



# **2008 Assessment of Excellence in Procurement**

***How Leading Companies Are Achieving Competitive Advantage through  
Procurement Excellence***

***December 2008***

***ATKEARNEY***

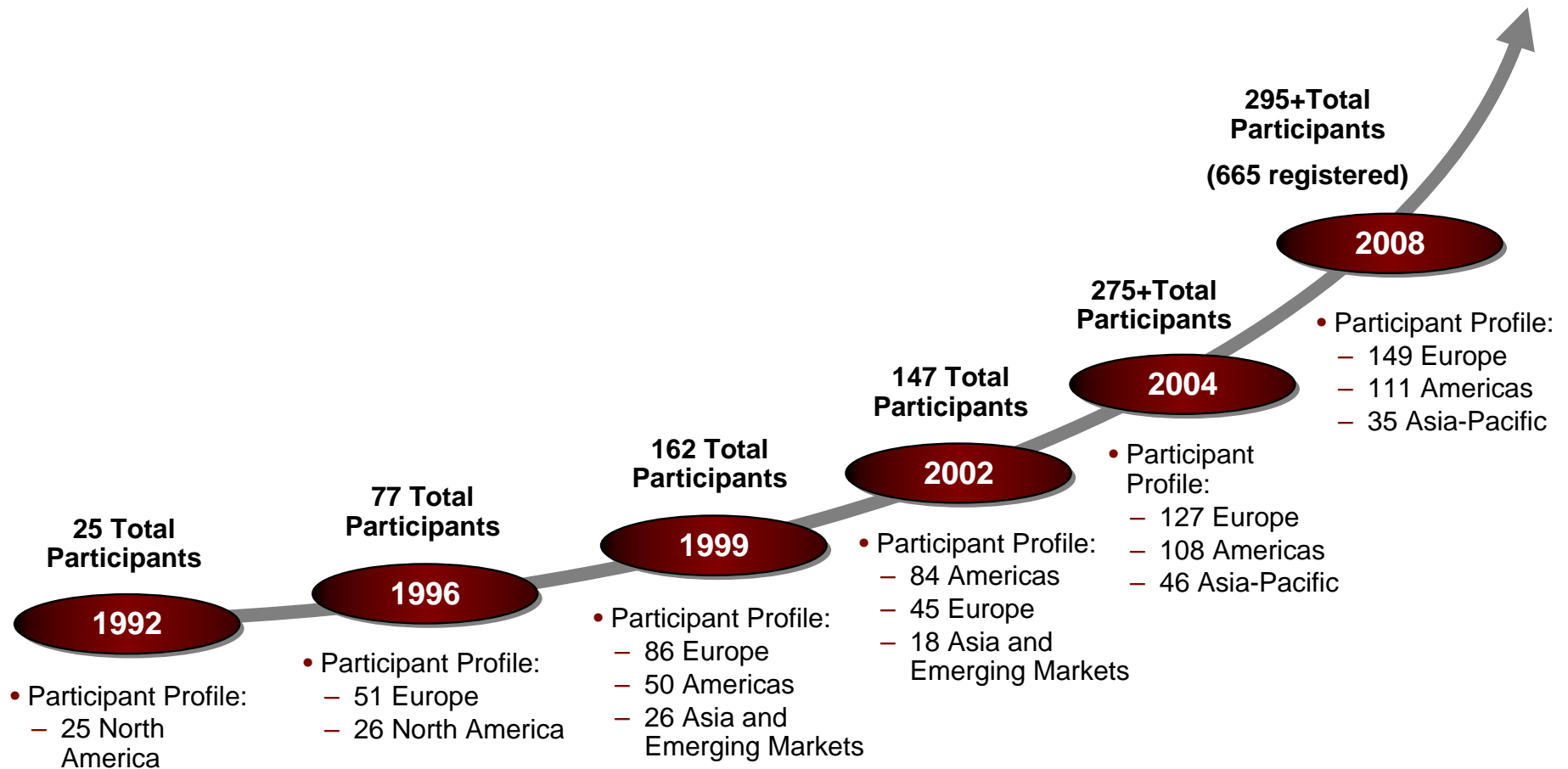
## AEP Results and Findings

- AEP 2008 Background
- Procurement at a crossroads
  - Broader Mandate
  - Dynamic Value Creation Strategies
  - Robust Capability Enablement

