

A Forrester Consulting
Thought Leadership Paper
Commissioned By Ivalua
March 2020

Effective Procurement Performance Measurement

Supporting Procurement Transformation



Table Of Contents

- 1** Executive Summary
- 2** There Is No Option But To Transform The Procurement Function
- 4** The Five Dimensions Of Procurement Maturity: Advanced Firms Excel
- 7** Data Is The Lifeblood Of An Organization, So Master It
- 8** What Excellent Procurement Looks Like
- 9** Poor Technology Integration And Weak Data Quality Are Major Barriers
- 11** You Can't Improve What You Don't Measure
- 15** Key Recommendations
- 16** Appendix

Project Director:

Tarun Avasthy,
Senior Market Impact Consultant

Contributing Research:

Forrester's Sourcing and Vendor
Management research group

ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

© 2020, Forrester Research, Inc. All rights reserved. Unauthorized reproduction is strictly prohibited. Information is based on best available resources. Opinions reflect judgment at the time and are subject to change. Forrester®, Technographics®, Forrester Wave, RoleView, TechRadar, and Total Economic Impact are trademarks of Forrester Research, Inc. All other trademarks are the property of their respective companies. For additional information, go to forrester.com. E-46896



Executive Summary

There's a widening gulf between the best procurement functions and the rest. Forrester's survey found that only the top 17% of procurement functions have achieved advanced maturity — measured using our 25-point criteria scale. Moreover, those leading chief procurement officers (CPOs) look set to move further ahead. They are addressing more priorities than their competitors are, investing faster in advanced software, and overcoming obstacles that beginner and intermediate CPOs find insurmountable.

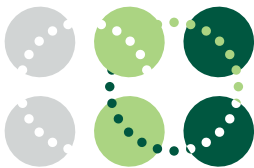
In January 2020, Ivalua commissioned Forrester Consulting to evaluate the need for effective procurement management. Forrester conducted an online survey with 409 finance and procurement leaders at organizations with 1,000 or more employees across the UK, France, Germany, the US and Canada. Forrester found that there are drastic disparities in the measurement approaches of procurement organizations of various maturities that contributes to a widening gap in terms of value created and stature within the businesses.

KEY FINDINGS

- › **Advanced procurement organizations are expected to and are delivering broader and greater benefits to businesses, and they are recognized for it.** Forty-seven percent are viewed as key business partners to the organizations versus only 23% of beginners and 28% of intermediates. Traditional objectives such as cost reduction remain, but more strategic ones are equally important.
- › **With greater investment levels, the gap between leaders and laggards is set to widen even further.** Overall, spending on technology is accelerating. Twelve percent of survey respondents have increased spending by more than 10% in the past 12 months and 43% are planning to do so in the next year. But advanced organizations are increasingly spending faster and more. The widening gap in spending and strategic focus means procurement is increasingly a source of competitive advantage (or disadvantage).
- › **There are major disparities between measurement at organizations, and that hinders the ability for the less mature to course correct.** Fifty-one percent of advanced procurement organizations measure KPIs at least biweekly, and they are three to four times as likely to have optimized their measurement approach than others. This makes it difficult to demonstrate value to the business or improve performance.
- › **Data quality, system integration, and access to actionable insights are the critical obstacles to improved performance today and to establishing the foundation needed for an AI-powered future.** Forty-four percent of respondents cited lack of source to pay (S2P) integration as a challenge, with 39% citing integration between S2P and enterprise resource planning (ERP) systems. This has a direct impact on data quality and automation of reporting. To become more advanced, procurement must address those obstacles to more systematically assess performance across a broad set of metrics with a focus on business value metrics and develop appropriate improvement plans.

There Is No Option But To Transform The Procurement Function

CPOs know they need to improve across many dimensions (see Figure 1). As digital disruption sweeps across all industries, companies face unprecedented competitive pressures. Procurement must be more than a peripheral service that merely squeezes costs out of the suppliers the business has chosen. Today, leading procurement functions perform crucial roles in their organizations’ programs for collaboration, risk management, and sustainability.



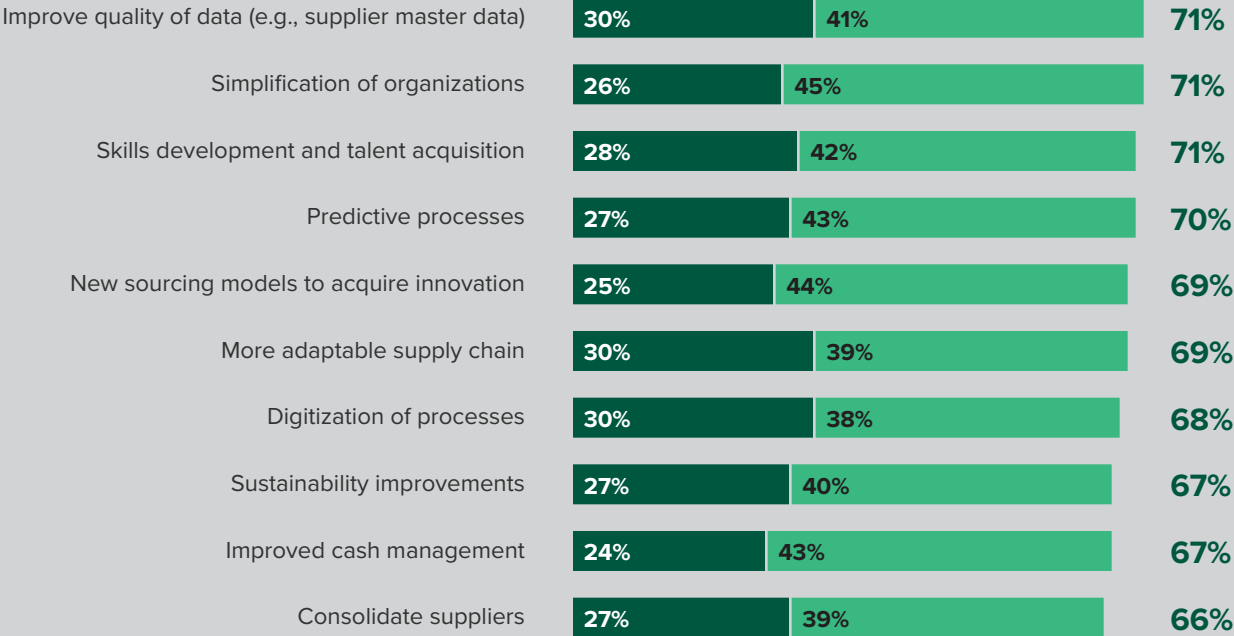
Moreover, digital is creating new channels for customer and partner interaction that are upending core business models and industry dynamics. Procurement needs to automate repeatable tasks to boost efficiency and improve effectiveness via continuous investment in collecting, enriching, and analyzing spend data. This context explains why Forrester’s survey found that:

