

COMMUNITY CHALLENGER REPORT – NETWORK EDITION

PROCUREMENT AS A GROWTH ENGINE








PROCUREMENT
LEADERS

WWW.PROCUREMENTLEADERS.COM

IN PARTNERSHIP WITH

ivalua

CONTENTS

 Executive summary	1
 Section 1: Innovation	2
 Section 2: Optimising costs for competitive advantage	6
 Section 3: Measuring procurement’s revenue contribution	10
 Further resources	14
 About the research	15
 About Procurement Leaders	16

This is the network edition of this report

Procurement Leaders members can access the full version.
See page 16 for more details on the membership.

EXECUTIVE SUMMARY

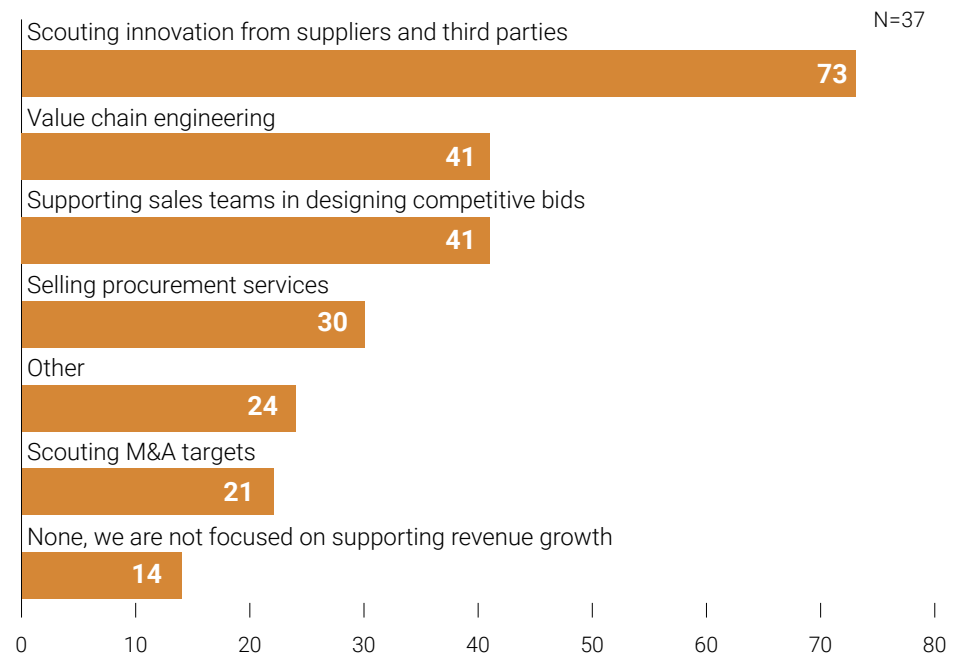
HOW PROCUREMENT CAN CONTRIBUTE TO REVENUE GROWTH

Despite the global economy reeling from the pandemic and businesses facing a tough return to growth, 87% of CFOs surveyed by PWC in March 2021 said they expected revenues to increase in 2021. Working towards full-value delivery, ambitious CPOs will explore ways they can help fuel that growth (see *Figure 1, right*).

This report explores some of the levers available to them:

- **ACCESSING SUPPLIER INNOVATION:** Supplier innovation scouting represents procurement’s biggest opportunity to contribute to revenue growth. This reflects the importance of harnessing external capability to attain competitive advantage.
- **SEARCHING IN THE RIGHT PLACES:** To identify their best innovation partners, progressive procurement functions practice value-based segmentation, access ideas from startups and make use of third-party scouting software services.
- **TURNING COSTS INTO COMPETITIVE ADVANTAGE:** Although cost-reduction strategies contribute to corporate profitability, they invariably reach a point of diminishing returns. Leading functions power growth by optimising costs.
- **OPTIMISING COSTS IN PRACTICE:** Four options are available to teams: Value-based procurement, synchronising sales and procurement, allowing the business to flex, and digitising cost modelling.
- **MEASURING THE FUNCTION’S CONTRIBUTION TO GROWTH:** Although most senior procurement executives indicate their teams support revenue growth, few track their performance in this area while fewer still have a revenue target
- **DEVELOPING MEASURES OF PROCUREMENT’S REVENUE IMPACT:** This will depend on what you ultimately aim for when tracking the function’s revenue contribution. Is it a figure to justify procurement’s existence or a means of articulating its role in driving the business forward? Quantifying the team’s value will not be possible – or desirable – for every organisation.

