



PROCUREMENT IN THE
DRIVER'S SEAT:

DELIVERING ROI THROUGH THE PROCUREMENT FUNCTION





EXECUTIVE SUMMARY



The procurement function has taken a greater role as a strategic partner for the organization over the past several years. This is largely due to Procurement's ability to create value through earlier and closer involvement in both project sourcing and supplier selection. Overall, these initiatives have led to a greater focus on risk prevention within the function, as well as the integration of more automated technologies that can allow department employees to spend more time on strategy.

In order to sustain the momentum behind procurement leadership, procurement professionals must identify metrics for reporting not just on cost savings, but also on the positive ROI resulting from the growth of the function. While historically this has been challenging, a host of new solutions and a corresponding abundance of data are putting more options at the fingertips of leaders in the field. Proving value to the C-Suite is critical for any business — for Procurement, strong metrics can be the fuel that allows them to sustain an ever-more central role in charting the course of the organization's growth.

In this report, *Procurement in the Driver's Seat: Delivering ROI through the Procurement Function*, we will explore the tools and techniques practitioners are using to demonstrate value and ROI.





KEY FINDINGS FROM THIS STUDY



53%

of procurement professionals believe Procurement has either high (32%) or full (21%) involvement in processes related to business strategy and the development of long-term goals.

73%

of respondents say Procurement is able to persuade other groups within their companies — 36% say the function is above average in this regard and 37% say Procurement is “very” persuasive.

69%

of procurement professionals are using their percentage contribution to EBITDA as a metric for demonstrating Procurement success.

48%

of procurement professionals feel they have the tools they need to capture data that demonstrates value.

66%

report a lack of buy-in around Procurement’s level of influence, while over half of procurement professionals face foundational data management and visibility challenges (53%). The autonomy of other business leaders’ strategic visions (50%) are standing in the way of Procurement’s ability to gain greater influence with key stakeholders.



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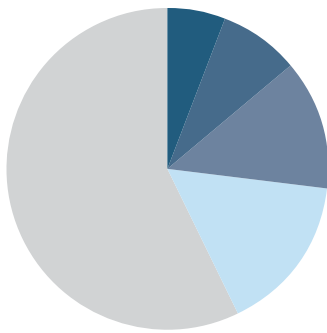
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ABOUT THE RESEARCH

Researchers surveyed 100 procurement professionals in various roles to determine how the procurement function is demonstrating value and ROI.

The majority of respondents (57%) occupy Director roles in their companies' procurement departments. Meanwhile, 16% of respondents are either in Head of Procurement or Global Director roles, 13% are Senior Directors of Procurement, 8% are Procurement Managers, and 6% are VPs of Procurement.



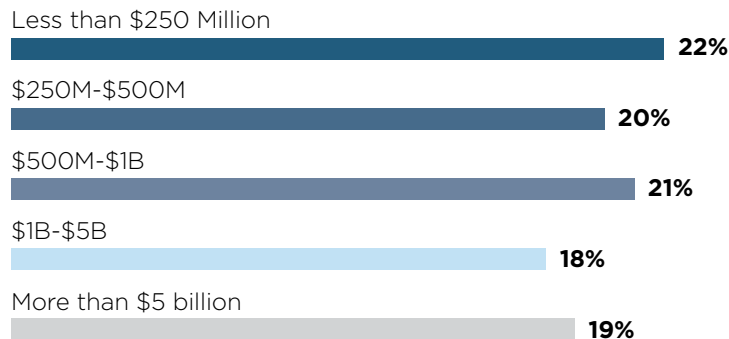
Seniority

- 57% Director of Procurement
- 16% Head of Procurement/Global Director
- 13% Senior Director of Procurement
- 8% Manager of Procurement
- 6% VP of Procurement

The organizations surveyed are distributed somewhat evenly in how much spend their procurement functions have under management. Over a third of respondents (37%) have over \$1 billion under management, with 19% of respondents saying they have over \$5 billion in spend under management and 18% saying their procurement departments have between \$1 billion and \$5 billion under management.