- > The future belongs to those who monetize and maximize their data.**
 Forrester’s survey data shows that companies make only 48% of decisions on average based on quantitative information and analysis.¹ That’s a number that hasn’t changed much in years. Nevertheless, the

Figure 1

“Which of the following initiatives are likely to be your company’s procurement priorities over the next 12 months?”
 (Showing top 10 “Crucial” or “Important” priorities.)

- Crucial priority, which we need to improve this year.
- Important, and it is one of many areas we would like to improve.



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

flood of digital data is revolutionizing businesses and business decision making. So it's no surprise that 71% of respondents consider improving quality of data as a crucial or important priority. Aligning procurement data and analytics with wider business imperatives around data ensures more informed decision making.

- › **Skills development and talent acquisition remains a top requirement across the board.** A further 71% of firms said they will also prioritize the skills development of their employees and acquire new talent. The gap is no longer data availability or tools, but a lack of skills to use the tools and the data to drive business outcomes.
- › **Collaboration determines how successful organizations are.** Firms realize that improving collaboration improves business performance because many inefficiencies in business come from employees not being able to locate the right information or expertise. Seventy-one percent said they will simplify organizations, making it easier to share data and improving the employee experience.

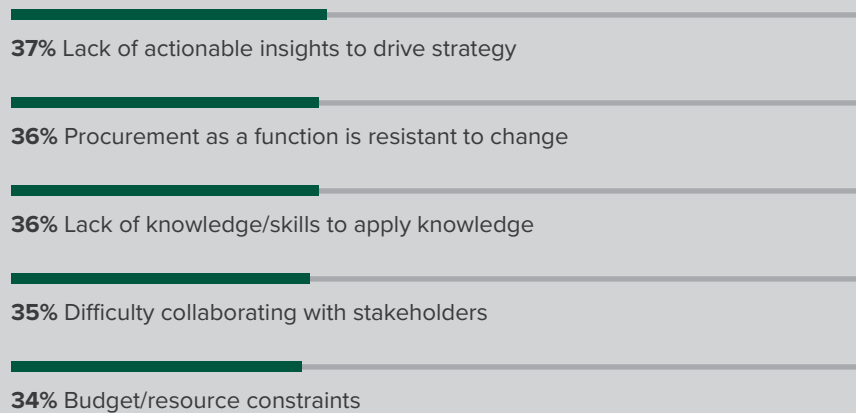
CPOS FACE NUMEROUS BARRIERS TO PROGRESS

The obstacles holding back procurement leaders span human and data categories (see Figure 2). A lack of actionable insights (37%) is top of the list, consistent with the top initiative of improving data quality. The “garbage in, garbage out” issue has not yet been solved and the exponential growth in data volumes makes it more urgent than ever. Enterprise leaders who wonder why their insights-driven transformations are not taking off despite the right investments in technology should also focus on the intangibles that drive transformation forward: leadership, people, culture, and process. These intangibles make or break how data strategy and analytics efforts succeed. Such human factors are crucial and well represented by the other top barriers, which include change management (36%), lack of skills (36%), and difficulty in collaborating with stakeholders (35%).



Figure 2

“What are the top barriers to achieving your strategic objectives for your procurement function?” (Showing top five.)



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

The Five Dimensions Of Procurement Maturity: Advanced Firms Excel

In Forrester’s custom survey, we sought to explore the richness and depth of organizations’ procurement functions and the extent to which their systems are digitally aligned with the overall businesses. We asked respondents to rate their digital procurement readiness across five dimensions:

- 1) **Strategy:** The procurement function’s high-level goals are aligned with and supported by the wider organization.
- 2) **Structure:** Procurement has the organizational model and skills to achieve its goals.
- 3) **Technology:** Procurement has the right tools to execute on the strategy and to promote efficiency, innovation, and collaboration.
- 4) **Process:** Procurement has modern policies and procedures, streamlined workflows, and effective collaboration with colleagues and suppliers.
- 5) **Measurement:** Transparent measurement of business results drives continuously optimization in line with the strategy.