FIG 1: ACTIVITIES PROCUREMENT PERFORMS TO SUPPORT REVENUE GROWTH (% OF RESPONDENTS)





FUELLING GROWTH WITH SUPPLIER INNOVATION

Formalising supplier innovation – and searching in the right places – helps scouting teams to find innovations the business can readily adopt

Although innovation scouting is the most common way in which procurement functions contribute to revenue growth, there is no universally agreed way to do this. While most organisations have a process for scouting, a substantial minority do not.

While there are many sources and methods businesses can use to scout innovation, organisations will favour some over others. These inconsistencies raise questions about which approaches work best: is scouting more effective when carried out using a formal process? What do the differences in how teams practise this say about how businesses can best use scouting to drive growth? ►

73%



The proportion of senior procurement executives who say their function supports revenue growth by scouting innovation

Source: Procurement Leaders

88%



Proportion of procurement executives who report scouting innovation from strategic suppliers

Source: Procurement Leaders

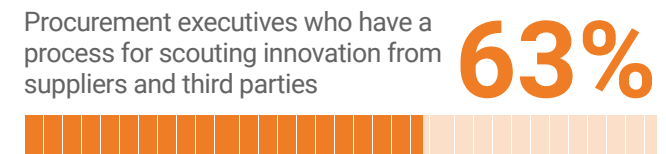
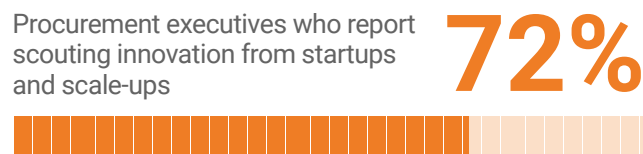
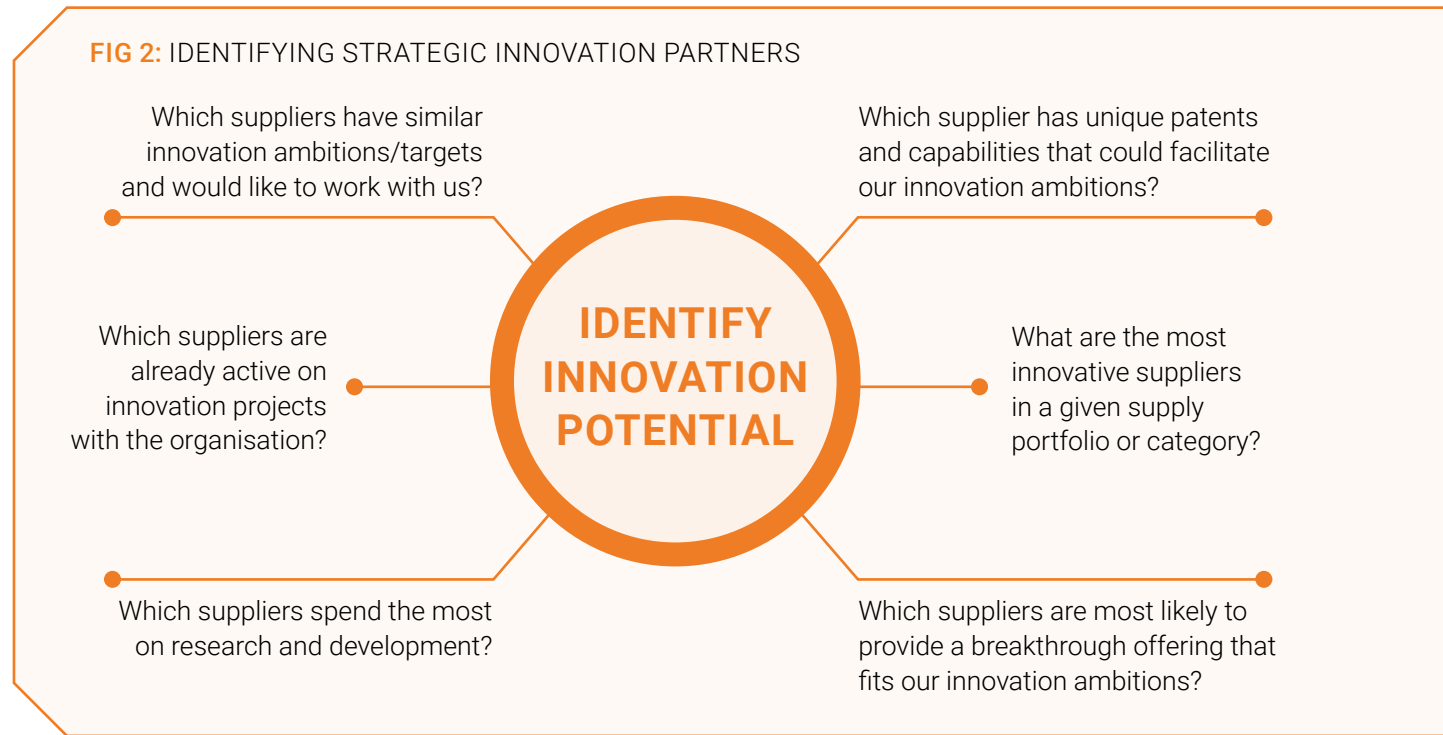
SCOUTING INNOVATION