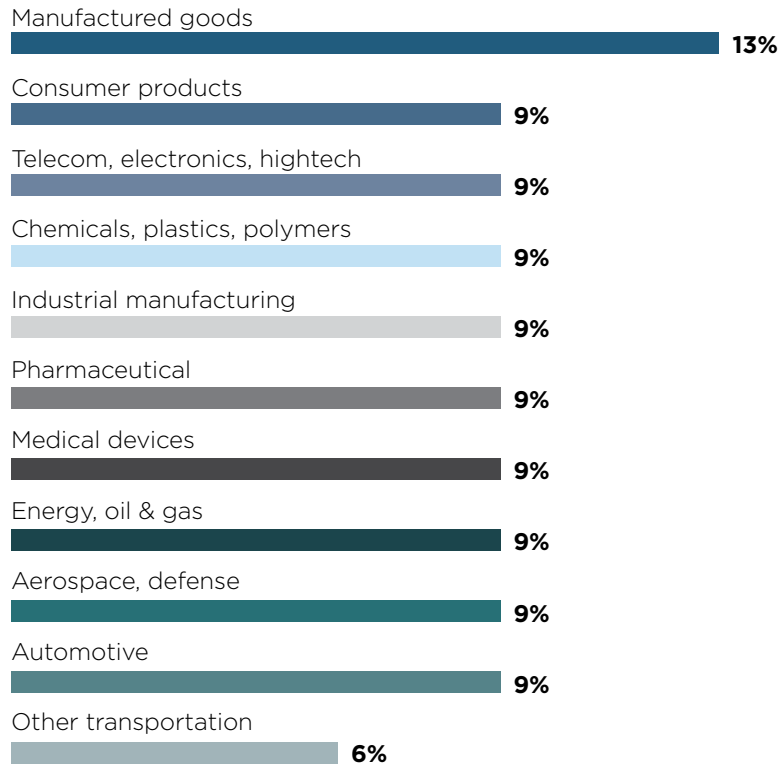
The remaining respondents manage between \$500 million and \$1 billion (21%), between \$250 million and \$500 million (20%), and less than \$250 million (22%).

What is the total amount of spend under management within your organization in USD\$?





What industry does your company represent?

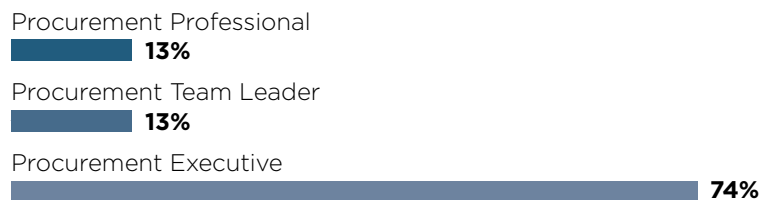


Respondents represent procurement departments from a variety of industries. The largest segment of respondents is from the manufactured goods industry, at 13% of the respondents.

The other respondents are spread almost evenly across industries. In each case, 9% of respondents represent consumer products; telecommunications, electronics, and high-tech industry; chemicals, plastics, and polymers; industrial manufacturing; pharmaceuticals; medical devices; energy, oil, and gas; aerospace and defense; and the automotive industry.

Another 6% of respondents work in a non-automotive transportation industry.

What best describes your role?



Almost three-fourths of respondents (74%) are in executive procurement roles. Meanwhile, 13% of respondents are procurement team leaders and another 13% describe themselves as procurement professionals.



PROCUREMENT IS TAKING ON A MORE STRATEGIC ROLE WITHIN THE ORGANIZATION

Procurement executives have worked hard to build an influential role in their organizations' strategic leadership. Often considered a cost-cutting function, it's only recently that procurement professionals have begun to push back by measuring and communicating the other forms of value they bring to the table.

What is the current level of strategic involvement for Procurement in processes related to business strategy and the development of long-term goals?