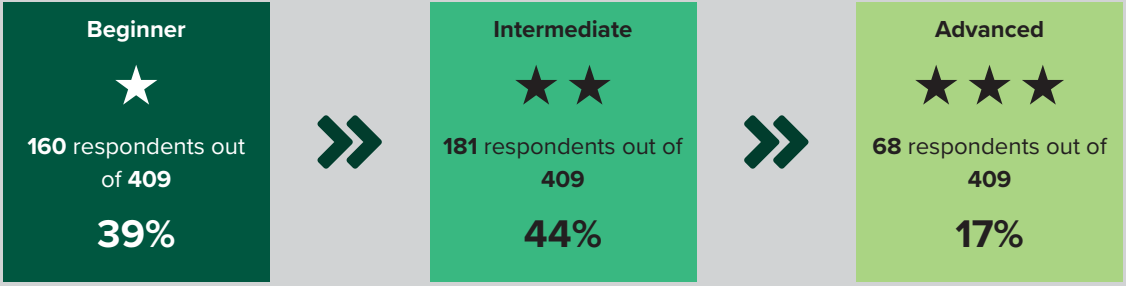
Only the top 17% (68 out of 409 respondents) are considered to be advanced in delivering a competitive advantage to their firms through their procurement functions. Forty-four percent of firms (181 out of 409 respondents) are intermediate and doing well across some of the dimensions. The remaining 39% (160 out of 409 respondents) are considered beginners and scored less than the benchmark Forrester set for them.

The data clearly indicates that although beginner, intermediate, and advanced firms have similar priorities, advanced firms are actively addressing more of them while beginners focus on two or three. Advanced procurement organizations have not progressed beyond traditional priorities such as cost reduction. They have taken on many more priorities, creating more and broader value to the businesses.



Only 17% of firms are considered advanced in their procurement function, scoring highly across the five dimensions of strategy, structure, technology, process, and measurement.

Figure 3
MATURITY SEGMENTATION



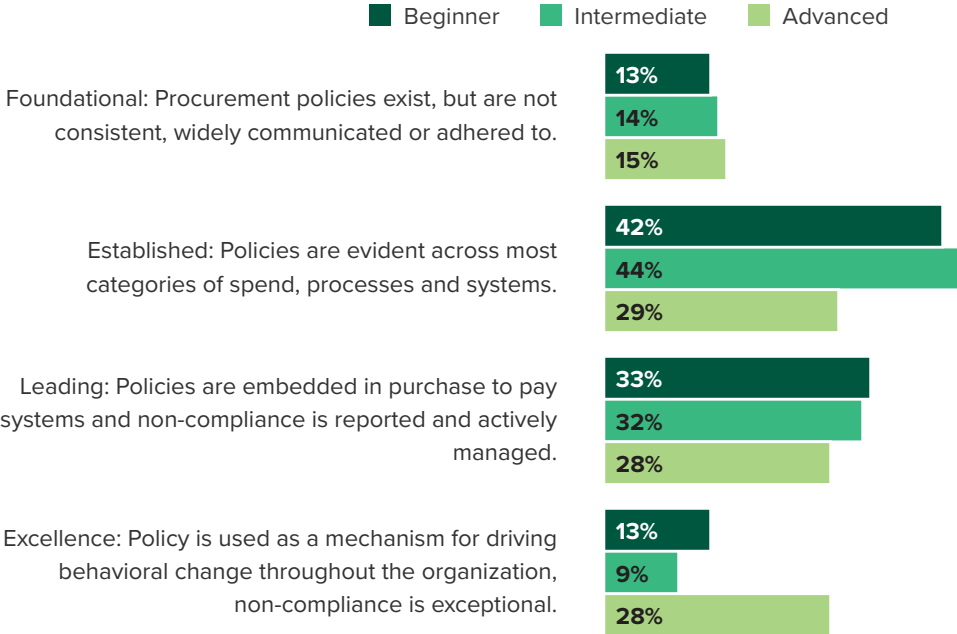
Base: 409 decision makers with responsibility for finance, procurement, and supply chain
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

Besides creating more value, advanced procurement organizations are leveraging procurement policies as a mechanism for driving behavioral change two to three times as much as beginners or intermediates (see Figure 4). Remember, there is no one-size-fits-all strategy for implementing processes and enforcing compliance. Organizations will have a specific set of needs and requirements that will vary based on organizational maturity.

The purpose of procurement policies is to establish strategic guidelines that promote an organization’s vision within its day-to-day operations, such as buying more from local suppliers or firms with the highest standards for ethics and sustainability. However, those policies will be ineffective unless systems and processes nudge colleagues in the right direction. Forrester found that advanced procurement functions are twice as likely as beginners to use policies and governance to drive real behavioral change.

Figure 4

“How would you best describe your organization’s procurement policies?” (Select one.)



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

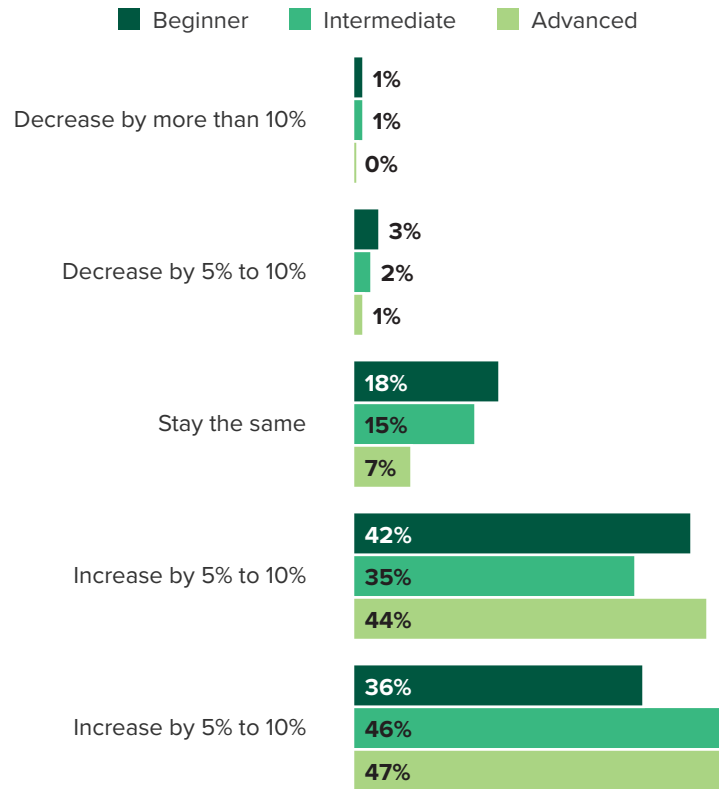
NINETY-ONE PERCENT OF ADVANCED FIRMS WILL SPEND MORE ON PROCUREMENT TECHNOLOGY, PRODUCTS AND/OR SERVICES

Advanced firms are not just further along today, but they are poised to extend their lead through greater incremental investment in the coming 12 months than their less advanced peers (see Figure 5). The overall market for sourcing and procurement software, which Forrester calls supplier value management, is growing at 16% per year and will be over \$10 billion in 2021.²



Figure 5

“How has the procurement department’s spending on technology, products and/or services changed over the past 12 months? How do you expect it to change over the next 12 months?”



