are tracking cost avoidance savings related to staving off attempted price increases and avoiding cost increases during the contract when market price is rising.

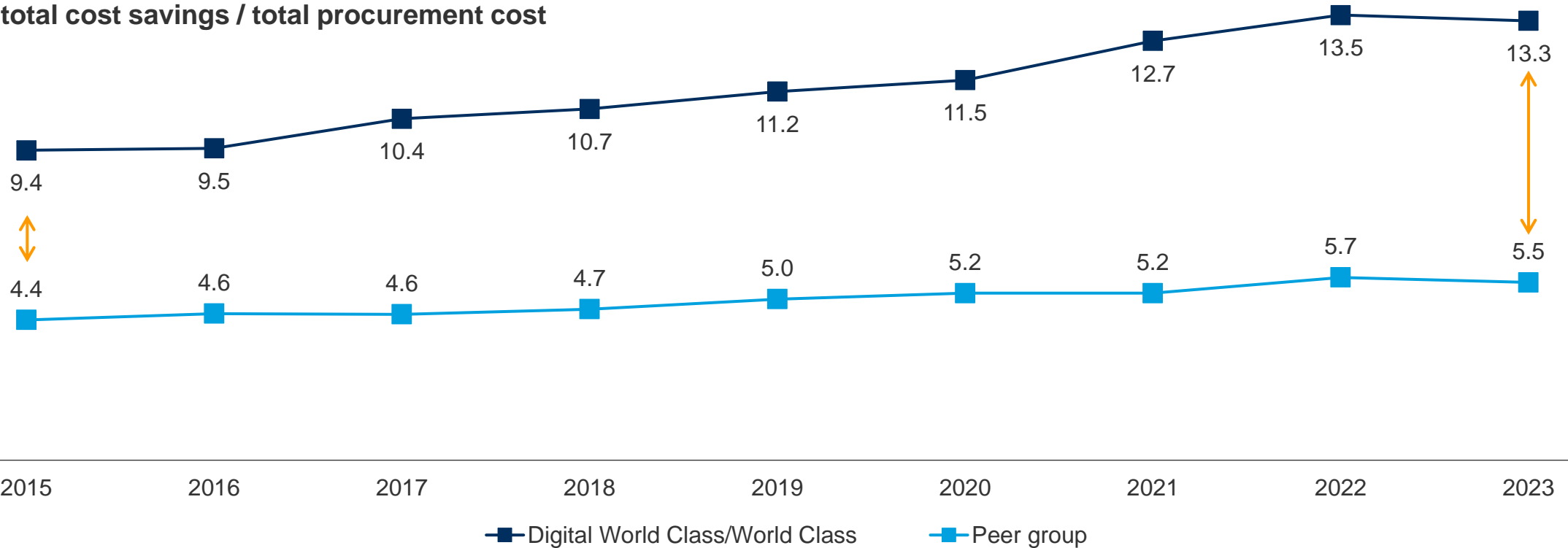
Source: The Hackett Group 2023 Procurement Value Measurement Study

# Procurement return on investment (ROI) trend

One key measure of value is procurement ROI which reflects the total costs savings achieved by procurement divided by the cost of the procurement function (i.e., labor, outsourcing, technology and other costs). Digital World Class® procurement organizations continue to maintain the gap in ROI, compared to the peer group.