Full - Full strategic involvement from the start of initiatives



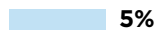
High - Consultative role in strategic direction once a project has been launched



Moderate - Procurement is brought in to execute on new strategies created by C-suite, making strategic recommendations after implementation



Minimal - Procurement is a tactical organization that does not play a decisive role in strategy



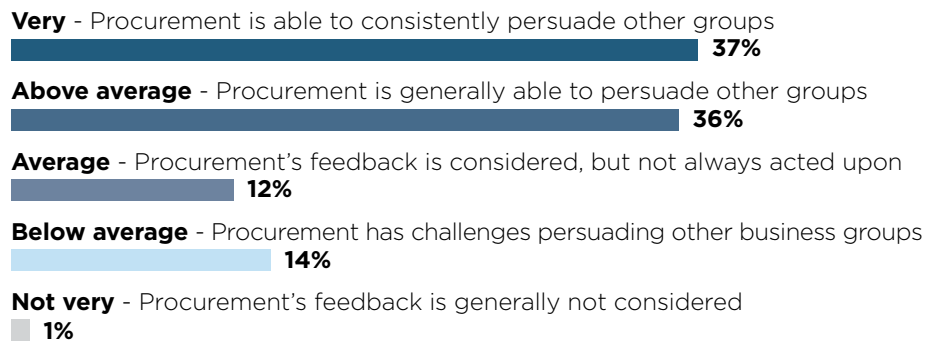
Researchers asked respondents to identify how much strategic involvement Procurement has at their organizations. Almost half of the respondents (47%) say that Procurement has either a moderate level of involvement (42%) or a minimal level of involvement (5%) in strategic decision-making. In the moderate cases, Procurement may be tapped to execute strategies created by the C-suite but only make recommendations after the strategy's implementation. When Procurement has minimal involvement, they play no decisive role in strategy, taking on the role of a tactical team instead.

Nonetheless, a slight majority of respondents (53%) say Procurement has high strategic involvement (32%) or full strategic involvement (21%) in processes related to business strategy and the development of long-term goals. In these cases, Procurement either takes on a consultative role once a project has been launched or they have full strategic involvement from the inception of strategic initiatives and beyond.

Clearly, procurement departments are moving on from simply playing a supporting role in organizations. In the past, executives have often associated Procurement with cost management, looking at cost savings as the only viable metric to measure success in the function. Procurement professionals have also perpetuated this arrangement by focusing primarily — or entirely — on savings metrics, especially in situations where a growing department is able to achieve strong results through pursuing “low-hanging fruit” in the form of baseline supplier audits and leveraging business-wide spending to create economies of scale.

By including procurement professionals in strategy sessions, and by focusing on value-added metrics, procurement departments can present value-based strategic solutions that improve the bottom line. In addition, Procurement can leverage their bird’s eye view of the organization to suggest process and technology improvements to their internal customers. As the results of this study show, there is significant progress being made in this area, but Procurement still has a way to go before it is considered a strategic partner across the board.

How persuasive is procurement? Rate your ability to influence key-stakeholders within your organization.



Despite the challenges involved with growing influence, Procurement is beginning to hold more significant relationships with key stakeholders in the organization. A majority of respondents (73%) say Procurement is able to persuade other groups within their companies. Specifically, 36% of respondents say Procurement’s ability to persuade is above average and 37% say Procurement is “very” persuasive.

Fewer respondents (12%) rate Procurement’s ability to persuade as average — their feedback is considered, but it is not always acted upon. Meanwhile, 14% of respondents rate their procurement department’s ability to persuade as below average, indicating the function has challenges identifying the right way to communicate their value to other business groups. Only 1% of respondents say Procurement is not very persuasive at all and their feedback is generally ignored.

Although Procurement is split in terms of its role in generating business strategies, the department has clearly made headway in its ability to influence and persuade stakeholders to act. The role of Procurement is changing — their suggestions are being taken more seriously and the function is beginning to play a more integral strategic role in 2020.

