

SOURCING AND PROCUREMENT: ALIGNING BUSINESS SUSTAINABILITY WITH CORPORATE OBJECTIVES

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Report Highlights

p5

Best-in-Class companies have 2.67x the annual realized savings compared to their competition.

p5

Best-in-Class companies have 28% higher on-time delivery (to required date, to commit date, to established lead time) from suppliers for indirect material orders / releases.

p8

Best-in-Class companies are more than 3x as likely to consider present and expected regulatory compliance requirements when considering their sustainability program.

p10

Best-in-Class companies are 44% more likely to implement sustainable sourcing strategies by engaging key suppliers.

This report will examine how Best-in-Class companies leverage sustainability in their sourcing process to align with company goals and stay ahead of the competition.

2

Corporate mandates to reduce costs is the number one pressure facing those responsible for sourcing and procurement. This pressure is followed by the need to reduce complexity and processing time in the source-to-settle process.

Business Sustainability

For the purposes of this report, “business sustainability” is used as an overarching term that includes all aspects of supporting and maintaining an organization’s sourcing and procurement. Anyone who manages a supply chain wants to make sure their sources are sustainable. Will they be able to function the same way Year over Year?

The sourcing and procurement function has historically been perceived by many organizations as a cost center, not a value center. However, no organization can grow more quickly than its supply chain infrastructure. A deep understanding of the entire supply chain and its ability to withstand rapidly fluctuating social, environmental, and local demands, while still remaining agile enough to react, is key to business sustainability. This report will examine the issue of business sustainability and the role it plays in sourcing and procurement initiatives at Best-in-Class companies.

The sourcing and procurement function increasingly has a seat at the executive table as a strategic partner within some organizations. But with that seat comes responsibility — to protect the brand image and provide corporate governance over the supply chain. We’ll take a look at the common business pressures faced by procurement departments, along with the actions they are taking to address these pressures. We will then examine the role business sustainability plays in strategic sourcing today.

Business Pressures Facing Sourcing and Procurement

At 73% of Best-in-Class companies, the sourcing and procurement function plays a prominent or critical role. Protecting the brand image and providing corporate governance over the supply base are now part of the charter; after all, no organization wants to be in the headlines for having supply chain issues such as quality recalls, child labor, etc.

These activities add new pressures to an already hectic business function. As shown in Figure 1, corporate mandates to reduce costs is the number one pressure facing those responsible for sourcing and procurement. This pressure is followed by the need to reduce complexity and processing time in the source-to-settle process. Organizations also report increased pressure to comply

3

Best-in-Class Definition

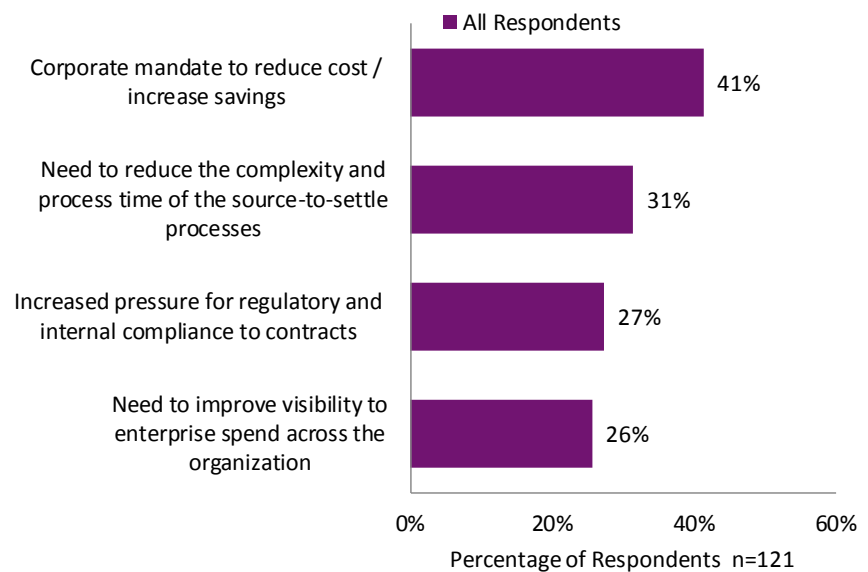
Based on Performance

- **Best-in-Class** – Top 20%
- **Industry Average** – Middle 50%
- **Laggards** – Bottom 20%
- **All Others** – Bottom 80% (the sum of the Industry Average and Laggards)

Reducing complexity in the end-to-end sourcing and procurement process is a significant headache for many organizations. It is in response to this pressure that many organizations seek to automate and streamline sourcing and procurement processes through a platform approach.

with regulations and internal contracts at a nearly equal rate as the need to improve visibility into enterprise spend.