## ROI TREND

ROI = total cost savings / total procurement cost

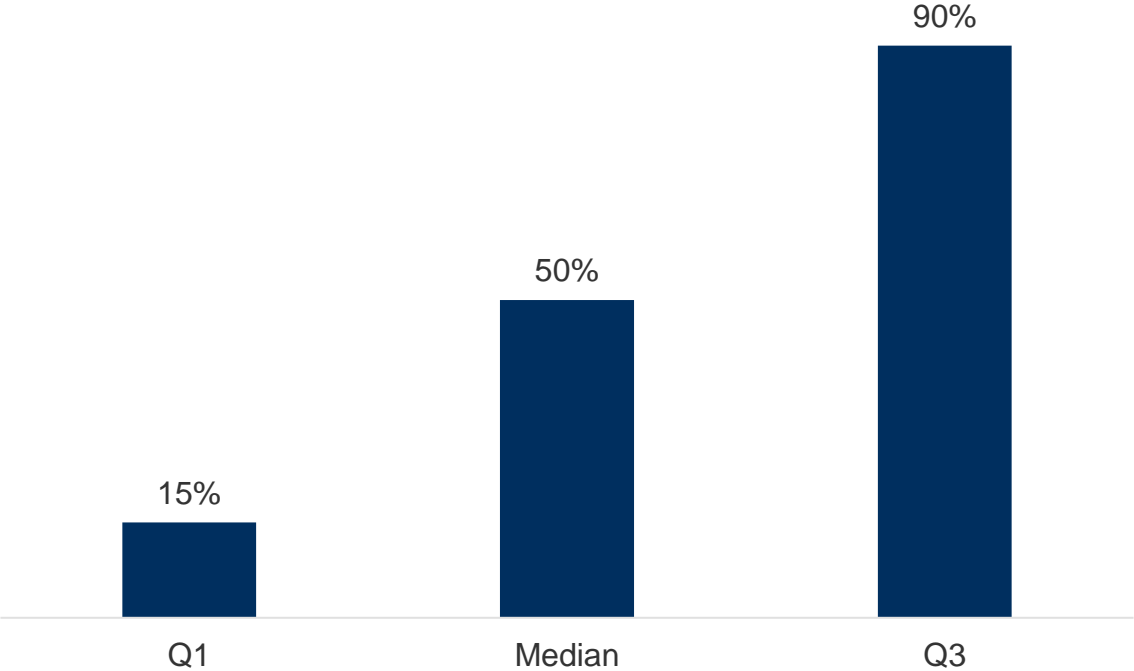


Source: The Hackett Group 2015-2023 Procurement Benchmark

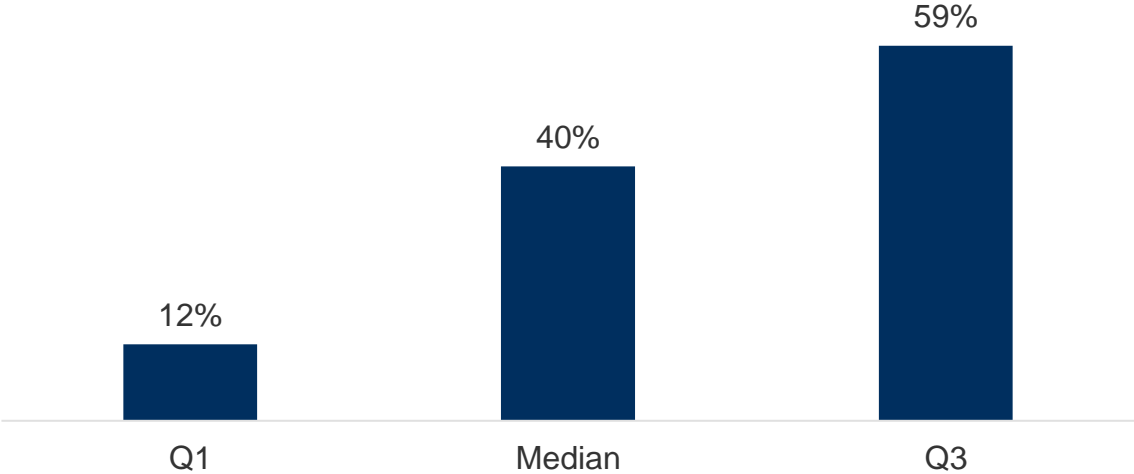
# Savings that fall to the bottom line

For the average procurement team, 50% of savings claimed by procurement related to purchase are falling to the bottom line for direct spend with a slightly lower 40% for indirect spend. Teams achieving higher realization rates (i.e., Q3) are at 90% for direct spend and 59% for indirect spend. Ensuring that savings claimed by procurement are realized is vital for maintaining credibility in procurement's savings tracking reporting.