Too often, businesses view their strategic suppliers as those with which they spend the most money or those that present the greatest risk. But these criteria say little about a supplier’s innovation potential. To identify their most important innovation partners, procurement teams should establish cross-functional working groups to answer a series of questions (see *Figure 2, right*). The best growth partners will possess strong capabilities in strategic products and services, and show a willingness to collaborate.

Research from the University of Bayreuth emphasises the importance of scouting innovation from different sources, showing that supplier ideas will offer the greatest competitive advantage under present business models while startup ideas are more likely to provide fuel for future growth strategies. Yet the research also found corporates were less likely to implement startups’ ideas than those of suppliers, echoing the challenges corporates face when working with growing businesses.

A transformative innovation cannot help a company to grow if it remains nothing more than a proposal. To bring startup ideas to fruition, leading SEI teams work with legal and compliance functions to create tailored engagement models that feature simplified audits, contracts and qualification processes. ■

FIG 2: IDENTIFYING STRATEGIC INNOVATION PARTNERS



DRIVE SCALABLE, EFFECTIVE COLLABORATION

RECOMMENDATIONS:

- Conduct a realistic assessment of your current supplier collaboration capabilities and shortcomings.
- Implement a structured framework for supplier-led innovation.
- Incentivise teams with performance goals and key performance indicators that encourage supplier collaboration.
- Increase supplier willingness by developing yourself as customer of choice: pay on time.
- Digitise to enable effective collaboration across more suppliers and categories.

THE NEED

Effectively driving supplier-led innovation has never been more important. The pace of innovation has sharply increased in most industries, with growing competition and customer expectations. At the same time, increased outsourcing of production means more expertise and intellectual property lives outside the organisation. Even the most innovative organisations can benefit from extending their talent pool beyond their four walls, as can those that have maintained in-house research and development, and production capacity. Supplier-led innovation can help a business to launch new products and services, improve existing ones and do each faster. It can also support other strategic objectives, such as minimising the risk of supply disruptions and

improving sustainability. [Global automotive leader Meritor presents a great example of the benefits of supplier-led innovation](#). Its initiative drove the acceleration of new product introductions and higher profitability, ultimately supporting significant stock price appreciation.

THE CHALLENGE

The reality is that while most procurement organisations rate their performance on supplier collaboration highly and say it is improving, that collaboration tends to be limited to a handful of strategic suppliers and is often overestimated. [In a recent procurement and supply chain survey by Forrester](#), 83% of respondents indicated they had closer collaborations with suppliers than their competitors, while 10% believed the opposite. Reducing the incentive to address shortcomings in supplier collaboration, that belief contrasts with the reality at most organisations, which face several crucial challenges:

- Procurement is encouraged to collaborate but performance and bonuses tend to remain focused on cost and other conflicting objectives.
- Collaboration is often very manual, which may suffice for a handful of suppliers but does not scale and is inefficient – even at low volumes. As many organisations look to enlarge their supply base to improve resilience, the need to scale will only grow.
- Suppliers are often unwilling to share innovations and procurement teams are not doing enough to change that. The same Forrester survey found that while supplier collaboration was listed as the top strategy for various objectives, including growing revenue, only 34% of respondents indicated they are working to make the company a customer of choice. ►

 **HOW TECHNOLOGY CAN HELP**

Organisations must address these challenges and establish a programmatic approach to supplier-led innovation. Establishing the right incentives and processes is key, but technology is a critical enabler.