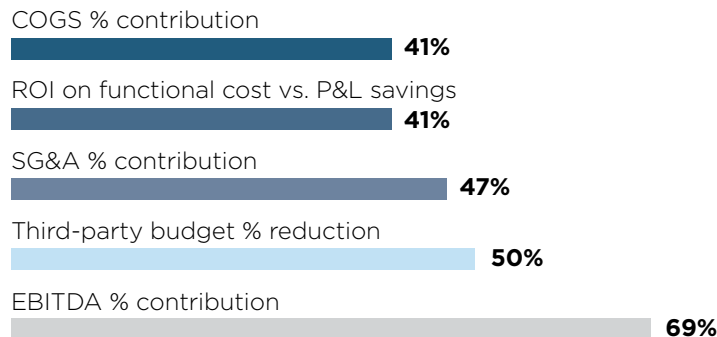


PROCUREMENT METRICS ARE EVOLVING TO DEMONSTRATE NEW TYPES OF VALUE

Part of the reason Procurement has sometimes struggled to win a seat at the table is because of the perception that the only metrics worth measuring in relation to the department are cost savings and cost reduction. Indeed, as one Procurement Director puts it, “Cost-saving metrics hold greater weight when it comes to internal KPIs.”

To determine how procurement departments are measuring their value to the organization, researchers asked respondents which metrics they currently use to demonstrate success.

What metrics are you currently using to demonstrate Procurement successes?



At 69%, a majority of respondents measure their percentage contribution to EBITDA — earnings before interest, taxes, depreciation, and amortization — as a success metric. This result is significant. EBITDA, as a metric, is often associated with functions that are commonly thought to generate operational cash for the organization.

What’s more, CFOs and other financial executives have historically ignored Procurement outside of a common role as a function that drives operational efficiencies. The fact that such a significant portion of procurement departments are measuring their percentage contribution to EBITDA implies that both Procurement and the executive suite are paying more attention to how Procurement can not only drive cost savings but also add value in the form of increased earnings.

Another important metric that Procurement is measuring is the percentage to which the function can reduce the organizations' third-party budget (50%). Companies often turn to third parties in order to cut costs, but when internal efficiencies can take the place of third-party vendors, or redundant, siloed supplier relationships need to be cut down, there are often opportunities to save. Furthermore, Procurement must always be vigilant of their suppliers' performance. According to one Director of Indirect Procurement, "Supplier performance metrics along with SUM (Spend Under Management) have a greater impact on our procurement functions."

Meanwhile, 47% of respondents say their procurement departments are measuring their percentage contribution to selling, general, and administrative expenses (SG&A) as a metric. Lastly, 41% of the procurement professionals surveyed say their departments are measuring both ROI on functional cost versus profit and loss (P&L) savings, as well as their percentage contribution to the cost of goods sold (COGS), respectively.

In their qualitative responses, many of the respondents surveyed say they cannot think of any other metrics their departments should capture but are not.

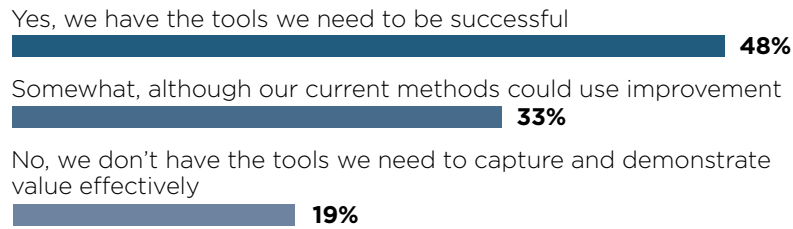
However, purchase order (PO) cycle time, cost per invoice, delivery lead time, and the analysis of both vendor availability and alternative vendors were all metrics that were mentioned as important but are not being measured effectively.

According to one Procurement Manager, "PO Cycle time can't find an effective space on our KPI list," and a Senior Procurement Director says, "I believe that purchase order cycle time is rarely considered." Meanwhile, one Senior Director of Procurement cites, "supplier risk assessment scores," as an important but unmeasured metric, and another Senior Procurement Director says, "Procurement scalability is one such metric."





Do you feel that Procurement has the tools it needs to capture data related to demonstrating value?



Capturing data to support these metrics requires the right solutions. Procurement departments now have a large marketplace of tools to choose from to capture data, measure KPIs, and drive efficiencies. In fact, the explosion of specialty tools in the market from roughly 2016 onwards is one of the catalysts of Procurement's accelerating rise to prominence in leadership circles.

Nearly half of procurement professionals are happy with their current tools, as 48% of respondents say they have the tools they need to be successful. However, a slight majority of respondents (52%) say they either feel that Procurement only has the tools it needs to be successful "somewhat" (33%) or that they don't have the tools they need to capture and demonstrate value effectively at all (19%).