**% SAVINGS FALLING TO BOTTOM LINE  
DIRECT SPEND**



**% SAVINGS FALLING TO BOTTOM LINE  
INDIRECT SPEND**



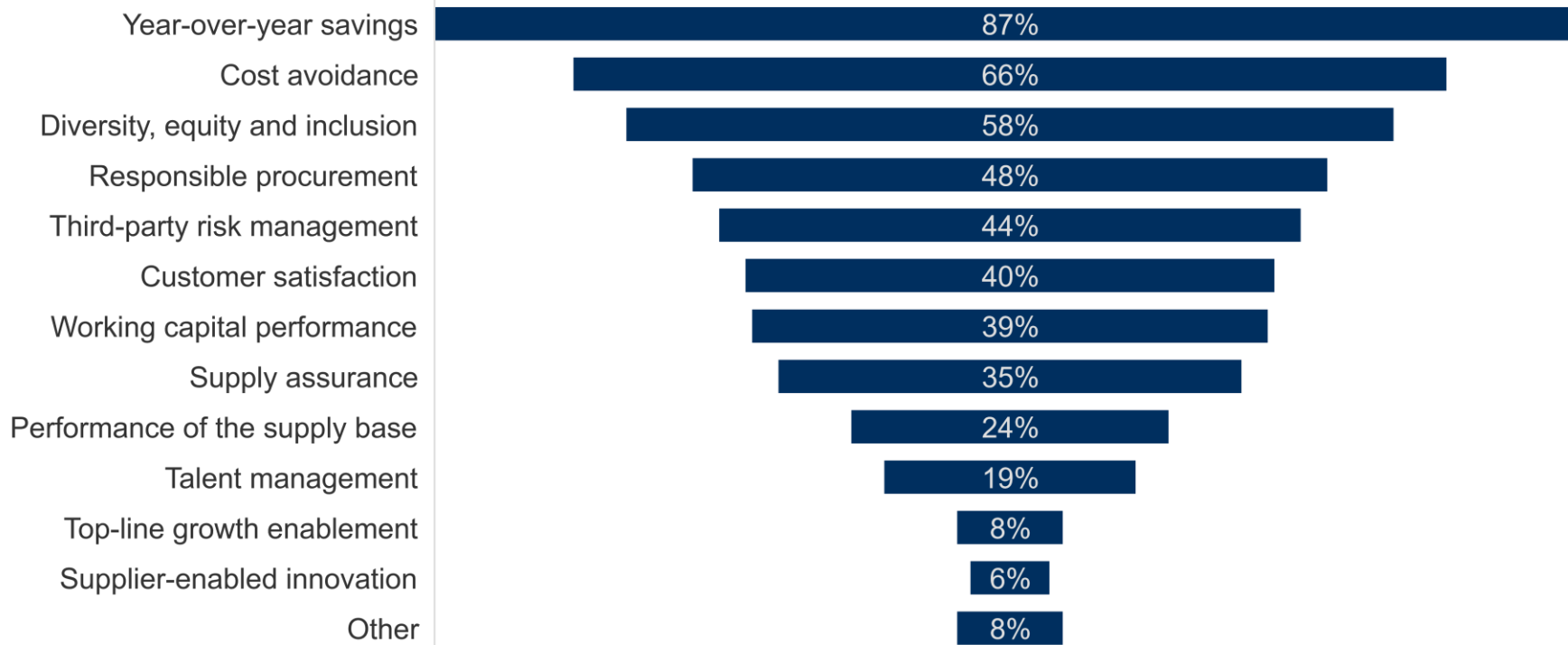
Q. Please estimate what percentage of savings claimed by procurement related to purchases are falling to the bottom line.

Source: The Hackett Group 2023 Procurement Value Measurement Study

# Procurement performance reported to senior leadership

The most common value elements included in procurement's scorecard which is reported to senior company leadership are year-over-year savings and cost avoidance, which align well with procurement's primary commercial focus. The next three elements (i.e., diversity, equity and inclusion, responsible procurement, and risk management) reflect the trend of procurement teams being asked to add more value beyond just commercial benefits.

## ELEMENTS INCLUDED IN PROCUREMENT SCORECARD



### “Other” elements include:

- Process automation
- Value creation (instead of cost)
- Forecast price movements and cost competitiveness
- Managed spend
- User experience improvement

Q. What performance elements are included on procurement's scorecard that are reported to senior company leadership? (Multiple responses allowed.)

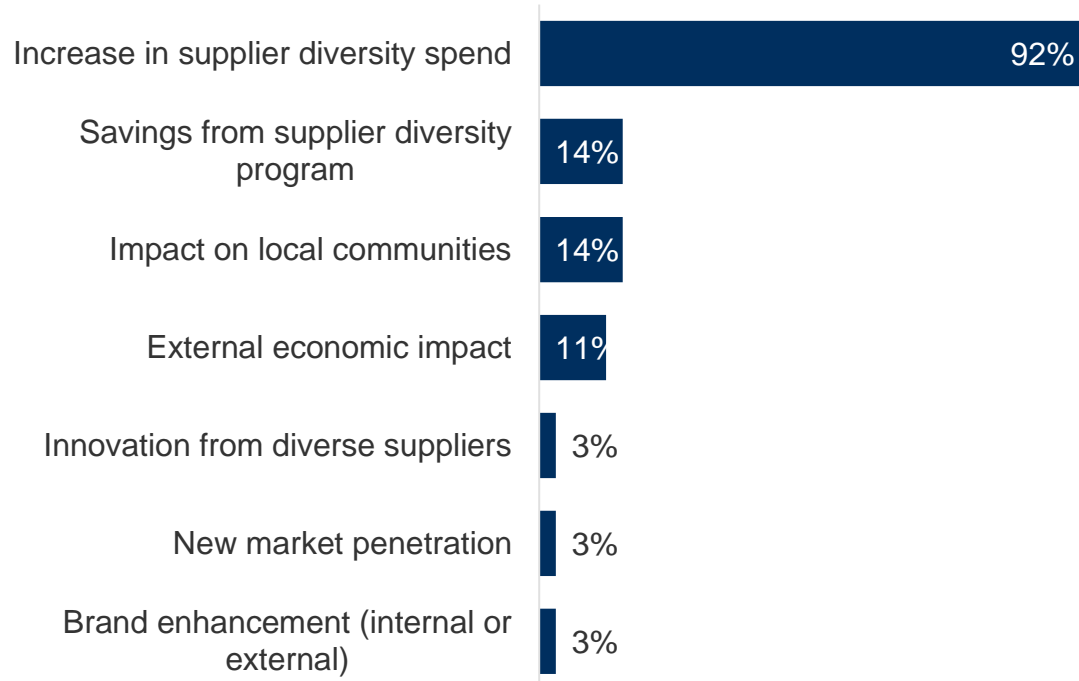
Source: The Hackett Group 2023 Procurement Value Measurement Study