When it comes to establishing yourself as customer of choice, the top factor that suppliers consider in increasing their willingness to share innovations with a customer is visibility into and timeliness of payments, according to a Forrester study focused on collaboration. Procure-to-pay solutions can provide the visibility and control over payments needed.

The right technology can more directly enable collaboration as well. Digitisation is required to enable effective, scalable collaboration across more categories and suppliers. A top requirement for any solution is that it enables secure information-sharing with suppliers. It should also support effective communication between stakeholders around requirements, for example.

Ivalua supports these requirements as part of a much more comprehensive approach to collaboration, including integrated project management capabilities and automated improvement plans. Such platform-level capabilities enable collaboration across processes. ■

34% The proportion of procurement functions who say they are working to make the company a customer of choice
Source: Procurement plays a key role in restoring growth, Forrester, 2021





TRANSFORMING THIRD-PARTY SPEND INTO A SOURCE OF GROWTH

For too long, procurement has been regarded as a cost-cutting function. Although well-executed cost-out strategies can help improve the business's bottom line, they reach a point of diminishing returns.

In line with a full-value approach to procurement

performance, progressive CPOs have adopted a more rounded view of cost. These leaders seek to derive the maximum value from third-party spend and improve the organisation's growth prospects in the process. ►

ADVANCED PROCUREMENT TEAMS ARE OPTIMISING COSTS BY:

- Practising value-based procurement.
- Synchronising sales and purchasing.
- Using supplier expenditure to release capacity for growth opportunities.
- Enhancing cost modelling through digitisation.

SYNCHRONISING SALES AND PROCUREMENT

One way procurement can drive growth from the cost base is by facilitating the flow of pricing information from purchasing to sales, so the business can better optimise its pricing strategies. This form of sales-procurement collaboration will prove especially fruitful for companies that source commodities, as the cost of those materials will directly affect the price of their products.

To enhance the flow of commodity price data from purchasing to sales, the procurement chief at one chemicals company has digitised the process by creating a mobile application, in partnership with a pricing optimisation vendor.

The app will enable the company's buyers to upload commodity price changes to their smartphones, according to the CPO. "In 12 hours, the bill of materials for every product related to that raw material will be updated, and an email goes to the marketing manager to warn them the price has changed by this much, so they need to change their price by this percentile to maintain their margin."

The tool will provide the company's sales managers with near-real-time visibility of commodity price changes, allowing them to adjust their pricing strategies more precisely. "We've made the process interactive, so we don't have to wait for a meeting," the CPO says.

ENABLING THE BUSINESS TO FLEX TO DEMAND

With an understanding of stakeholders' expectations, the business's strengths and weaknesses, and market opportunities, CEOs set present and future growth strategies. Leading CPOs are plugged into those plans, and they understand how to use third-party spend to strengthen existing revenue streams and access new ones through supplier-enabled innovation (see page 3).

Knowing the Covid-19 pandemic had unsettled regular demand patterns, the CPO of one chemicals company spotted an opportunity to outsource the production of one of its lines, which enabled the business to shift production capacity to its faster-growing products.

The company develops products for aviation; demand for these normally depends on weather-related factors. Yet demand for both flights and these products decreased due to travel restrictions intended to limit the spread of Covid-19. As a result, the CPO decided to outsource production of the aviation product line for 2021, releasing capacity for the company to increase production of its hygiene products, sales of which have grown substantially since the onset of the pandemic. Outsourcing has enabled the business to focus its attention on one of its growth markets, with third-party costs used as a vehicle to drive revenue. ■

"In 12 hours, the bill of materials for every product related to that raw material will be updated, and an email goes to the marketing manager to warn them the price has changed by this much, so they need to change their price by this percentile to maintain their margin"

CPO, chemicals company



OPTIMISE SPEND TO MAXIMISE RESILIENCE

RECOMMENDATIONS:

- Gain control over your enterprise-wide supplier data to support planning and maximise leverage.
- Educate leadership on the potential revenue impact of a cost-dominated supplier strategy and the importance of optimising – rather than minimising – spend.
- Review and adjust category-level supplier strategies to drive the desired balance, considering category risk.
- Scale sourcing optimisation across more categories, running scenario analyses to optimise category-level supplier selection.