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

Data Is The Lifeblood Of An Organization, So Master It

Keeping up in the digital age requires the capacity to produce and analyze context-relevant data to inform and make the right decisions at the right times.

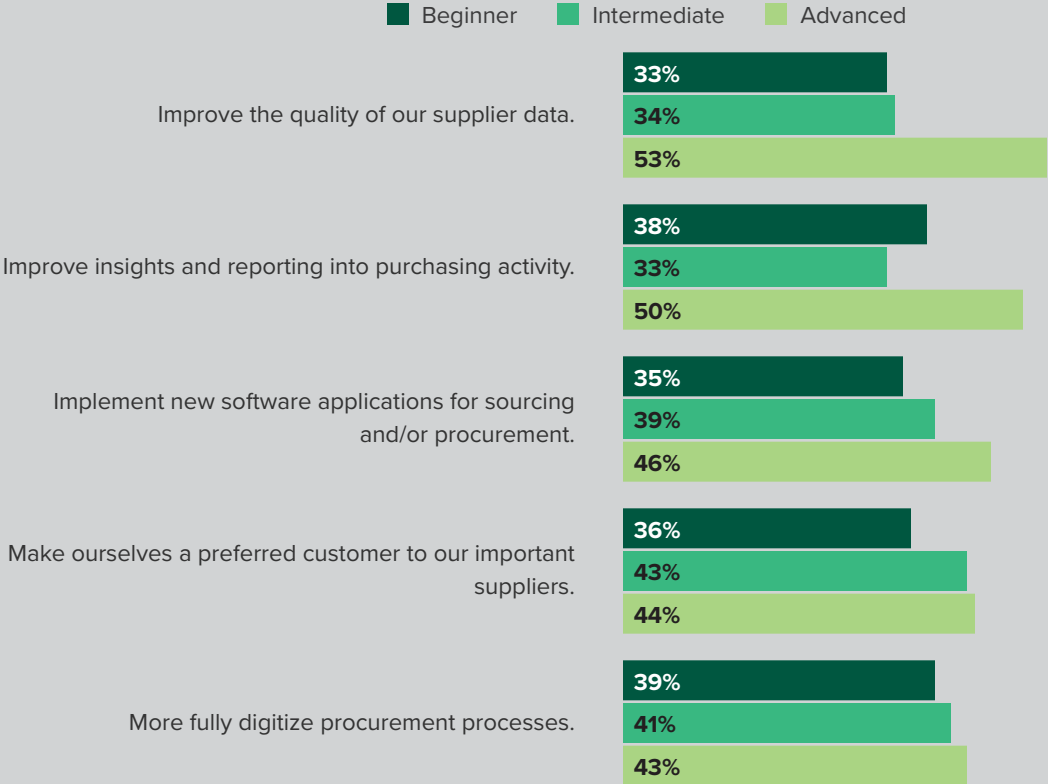
Data literacy is the vital ingredient that’s often partly or entirely missing. That’s why digital procurement functions are not defined by a rigorous process, but by how they use deep and rich data to help people make and execute buying decisions. Advanced firms showcase the following (see Figure 6):



- › **The necessity of data and implementation.** Advanced firms are more likely to prioritize improving supplier data (53%). That’s a 20% difference from beginners and intermediates. Advanced CPOs know they must make improvements to their supplier data because it enables leaders to help make better decisions.
- › **Improving insights and reporting activity.** Business intelligence systems only deliver improved outcomes if they convert data into insight that helps professionals do their jobs more effectively and make better decisions. Half of advanced firms said they will improve

Figure 6

“Which key actions are you taking to achieve your business and procurement objectives?” (Showing top five.)



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

insights and reporting into purchasing activities in order to make more reliable business decisions, whereas only 38% of beginners and 33% of intermediate firms said the same.

- Modern software can help businesses achieve their procurement objectives.** The pace and innovation of software means the procurement function must stay alert to its viability and potential. Well-integrated software can help an organization make the right purchases directly and indirectly through the improved data quality and integration that such software can deliver. Yet many stakeholders — and even some procurement leaders — misunderstand the value of good software in the purchasing process, as is apparent by the number trying to get by with inadequate tools.