# Procurement dashboard metrics: Supplier diversity and responsible procurement

The clear headline metric for supplier diversity is increase in supplier diversity spend. However, as you move beyond this metric, there are a variety of metrics being used to measure both supplier diversity and responsible procurement. This is indicative of the fact that capability in these areas are still being enhanced in many procurement teams. For responsible procurement, the top metrics are focused on compliance and managing risk.

## PROCUREMENT DASHBOARD METRICS

### Supplier diversity



Q. Please select up to two metrics that you use to measure supplier diversity.

### Responsible procurement



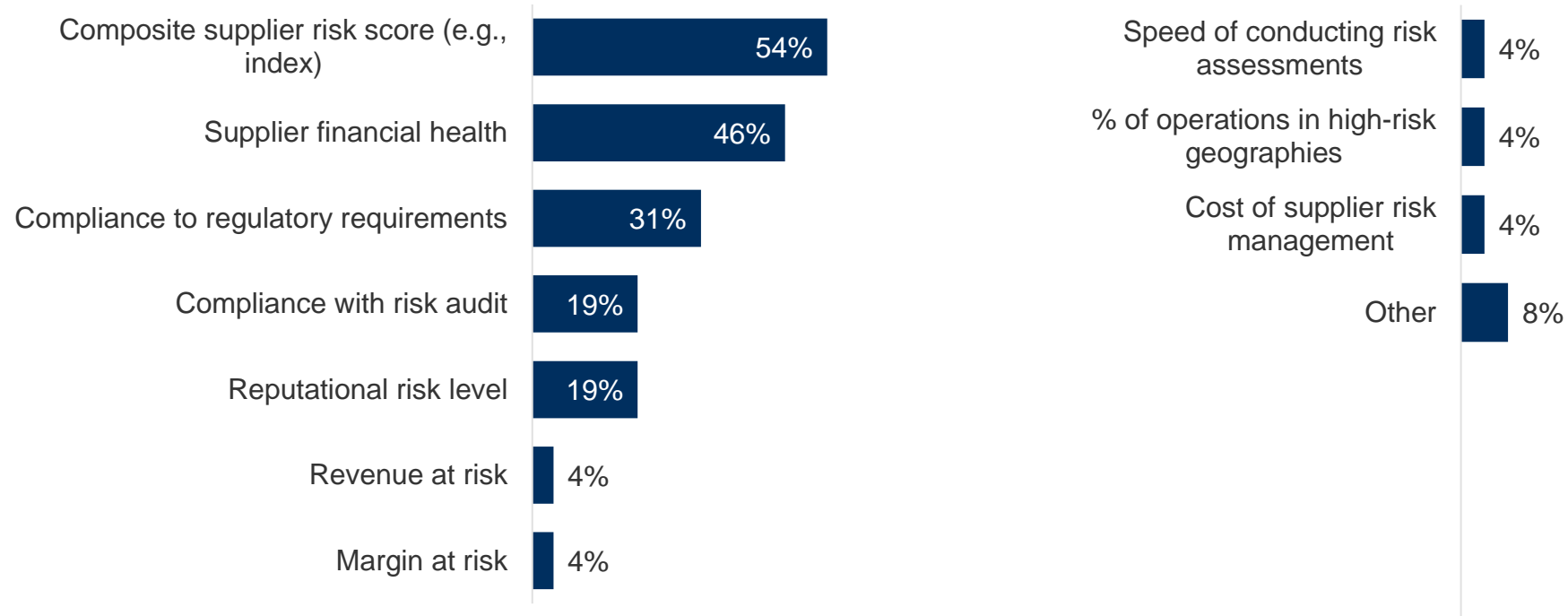
Q. Please select up to two metrics that you use to measure responsible procurement.

Source: The Hackett Group 2023 Procurement Value Measurement Study

# Procurement dashboard metrics: Third-party risk management

The most commonly used metrics to report third-party risk management performance to senior company leadership are composite supplier risk score, supplier financial health and compliance to regulatory requirements. Other metrics that one might expect to be of interest to senior management, such as revenue or margin at risk, show a low utilization rate.

## PROCUREMENT DASHBOARD METRICS – THIRD-PARTY RISK MANAGEMENT



- “Other” metrics include:**
- Environmental, social and governance- (ESG-) specific supplier audit results.
  - Enterprise risks such as anti-bribery and corruption, cyber-security, privacy, risk and supply chain resiliency.