THE NEED

The coronavirus pandemic highlighted the vulnerability of many companies' supply chains, as well as the revenue impact of that vulnerability. While cost remains important, cost-centric strategies such as single, low-cost country and lean sourcing must be weighed against their impact on resilience. This reality will remain even when Covid-19 is a distant memory. [Analysis by McKinsey](#) found that companies can now expect to encounter supply chain disruptions that last a month or longer every 3.7 years, with losses equal to almost 45% of one year's profits over the course of a decade.

THE CHALLENGE

For many procurement organisations, balancing risk against resilience and other objectives is impeded by a cost-dominated culture and incentives system, with KPIs and bonuses heavily weighted towards savings. Leaders must act against their personal interests for the sake of the company.

Even if incentives are aligned to strategic objectives, various obstacles hinder execution. First, many organisations lack the transparency into suppliers and contracts required to assess risk, how much they spend globally with specific suppliers and even identify all their suppliers effectively.

Maverick spending impedes strategies and frustrates suppliers expecting certain order quantities, particularly when they have provided the corresponding discounts. Lastly, optimising category-level supplier strategies can be hindered by limited sourcing and category management bandwidth, as well as the manual analysis of sourcing results. ►

3.7 years

Companies can expect to encounter supply chain disruptions that last a month or longer every 3.7 years
Source: McKinsey & Co

45%

Such disruptions equate to losses of almost 45% of one year's profits over the course of a decade
Source: McKinsey & Co

HOW TECHNOLOGY CAN HELP

Technology is a critical enabler to optimising spend and resilience. First, the right source-to-pay (S2P) technology can give you the necessary visibility into suppliers, while addressing issues such as duplication in back-end systems. Chassis Brakes International (CBI), for example, leveraged Ivalua's platform, with embedded master data management capabilities, to unify supplier data across 25 SAP instances for a truly global view of spend and supplier performance. The improved visibility for category managers enabled CBI to rationalise the supply base while ensuring better visibility and performance, as well as deliver savings of 10% on indirect and 0.5% on direct spend. Full S2P digitisation drove more spend onto purchase orders.

Technology can also improve visibility into risk by consolidating various data sources, such as predictive supplier risk scores, internal performance assessments and supplier certifications. Ivalua's platform can extend that visibility to sub-tier suppliers, too, providing depth and breadth and enabling risk monitoring at the level of suppliers, categories and contracts.

Efficiency gains from digitising strategic sourcing enable organisations to bring more spend under active management. Sourcing optimisation, historically limited to a handful of categories such as transportation, is now simplified for use on most categories. A pre-built scenario analysis quickly presents the tradeoffs among various optimal sourcing allocations. For example, Ivalua's Sourcing Decision Center includes common scenarios such as China+1. ■





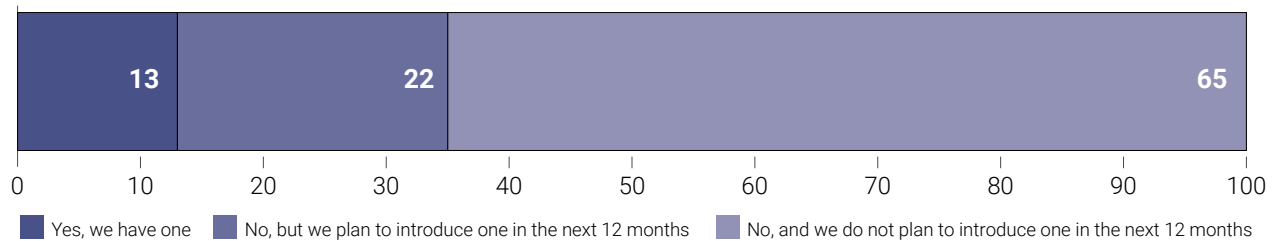
TRACKING PROCUREMENT REVENUE METRICS

Although 86% of senior procurement executives indicate their teams support revenue growth, just 37% of respondents say they have a way of tracking the function's contribution in this area. Furthermore, nearly two-thirds (65%) of procurement professionals surveyed say they do not have a revenue target and nor

do they plan to introduce one within the next year (see *Figure 3, below*).

If a significant majority of procurement teams contribute to revenue growth, why is it that a minority measure their performance in this area, and fewer still include revenue targets in their reporting? ►

FIG 3: PROCUREMENT TEAM'S REVENUE TARGETS (% OF RESPONDENTS)



Source: Procurement Leaders

SECTION 3: MEASURING PROCUREMENT’S REVENUE CONTRIBUTION

THE REVENUE REPORTING RIDDLE

Tracking results provides leaders with feedback that enables them to plan more effectively and improve their teams’ performance. When CPOs report positive results, they demonstrate value to the business while justifying investment in people and capabilities.