Figure 1: Business Pressures



Of course, all organizations are looking to save money. If there were ever a doubt, make no mistake: the primary reason sourcing and procurement exist is to drive savings and reduce costs. However, Best-in-Class companies go further by aligning sourcing and procurement with corporate objectives, transforming the supply chain into a value center.

Ultimately, Figure 1 tells us that reducing complexity in the end-to-end sourcing and procurement process is a significant headache for many organizations. It is in response to this pressure that many organizations seek to automate and streamline sourcing and procurement processes through a platform approach.

4

Supply Chain Disruptions

Any disruptions in the supply chain can cause a domino effect that produces negative results downstream — all the way to the customer, at the supply and the credibility level.

- [Related Research: Achieving a Source-to-Settle Common Platform: Balancing Improvements with Savings](#)
- [Related Research: Source-to-Pay: Best-in-Class Performance Advantage](#)

Organizations Need a Holistic View of the Supply Chain

With consumers becoming increasingly informed about organizations and their supply chains, it should be clear now that each point in the supply chain matters. After all, no company wants to become the next headline or recall due to supplier issues. Consider the [Takata air bag recall](#): this supplier issue not only affected tens of millions of vehicles in the United States alone, but also tarnished the reputations of dozens of auto makers.

Savvy companies carefully consider each piece of the supply chain puzzle. In our global economy, sourcing and procurement organizations must evaluate a variety of risks before entering into a purchasing agreement. These can include:

Political climate. For example, if a conflict breaks out in the region where materials are sourced, the supply chain could screech to a halt. Brexit is another example: changes will occur, and managing / leveraging them is likely to challenge sourcing and procurement organizations.

Regulatory environment. Organizations must consider local regulations in all the regions where they source, ship, and manufacture.

Workforce management. Sourcing and procurement organizations must be concerned about issues like child labor and workplace safety.

Substitution. In some cases, suppliers may substitute lesser, fraudulent, or even toxic ingredients and products, so sourcing and procurement organizations must ensure they are getting what they pay for.

5

Best-in-Class Performance Based on Business Metrics

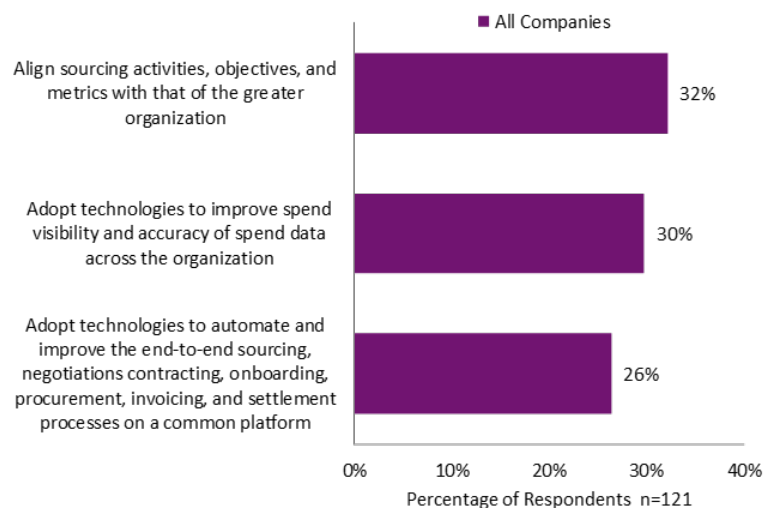
- Average yearly savings
REALIZED by sourcing team
 - Best-in-Class – 18%
 - All Others – 7%
- Total spend under management of procurement organization
 - Best-in-Class – 71%
 - All Others – 43%
- On-Time Delivery (to required date, to commit date, to established lead time) from suppliers for indirect material orders / releases
 - Best-in-Class – 75%
 - All Others – 59%

Environmental or other disaster. From earthquakes to extreme weather events like floods, blizzards, wildfires, and heat waves, natural disasters can affect the supply chain by causing damage to buildings, machinery, and data centers — not to mention disrupting transportation networks.