Q. Please select up to two metrics that you use to measure third-party risk management.

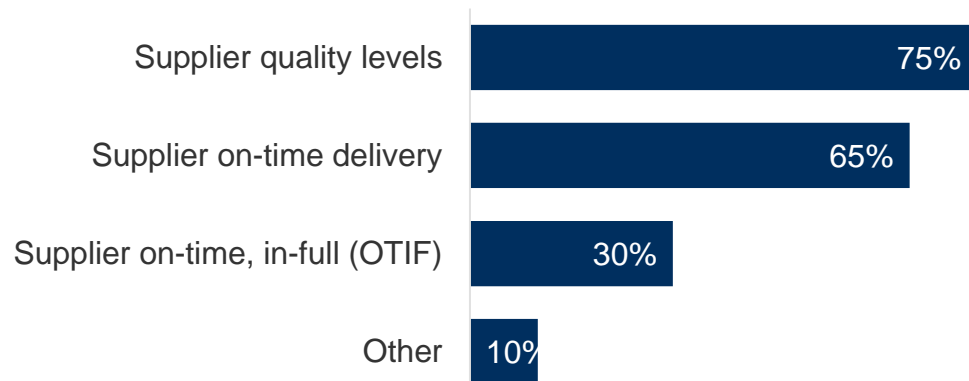
Source: The Hackett Group 2023 Procurement Value Measurement Study

# Procurement dashboard metrics: Supply assurance and supply base performance

When reporting supply assurance to senior company leadership, the most used metric is supplier quality levels followed by supplier on-time delivery and OTIF. On-time delivery percentage is the most common metric used to measure the performance of the supply base, followed by identification of cost savings and customer satisfaction. Supply base performance metrics are broader in nature and cover additional value elements beyond just supply assurance.

## PROCUREMENT DASHBOARD METRICS

### Supply assurance

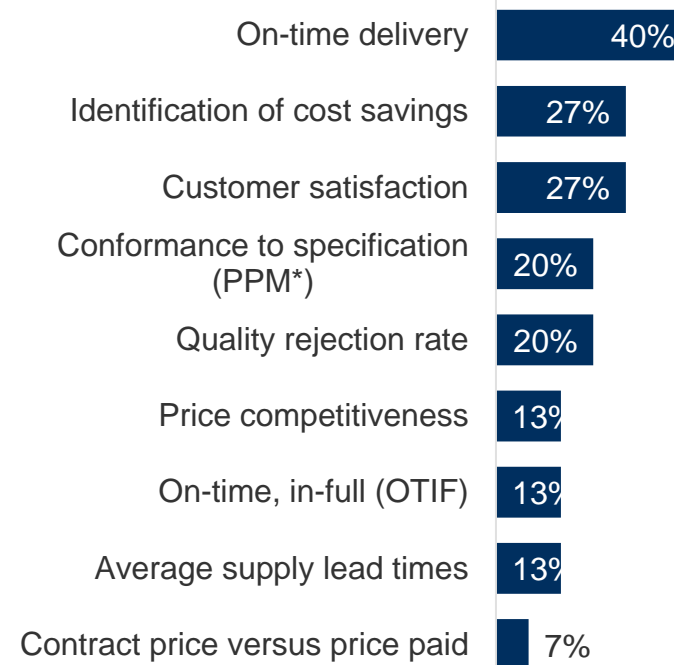


#### “Other” metrics include:

- All metrics are applicable, but they are not measured by procurement; reporting ownership sits in different areas of the business.
- Narratives/stories.

Q. Please select up to two metrics that you use to measure supply assurance.

### Supply base performance



Q. Please select up to two metrics that you use to measure performance of the supply base (excluding risk, responsible procurement, and supplier diversity).