What Excellent Procurement Looks Like

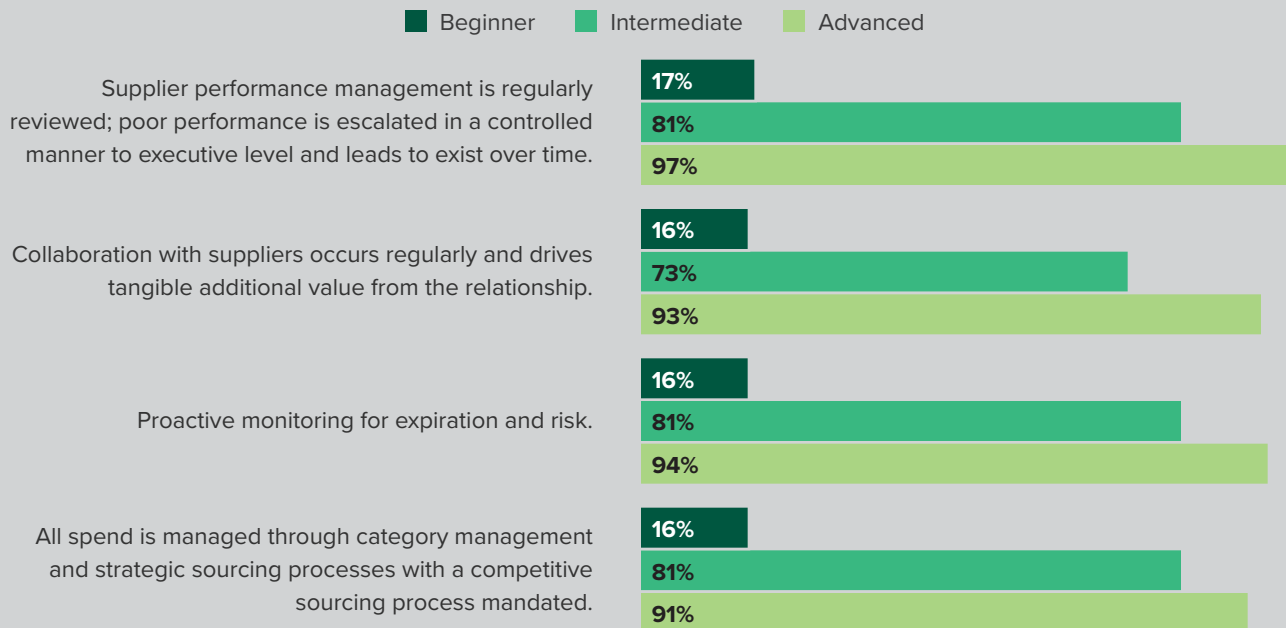
Procurement as a function needs to move rapidly from establishing trusted operator status to that of a business architect. High-performing or advanced procurement teams are involved in strategic business and supplier collaboration activities across performance management, process, contracts, and category management.



Forrester asked respondents how they rate their firms across the four supplier categories (see Figure 7). Essentially, advanced firms are by far the most proactive collaborators and assessors of their suppliers. Intermediate firms follow close behind, but beginner firms show lack of awareness and understanding of the importance given to supplier operations.

Figure 7

“How would you rate the following aspects of your current procurement operations?”



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

Poor Technology Integration And Weak Data Quality Are Major Barriers

Internally, businesses that have manual procurement processes, lengthy management approvals, reconciliations, protracted payment cycles, and a general lack of integration with other business processes and systems can create huge inefficiencies and high transaction costs.

Equally, a lack of visibility into these processes can impede effective supplier management, weaken spending controls, and limit the benefits of strategic sourcing. These technology-related barriers are more prevalent among low-maturity procurement functions compared with their advanced competitors (see Figure 8).

The obstacles impeding harnessing technology differ significantly by maturity. Generally, the less mature an organization, the greater the set of barriers it faces in effectively leveraging technology. Specifically, beginners and intermediate firms are more likely to complain about inadequate integration between applications, distrust of data, and low adoption by employees and suppliers. Advanced organizations ranked integration between S2P modules, skills, and politics as the key barriers. Leaders should consider the evolving nature of obstacles — both people and technology — when defining their transformation strategies to avoid running into roadblocks over time.

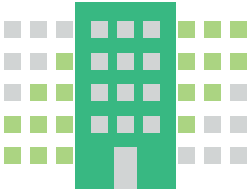
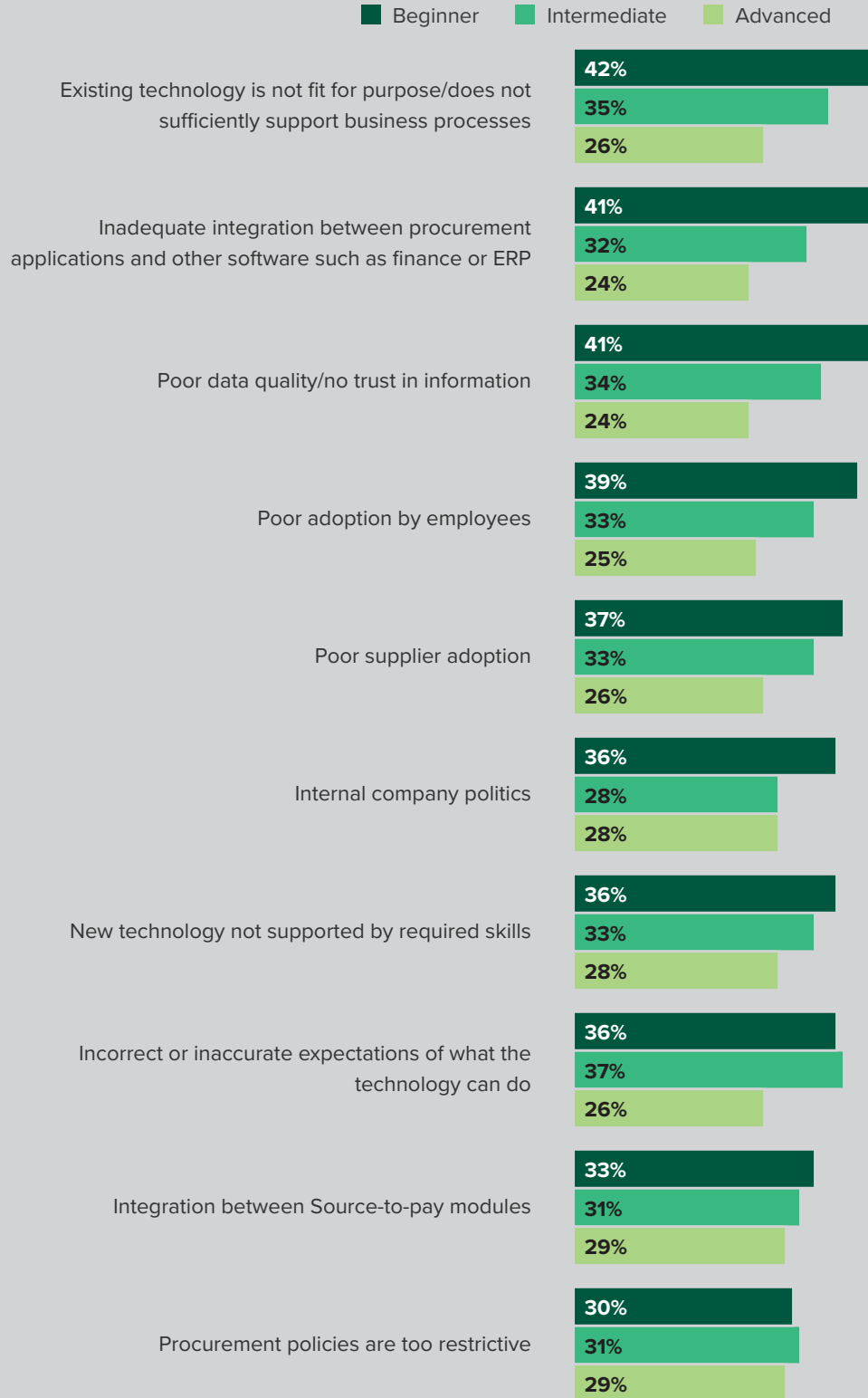