In their strategic discussions with other organizational leaders, Procurement will need to frame new technology investments as a means to prove ROI, create efficiencies, and, indeed, reduce costs. Only by capturing data as it relates to demonstrating value will Procurement be able to play a more strategic role in the organization and demonstrate ROI.

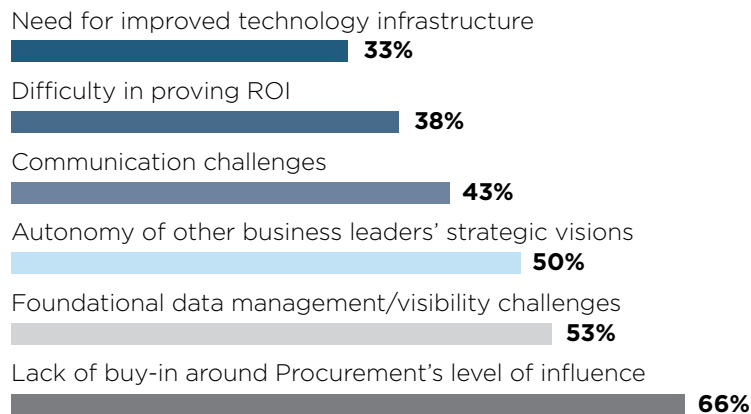


PROCUREMENT STILL FACES BARRIERS TO INFLUENCE WITHIN THE ORGANIZATION

In 2020, Procurement has made significant progress in becoming a strategic partner within the organization. The function's influence has grown, and savvy stakeholders are beginning to see Procurement more as a valuable asset and less as a purely tactical function.

Nonetheless, many barriers remain between Procurement and its rightful place in the strategic center of the organization.

What are the most pressing challenges currently standing in the way of Procurement's ability to gain greater influence with key-stakeholders and the C-Suite?



Majorities of respondents indicated that lack of buy-in around Procurement's level of influence (66%), challenges with foundational data management and visibility (53%), and the autonomy of other business leaders' strategic visions (50%) were all significant barriers. Clearly, although the role of Procurement is changing, many stakeholders are still hesitant or unwilling to accept it as a strategic and influential asset. The fact that half of respondents cited other leaders' autonomy as a barrier also confirms this. Perceptions linger around the role of Procurement as a barrier, rather than an enabler. It is possible that business leaders are skeptical of allowing Procurement to guide their decision-making based on the idea that they will restrict their strategic autonomy.

Less common checks to Procurement's influence with key stakeholders and the C-suite are communication challenges (43%) — which could be possibly remedied by new processes or technologies — and the need for an improved technology infrastructure (33%).

Notably, only 38% of respondents said difficulty proving ROI is one of the most pressing challenges currently standing in the way of Procurement's ability to gain influence. This indicates that Procurement has made significant headway in proving ROI, but interpersonal barriers like the lack of buy-in in the C-suite and difficulties in obtaining data visibility are getting in the way. One technique that can help to move the needle within these relationships is strategic storytelling to define value. Identifying an area of a business that Procurement has improved, then putting that into a dynamic retelling can solidify the qualitative elements of change that data alone cannot communicate.

Obtaining visibility into data, defining strong metrics and KPIs, and clearly communicating successes to key stakeholders will be paramount if Procurement is to obtain buy-in and become a true strategic partner in the near-future.

ACTION ITEMS FOR PROCUREMENT LEADERSHIP



Continue to develop a technology infrastructure that provides time for Procurement to pursue high-level strategy. Niche solutions can allow Procurement to reduce the time related to otherwise time consuming activities, such as tracking tail-spend or guiding their internal clients through buying-processes which can now be automated.



Supplement metric-based demonstrations of value with qualitative storytelling. Illustrating areas where Procurement was able to add value to business processes can reinforce positive impressions that go beyond cost-management.



Develop supplier relationships that can enable mutual growth, especially within cutting-edge technology areas such as the use of AI and automation. This should take the form of a vocal relationship with suppliers that emphasizes where capabilities can grow and continue to be applied to other business areas.



ABOUT THE AUTHORS

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