\* PPM = Parts per million

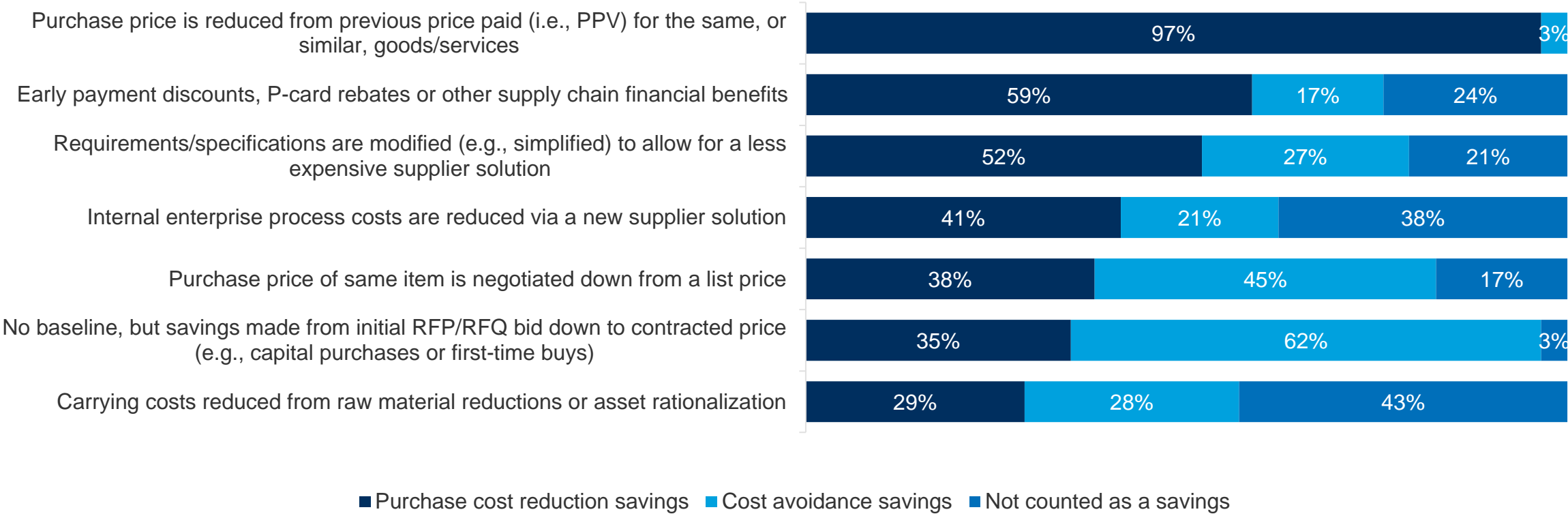
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# Treatment of savings value elements

An organization’s procurement savings methodology will define how different value elements are treated. For example, will it be classified as purchase cost reduction (i.e., hard savings), cost avoidance (i.e., soft savings) or not counted at all? The vast majority of companies treat a reduction from previous price paid (i.e., purchase price variance [PPV]) as a hard savings. For other value elements, there is a wider range of variation in the approach used to classify savings.

## VALUE ELEMENT TREATMENT



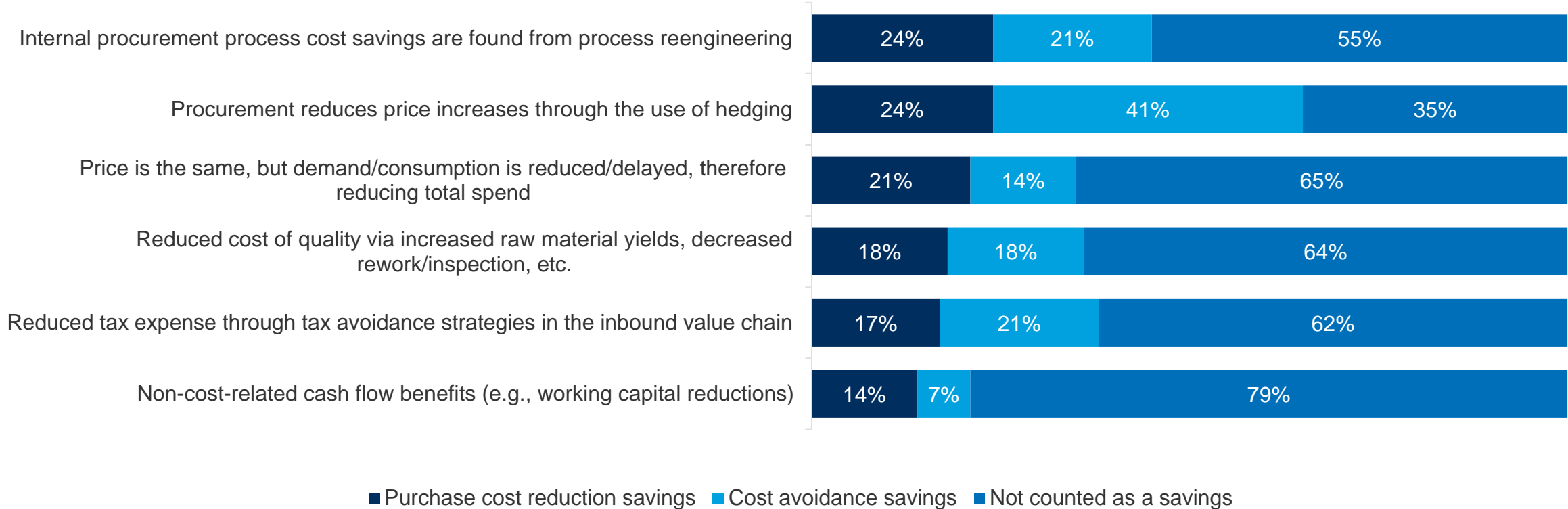
Q. Please indicate how each value element is treated.