Figure 8

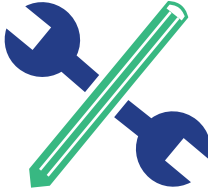
“What are the barriers of harnessing technology for your procurement function?” (Showing insurmountable or major obstacles.)



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

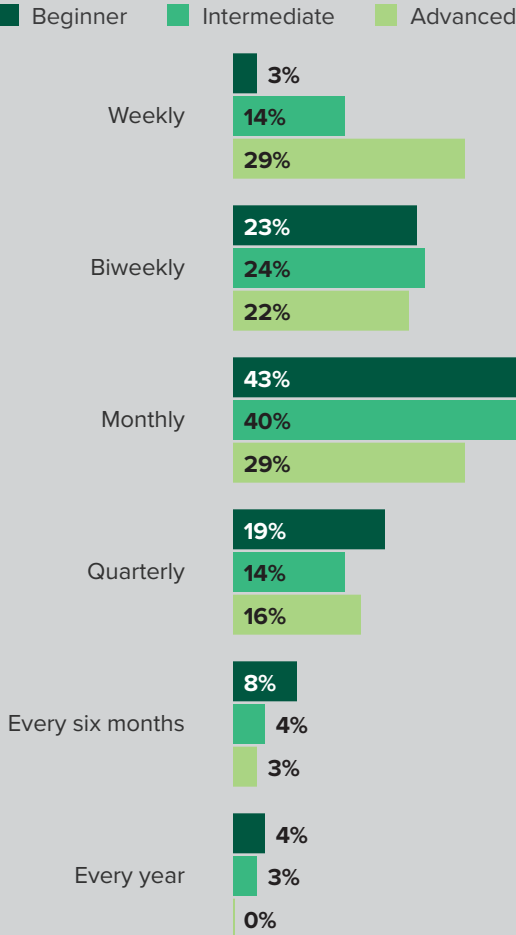
You Can't Improve What You Don't Measure

Technology, data, and analytics enable a more sophisticated approach to measuring the success of the procurement function than a simplistic last-touch method or brand-lift approach. But to evolve to a data-driven and analytical approach, firms must measure the KPIs associated with procurement.



In fact, performance measurement frequency is highly correlated to procurement maturity. Advanced organizations are measuring performance much more frequently than less mature organizations (see Figure 9), with 29% measuring weekly and a majority measuring at least biweekly.

Figure 9
“How frequently does your organization measure KPIs?” (Select one.)