## **AEP 2008 Background**

# A.T. Kearney's 2008 Assessment of Excellence in Procurement is the latest and largest edition in our series of in-depth studies

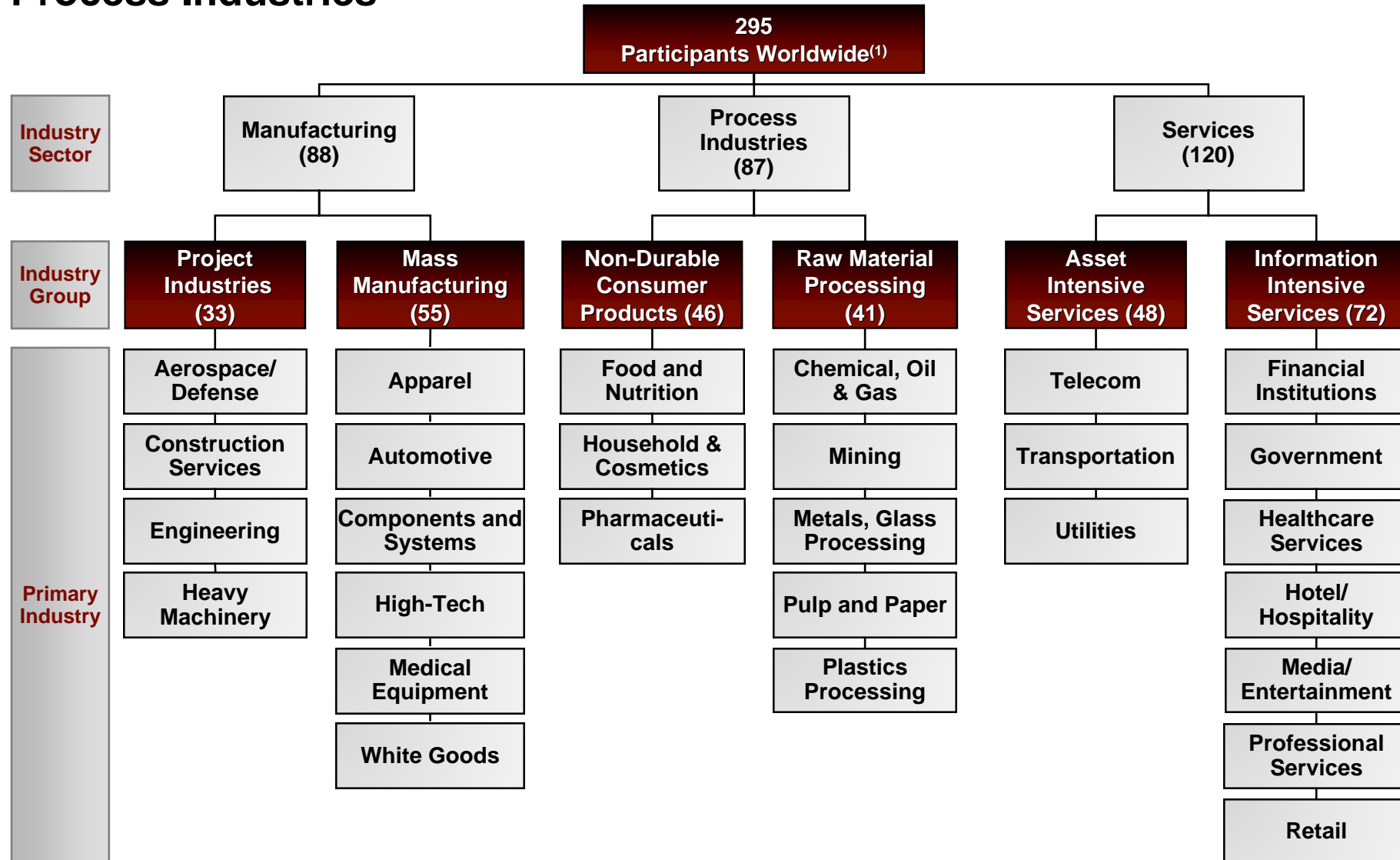
## History of A.T. Kearney's Assessment of Excellence in Procurement