Source: The Hackett Group 2023 Procurement Value Measurement Study

# Treatment of savings value elements (cont.)

While the majority of teams count savings for price hedging, many other value elements are not included in savings reporting. For example, demand management, reducing quality costs and lower tax expense are not being tallied as savings. And surprisingly, despite the importance of managing cash flow when interest rates are high, 79% of organizations do not recognize working capital benefits.

## VALUE ELEMENT TREATMENT



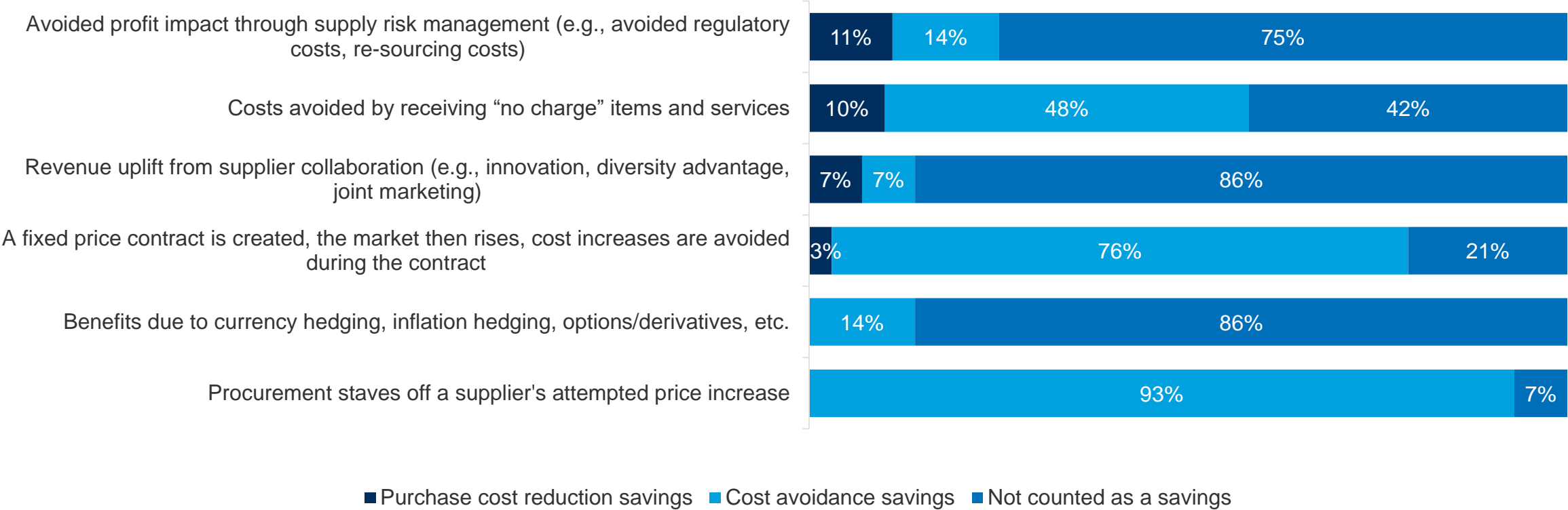
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## VALUE ELEMENT TREATMENT



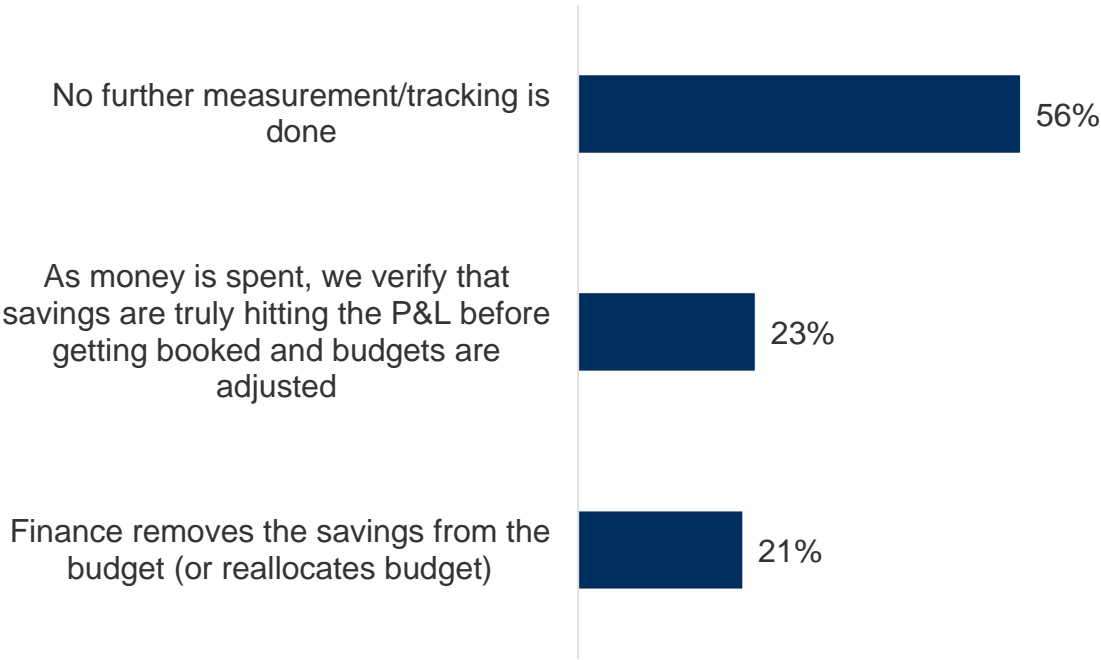
Q. Please indicate how each value element is treated.