Yet revenue growth is not procurement’s top priority. One-fifth of respondents to Procurement Leaders’ *CPO Planning Guide 2021* indicated they believe the function will never be responsible for revenue growth (see *Figure 4, below*).

Whether it is appropriate to track procurement-generated revenue will depend on whether CPOs give it priority, which will be decided by the function’s maturity and its reach into strategic spend.

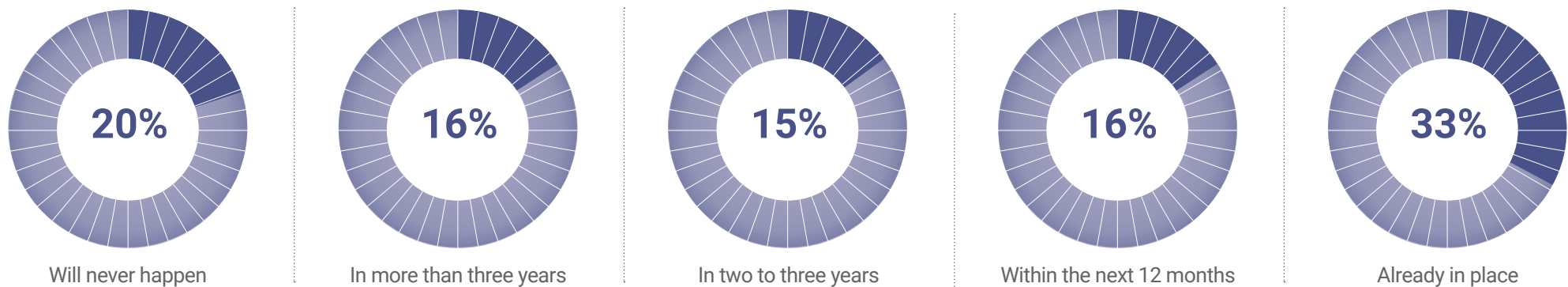
FUNCTIONAL MATURITY

The least-mature procurement functions will concentrate their efforts on foundational exercises: establishing policies and governance; consolidating procurement activity; and reviewing the cost base for

opportunities to reduce it. Although it is not unfeasible for immature procurement functions to contribute to revenue growth, their efforts will be aimed mainly at cost reduction. That will be reflected in their reporting.

The global CPO of one European professional services firm is adamant that his function has a role to play in driving growth. But, before formalising his team’s revenue-generating activities, the CPO believes he must build credibility with the business based on strong performance in basic areas. ■

FIG 4: CPO EXPECTATIONS OF PROCUREMENT BECOMING RESPONSIBLE FOR REVENUE GROWTH, AS WELL AS SAVINGS TARGETS (% OF RESPONDENTS)



Source: Procurement Leaders CPO Planning Guide 2021

TURN YOUR SPEND AND SUPPLIERS INTO A COMPETITIVE ADVANTAGE

RECOMMENDATIONS:

- Engage other parts of the business to collaboratively identify and execute growth opportunities.
- Select and deploy source-to-pay technology that enables, rather than stifles, creative ideas.
- Promote successes to educate employees on procurement's potential and to encourage proactive engagement by other functions.

THE NEED

Revenue growth is always important – particularly so as we look beyond the economic malaise brought on by Covid-19. If procurement is to maintain the elevated stature it earned during the pandemic, leaders must demonstrate the function can remain as relevant when the business prioritises growth as when it prioritises cost control and avoiding supply disruptions.

Fortunately, there are ample ways to do so and innovative leaders are paving the way. Strategies such as driving supplier-led innovation are widely relevant, as [Meritor](#) has demonstrated. But there are also more creative ways relevant to each industry and organisation – if leaders look beyond procurement. For example, [Sprint \(now T-Mobile\)](#) realised it was leaving significant revenue on the table by selling used handsets in bulk. By configuring its Ivalua e-sourcing solution to run high-volume forward auctions, Sprint was able to maximise its prices and add \$1bn to its annual revenues.

\$1 bn

The total telecoms company Sprint was able to add to its annual revenues by running high-volume forward auctions on used handsets

THE CHALLENGE

There are several reasons why procurement is often left out of discussions on revenue growth, starting with people. Few employees in the organisation, within and beyond procurement, realise the function's potential to contribute to growth.