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

ADVANCED FIRMS MEASURE MORE KPIS

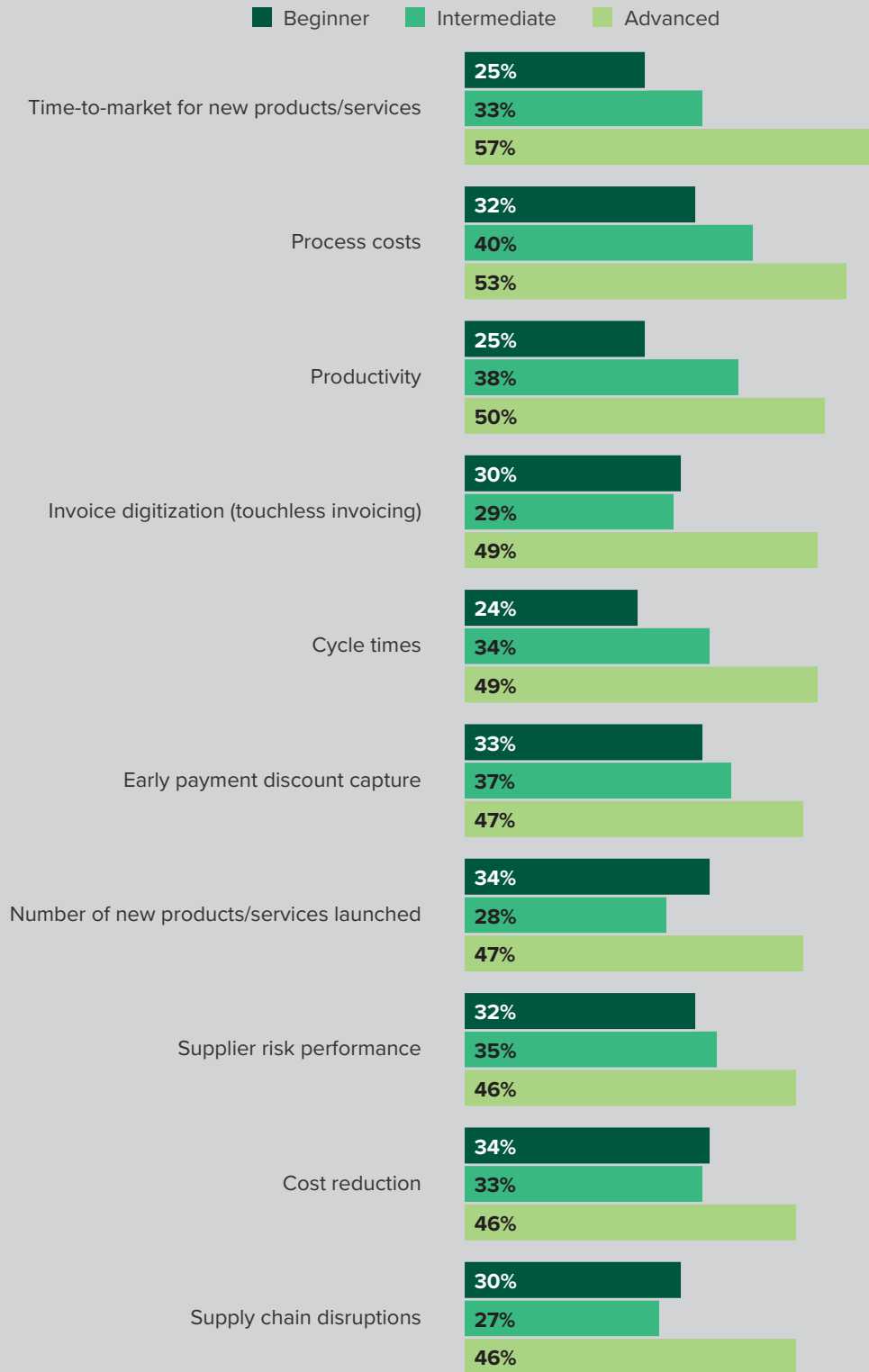
Additionally, advanced organizations are measuring a lot more than their beginner or intermediate counterparts with performance formally tied to the results. However, many programs still fail to capture a complete set of metrics, leaving leaders blind to how their procurement functions actually perform. Advanced firms are leading the way in what they measure and how they measure procurement KPIs. They're focused on (see Figure 10):



- › **A broader set of KPIs.** By measuring a broader set of KPIs, advanced firms indicate they're reflecting a greater range of priorities and a much broader contribution of value to the business. For example, 49% of advanced firms said they're measuring cycle times compared to 34% of intermediate firms and 24% of beginners. Cycle time is essentially the time elapsed from placing or creating a requisition to receiving goods.
- › **A strategic set of KPIs.** Advanced firms are looking at KPIs on a more strategic level. However, the biggest disparity is in time-to-market for new products/services: only 25% of beginners and 33% of intermediate firms do so compared to 57% of advanced firms. A notable gap also exists in measuring supply chain disruptions and invoice digitization.
- › **Continuous measurement.** Twenty-five percent of advanced firms have optimized measurement so that it is continuous, proactive, integrated, effective, and usually automated. Only 6% of beginners and 8% of intermediates can say that.

Figure 10

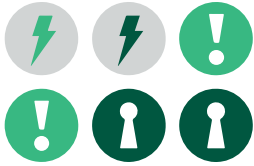
“Describe the relevance of the following KPIs to procurement/supply chain in your organization?”
 (Showing top 10 measured with significant contribution to performance.)



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
 Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

INTEGRATION AND ACCESS TO ACTIONABLE INSIGHTS MUST BE IMPROVED

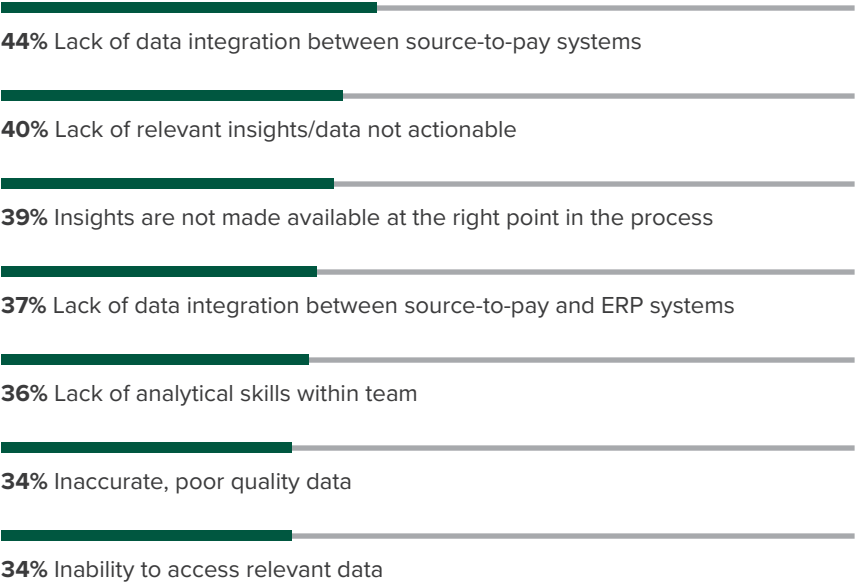
Technical issues are by far the top obstacles when it comes to effective measurement (see Figure 11). The top barrier is integration between S2P systems (44%) while integration between S2P systems and ERP is slightly behind (37%). This reflects the challenge that having disparate data spread throughout the organization creates, and it’s amplified when multiple systems or ERP instances are present.