Strategic Actions for Sourcing and Procurement

An organization's supply chain partners have the power to directly impact the company's revenue. Figure 2 shows us that aligning strategic goals between sourcing and procurement and the organization's business goals is a high priority for most organizations, followed closely by adopting technologies that can improve visibility and accuracy into spending data. Additionally, organizations prioritize adopting technologies that enable automation and onboarding to improve the supply chain process from end to end.

Figure 2: Strategic Actions for Sourcing and Procurement



Source: Aberdeen Group, December 2013

6

Best-in-Class companies are adopting technology that improves visibility into regulations and compliance, in addition to deliveries and savings opportunities.

Given the pressures already mentioned, what are companies doing to address them? Figure 2 shows survey respondents' top strategic objectives. Clearly, the top strategic priority for sourcing and procurement professionals is aligning sourcing activities, objectives, and metrics of the organization as a whole.

Best-in-Class companies are adopting technology that improves visibility into regulations and compliance, in addition to deliveries and savings opportunities. Although visibility goes beyond deliveries, reference the sidebar on deliveries and savings to see how much better the Best-in-Class are performing.

The Best-in-Class are also looking into technology that can help improve spend under management, as well as automate and onboard more quickly — such as moving from paper to digital — eliminating waste and creating additional time to focus on more important business activities.

Improving Sourcing and Procurement Alignment with Overall Business Goals

Some questions that sourcing and procurement organizations should consider when improving alignment with business goals include:

- Which of our products are being sourced from areas with political conflict, environmental disaster, or other supply chain risk?
- How long will it take us to answer the question above?
- How much information — such as inventory, orders, product descriptions, and bills of material — do we share and align that information with our trading partners? In other words, do we use the same product names, SKUs, part numbers, etc.?

7

Aligning sourcing and procurement goals with business goals drives the 18% yearly savings realized by the Best-in-Class.

- Do we currently collect and track data on inventory levels, lead time, or order fill rates?
- How do we gather, manage, and use the data we collect?
- How accurate are our forecasts for product demand?
- How coordinated are our processes and workflows with those of our suppliers?
- Is our supply chain technology compatible with that of our suppliers?
- How well do we coordinate decision making with our suppliers about pricing, production capacity, part numbering, or product design?

The Best-in-Class know the answers to all these questions, and more. Aligning sourcing and procurement goals with business goals drives the 18% yearly savings realized by the Best-in-Class. Coordinating and collaborating with suppliers helps the Best-in-Class achieve 75% on-time delivery, while also driving 71% spend under management — 64% more than All Others.

Organizations in the All Others group tend to accept what comes because they simply don't have the resources — such as a legal department to stay ahead of the global regulatory environment — or the technology infrastructure to automate processes or collaborate electronically with supply partners.

Drivers Behind Business Sustainability Initiatives

Now that we've examined the pressures faced by sourcing and procurement organizations, and the strategic actions they are taking in response, where do business sustainability efforts fit in

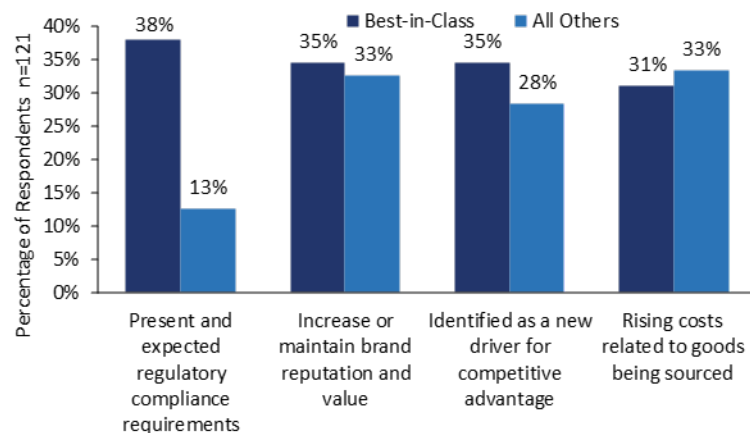
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Best-in-Class organizations are nearly three times more likely to prioritize regulatory compliance than All Others.

— and how do the drivers behind these efforts align with corporate and sourcing/procurement goals?