Technology is frequently also an obstacle. Ironically, while technology is often associated with innovation, today's source-to-pay solutions often stifle it. The number one obstacle to procurement supporting top-line growth is procurement systems that are too rigid to support new ideas, according to a recent procurement and supply chain study from Forrester. The shift from on-premise to cloud-based solutions has brought significant benefits around time-to-value and lower total cost of ownership. But the compromise has been reduced flexibility. Most solutions are built to deliver best practices quickly, but they offer limited configurability and can rarely support unique processes. ►

HOW TECHNOLOGY CAN HELP

It need not be this way. Technology can both deliver standard best practices quickly and be the enabler that brings your team's best ideas to life. Innovation is what you do with technology, not the software itself. At Ivalua, we pride ourselves on having built a platform that supports every stage of our customers' digital transformations – from achieving quick wins to bringing all spend and suppliers under management and eventually building a true competitive advantage. The combination of a cloud-based platform built with unique flexibility is key. When it comes to growing revenue, there are a number of ways technology can help:

- **Connecting stakeholders:** Whether linking suppliers with production and commercial teams to launch new products or other stakeholders for unique ideas such as that at Sprint, technology can support secure and effective information-sharing. Furthermore, it can enable cross-stakeholder visibility and proactive project management through notifications of action items and progress. One of the key benefits of Ivalua's solution is platform-level collaboration.
- **Digitising unique ideas:** Many ideas need scale to execute. Technology provides that. A simple yet powerful workflow engine can let you configure unique processes in minutes or hours, rather than weeks or months. ■



FURTHER RESOURCES

 **READ THE FULL PROCUREMENT AS A GROWTH ENGINE REPORT – PROCUREMENT LEADERS MEMBERS ONLY**

OPEN RESOURCES

WHITEPAPER:

Procurement plays a key role in restoring growth

WEBINAR:

How procurement can become the growth engine for your business

EVENT:

Innovation In: Digitalisation & Tech

CASE STUDY:

Driving growth through collaboration at Meritor

FOR PROCUREMENT LEADERS MEMBERS

VIRTUAL NETWORKING SUMMARY

Partnership models to drive effective innovation sourcing

CASE STUDY

Schneider Electric's approach to working with innovative startups

CASE STUDY

JLL's approach to procurement revenue generation

ABOUT THE RESEARCH

ABOUT THE AUTHORS



HARRY JOHN

Senior research analyst

Procurement Leaders

Harry is a senior research analyst at Procurement Leaders. He draws on more than seven years' experience researching and writing about procurement. Harry's research interests for 2021 lie in procurement's role in helping businesses to grow, supplier sustainability and category management.



ALEX SARIC

CMO

Ivalua

Alex has spent nearly 20 years evangelising spend management, shaping its evolution and working closely with hundreds of customers to support their digital transformation journeys. As CMO at Ivalua, he leads the overall marketing strategy and thought leadership programmes.

ABOUT THE RESEARCH

The report was produced in partnership with Ivalua. Between January 2021 and February 2021, Procurement Leaders distributed a survey to its member community. Representing the views of 37 senior procurement executives from a range of industries, the survey findings have been supplemented with extensive interview and desktop research to produce the report.

ABOUT OUR PARTNER

Ivalua is a leading provider of cloud-based spend management software. Ivalua's complete, unified platform empowers businesses to effectively manage all categories of spend and all suppliers, increasing profitability, lowering risk and improving employee productivity. Trusted by hundreds of the world's most admired brands and recognised as a leader by Gartner and other analysts, Ivalua maintains the industry's leading 98%+ customer retention rate.

Learn more: www.ivalua.com

CONTACT THE AUTHORS AND FEEDBACK

If you have enjoyed this report, would like some more information, or feel it has not met your expectations, please contact us: feedback@procurementleaders.com

ABOUT PROCUREMENT LEADERS

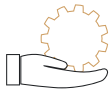
Procurement Leaders is a global intelligence platform for chief procurement officers and their leadership teams.

We offer strategic guidance through research, capability tools and digital and live events



Research and insight

Accelerate progress by making faster and better-informed decisions



Tools and advisory

Take a practical and proven path to inspire success



Expert network

Connect to a global network of procurement executives and solution providers to boost innovation and validate ideas

775

companies in the network

35,000+

members

120

procurement solution providers

Join us in making procurement a critical business driver

Learn more: procurementleaders.com