Source: The Hackett Group 2023 Procurement Value Measurement Study

# Indirect spend savings tracking: Savings realization

For many procurement teams, once savings are negotiated with suppliers of indirect spend, no further measurement is done. It is left up to the business to use and book savings in whatever manner will best meet their business requirements.

## CONDITIONS FOR CONSIDERING SAVINGS BOOKED / ACHIEVED INDIRECT SPEND



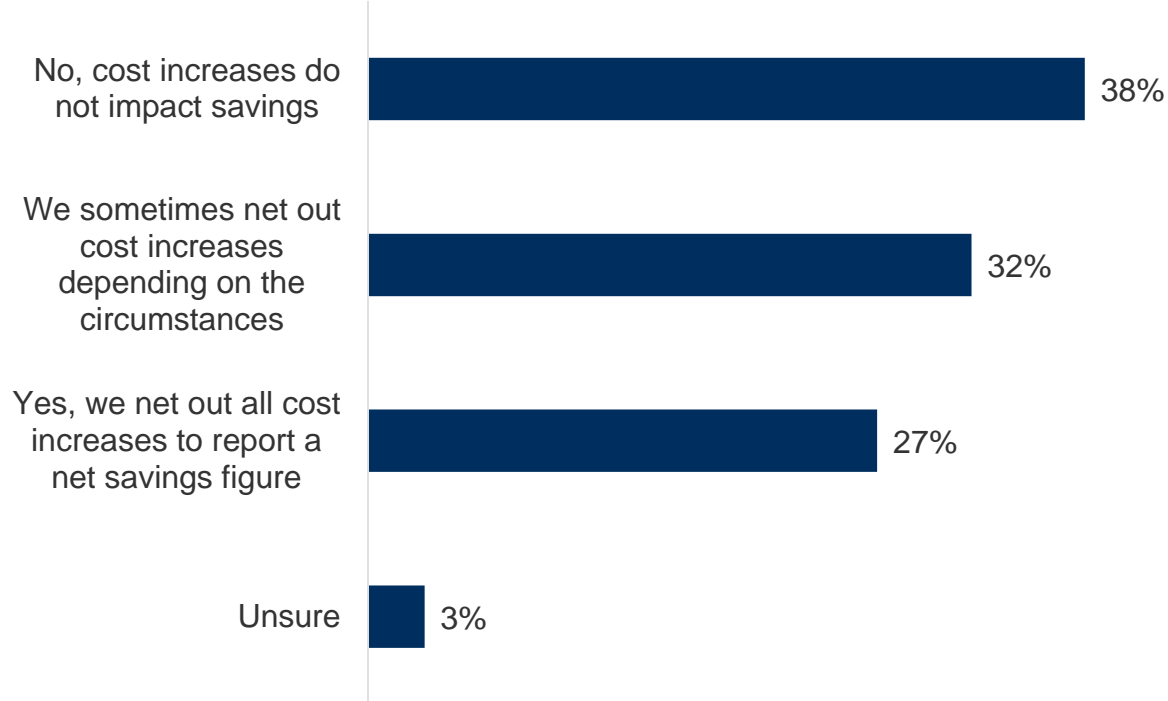
Q. Please complete this sentence by selecting the most appropriate ending: "Savings for indirect spend areas are considered booked/achieved by our company when they are negotiated and agreed to by the supplier and ..."

Source: The Hackett Group 2023 Procurement Value Measurement Study

# Net savings

One of the main challenges that procurement teams face when reporting savings is credibility with finance and other business stakeholder groups. Consider an example where the market price has risen 10% but procurement negotiates price increases of 5%. Procurement would likely view this as a savings, but finance (compares to prior year performance) would see this as a cost increase. Only 27% of procurement teams report net savings (i.e., netting out cost increases), with a further 32% sometimes netting out cost increases. This has the potential to impact the credibility of procurement reported savings figures.

## HOW COST INCREASES ARE HANDLED



Q. Are cost increases (i.e., negative cost savings) factored into your overall savings (i.e., ones that reduce your gross cost savings down to a net savings)?



Source: The Hackett Group 2023 Procurement Value Measurement Study



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