Regulatory compliance requirements, as it turns out, are the primary drivers behind efforts to ensure business sustainability. In Figure 3, we see that Best-in-Class organizations are nearly three times more likely to prioritize regulatory compliance than All Others. The current global political environment is driving considerable regulatory change, and Best-in-Class organizations view the ever-changing global regulatory environment as the top disruptor driving business sustainability initiatives. The Best-in-Class are three times more likely to consider present and expected regulatory compliance requirements as a top priority compared to All Others. Best-in-Class organizations can not only navigate regulations, but also mitigate adverse changes while taking advantage of those that benefit sourcing and procurement.

Figure 1: Drivers Behind Business Sustainability Initiatives



Best-in-Class companies and All Others are fairly equal when it comes to their reasons for pursuing sustainability efforts. Organizations leverage sourcing and procurement to increase or maintain brand reputation and value, or to use business sustainability as a competitive advantage. These brand reputation

9

One of the business sustainability initiatives for the Best-in-Class is to strategically source by standardizing formal sourcing processes, ranking dollars of spend by category along with the level of importance of the product.

enhancers may include using recycled materials for packaging or publicizing fair trade initiatives, environmental stewardship efforts, or charitable works.

Organizations that fall into the All Others category are neck-and-neck with the Best-in-Class with regards to dealing with brand and competitive advantage. They all have the same pressures, yet they are prioritized differently, typically based on organizational maturity. For All Others, rising costs are the top driver for business sustainability initiatives; it's not that they don't face the same pressures, it's that they prioritize them differently.

Capabilities Supporting Business Sustainability Initiatives

One of the business sustainability initiatives for the Best-in-Class is to strategically source by standardizing formal sourcing processes, ranking dollars of spend by category along with the level of importance of the product. This strategic sourcing — prioritizing and optimizing spend for these categories and engaging key suppliers — becomes the “secret sauce” for their business.

A couple of (admittedly exaggerated) examples for creating the “secret sauce” involve optimizing and leveraging spend in supply and procurement organizations, and include:

- Researching the vendor database reveals that your organization has 32 different office supplies vendors. *Can we coordinate with line-of-business and sourcing groups to source more sustainably and reduce that number by half, or less than 10, to create more leverage through aggregation?*
- Your top spend is on steel and plastic. You source seven grades of steel and three types of plastic from six different

10

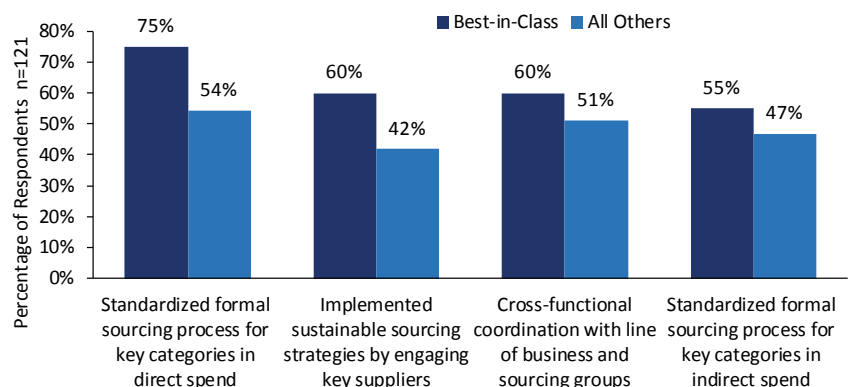
Standardized formal sourcing process for the most vital categories in direct spend is a capability that 75% of Best-in-Class organizations have when it comes to supporting business sustainability initiatives.

vendors. *Can you engage key suppliers to reduce the number of sources for each, consolidated into three or four, allowing for the possibility of some unique grades?*

- *Typically, the greater the number of suppliers on critical raw material, the greater the variability of incoming quality will be — a potential issue.*

According to Figure 4, a standardized formal sourcing process for the most vital categories in direct spend is a capability that 75% of Best-in-Class organizations have when it comes to supporting business sustainability initiatives. The fact that 54% of All Others also possess this capability suggests that it is an obvious starting point for building organizational support for business sustainability. In other words, the Best-in-Class have already prioritized their most important spending categories, and are using the strategies they developed while reviewing those key categories to optimize spend for the rest.