Making sense out of the data is the second key issue, both driving actionable insights (40%) and accessing them when needed (39%). As one must build the right foundation for more advanced measurement and performance, it is critical to map out the right journey, ensuring you address key barriers. Success begets success and further improvements. It also requires the right people and the right technology.

Figure 11

“What is preventing your organization from accurately measuring progress against business objectives?”
(Select all that apply.)



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

Key Recommendations

CPOs should learn from the Olympic motto: “citius, altius, fortius” or “faster, higher, stronger.” You need to transform faster, aim higher, and make your processes stronger. If your procurement function is currently at beginner or intermediate maturity, then you need to catch up with your competitors as fast as you can. And if you’re already advanced, then you need to go even further. You should:



Perform a realistic assessment of your current maturity. Compare your strategy, structure, process, technology, and measurement against the leaders to identify your priorities for improvement.



Aspire to lead, not merely catch up. The advanced CPOs in Forrester’s survey recognize they need to improve across many different objectives — but that doesn’t mean they try to be great at everything. You should identify where you can differentiate your firm from its competitors and where it is sufficient to be on par with them. For example, cost optimization is table stakes, but the side effects of trying to squeeze suppliers even further may outweigh the incremental benefit. It may instead be better to excel at harnessing innovation from your supplier ecosystem or by ensuring tighter compliance with your corporate social responsibility (CSR) policies.



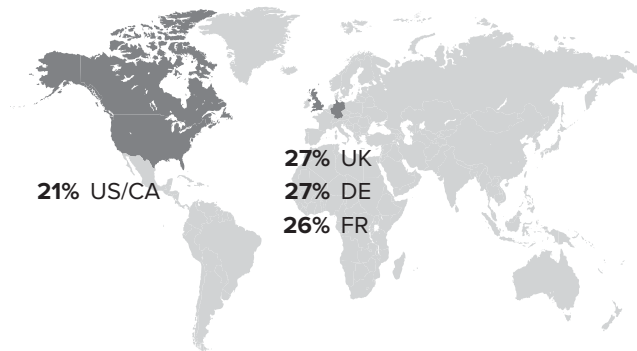
Invest in modern supplier and vendor management (SVM) software. Start replacing outdated sourcing and procurement applications with modern smart, flexible software-as-a-service (SaaS) products with a clear roadmap towards an integrated SVM suite, even if it may take you a few years to implement all its modules. Leading suites generate higher quality data and improve access to actionable insights, top barriers to most organizations. Fully digitize peer-to-peer (P2P) processes and also invest in automating manual tasks to free up your team members so they have more time to use the data that your new software makes available to them.

Appendix A: Methodology

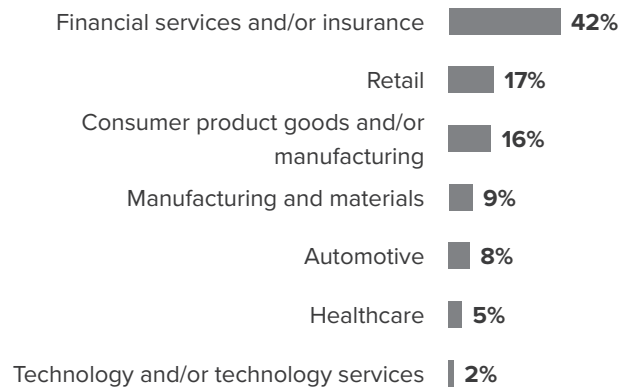
In this study, Forrester conducted an online survey of 409 decision makers with responsibility for procurement within their organizations. Respondents were located in the UK, France, Germany, the US and Canada. The study sought to explore the requirements of an effective procurement strategy. Survey participants included finance, supply chain, and procurement decision makers responsible on a global, regional, or divisional level. At a high level, questions provided to the participants asked what their procurement initiatives look like over the next 12 months, their digital readiness, their current procurement operations, challenges with harnessing technology for procurement, and what the future looks like. The study began in January 2020 and was completed in February 2020.

Appendix B: Demographics/Data

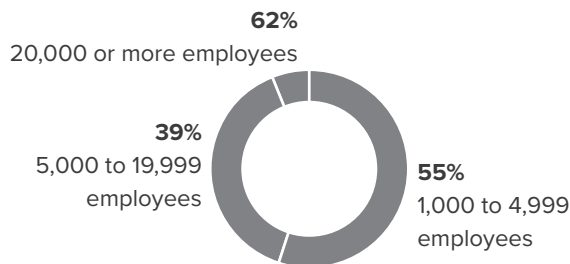
“In which country are you located?”



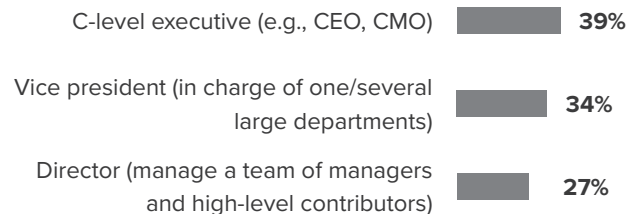
“Which of the following best describes the industry to which your company belongs?”



“Using your best estimate, how many employees work for your firm/organization worldwide?”



“Which title best describes your position at your organization?”



Base: 409 decision makers with responsibility for finance, procurement, and supply chain
Source: A commissioned study conducted by Forrester Consulting on behalf of Ivalua, March 2020

Appendix D: Endnotes

ENDNOTES

¹ Source: “Data Literacy Matters: The Writing’s On The Wall,” Forrester Research, Inc., January 8, 2020.

² Source: “The ePurchasing Market Is Growing Almost Twice As Fast As The Overall Software Market,” Forrester Research, Inc., November 8, 2019.