Figure 4: Key Sourcing/Procurement Capabilities



This type of information enables you to determine how to reduce the number of vendors in each category to the lowest possible number, and gives sourcing and procurement organizations greater leverage to negotiate better deals as well as increase efficiency. By doing so, you have a starting point to create a

11

The high level of adoption of strategic and sustainable sourcing is in line with the other critical capabilities for Best-in-Class organizations, who are 44% more likely to have implemented sustainable sourcing strategies by engaging key suppliers.

methodology that can be repeated as a standardized formal sourcing process across all categories in sourcing and procurement.

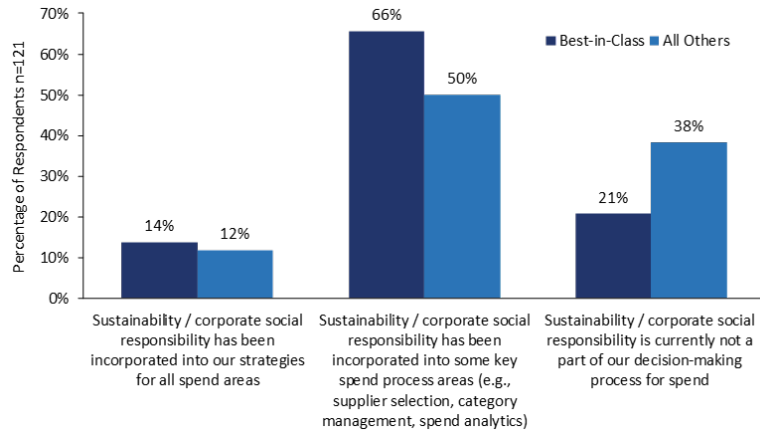
The high amount of adoption of strategic and sustainable sourcing is in line with the other critical capabilities for Best-in-Class organizations, who are 44% more likely to have implemented sustainable sourcing strategies by engaging key suppliers, also shown in Figure 4. The fact that we see a similar level of adoption for capabilities in most organizations is an indicator of across-the-board commitment to business sustainability. Let's take a closer look.

Strategic Adoption Level Within Sourcing and Procurement Workflows

When it comes to incorporating business sustainability into overall sourcing and procurement workflows, the Best-in-Class show a sizeable advantage: Figure 5 tells us that 80% show All or Some level of business sustainability incorporation, versus 62% for All Others. When referring back to performance in Figure 4, we learn that sustainability is an area of significant differentiation in capabilities on adoption for the Best-in-Class (60%) versus All Others (42%).

When leveraged strategically, sourcing and procurement impacts cost savings. With the 18% yearly realized savings the Best-in-Class enjoy, it's worth understanding where they are heavily differentiated compared to All Others. Pairing their performance with their 80% adoption rate of sustainability in sourcing initiatives, plus 75% adoption of a formal strategic sourcing process for key categories (Figure 4), it's clear that the Best-in-Class have a marked advantage over All Others.

Figure 2: Level of Business Sustainability Adoption by Maturity Class



Summary and Key Takeaways

- Sourcing and procurement organizations have always had a lot on their collective plate; now added to their responsibilities is a more strategic role within the organization. Part of the strategic role means they must be concerned with more than cost. For the Best-in-Class, this has elevated the importance of business sustainability.
- Corporate governance is also an increasing priority for sourcing and procurement organizations; they are not only engaged at the social responsibility level, but are also heavily involved in managing and working with regulatory compliance issues.
- The Best-in-Class have adopted business sustainability at the same rate as sourcing strategies for key categories, as well as cross-functional alignment with the lines of business. This shows that business sustainability is high on the priority list.

13

- Following the lead of the Best-in-Class on business sustainability is a differentiator for sourcing and procurement organizations to further their strategic role while simultaneously driving improved performance results.

All organizations should contemplate what would happen if they didn't take steps to improve business sustainability. Consider taking a look at sourcing and procurement processes and comparing the costs of your organization suddenly being faced with regulatory issues or lawsuits against the costs of improving business sustainability practices. According to the numbers, the choice seems to be clear.

14

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[Source-To-Pay Procurement Transformation: Tying the Pieces Together](#); August 2015
[Nail the Upstream in Your Source-to-Pay Process for Maximum Results](#); June 2017

[Achieving a Source-to-Settle Common Platform: Balancing Improvements with Savings](#); April 2017
[Source-to-Pay: Best-in-Class Performance Advantage](#); September 2015

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