Source: A.T. Kearney 2008 AEP Study

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# Study participation is balanced among Manufacturing, Services, and Process Industries

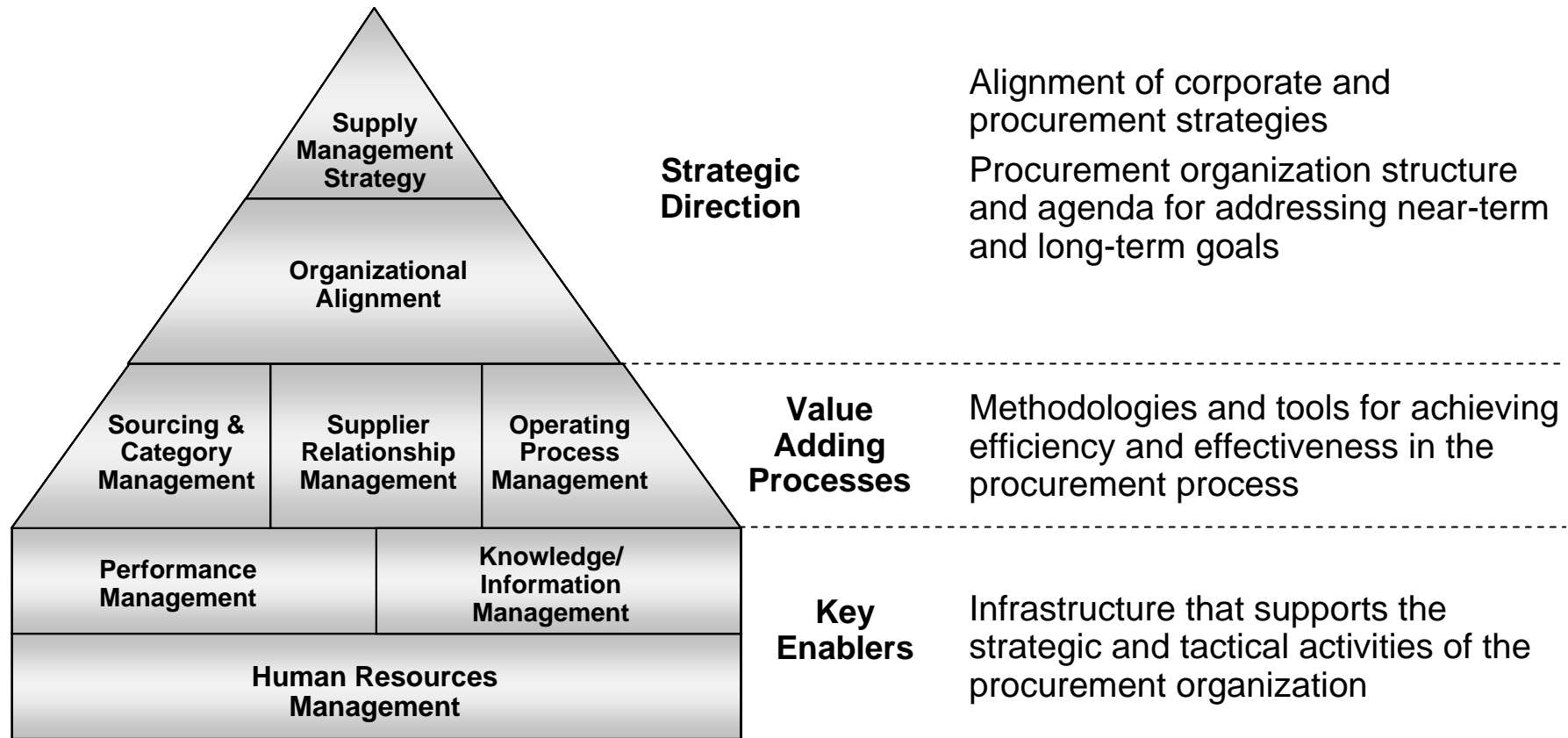


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# AEP Participants were evaluated across eight dimensions of A.T. Kearney’s House of Purchasing and Supply Management™

**House of Purchasing and Supply Management™**



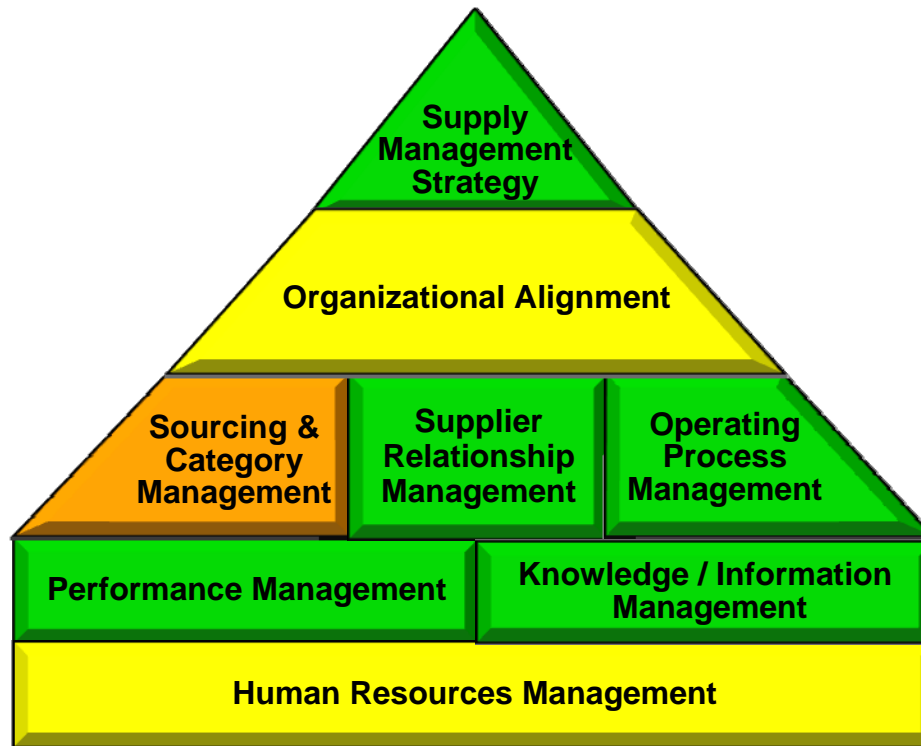
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**In the individual feedback reports, the participants performance is shown as relative performance against all participants...**

Example Inc.

**Example Inc. – Quartile Performance by Dimension of the House of Purchasing and Supply Management TM**



**Relative Performance Against all Participants**

Quartile Ranking	
<span style="color: green;">■</span>	1 <sup>st</sup> Quartile
<span style="color: yellow;">■</span>	2 <sup>nd</sup> Quartile
<span style="color: orange;">■</span>	3 <sup>rd</sup> Quartile
<span style="color: red;">■</span>	4 <sup>th</sup> Quartile

... as well as absolute performance with the Overall and Dimensional scores against the different peer groups

Example Inc.

### The Example Inc. Numerical Scores by Dimension

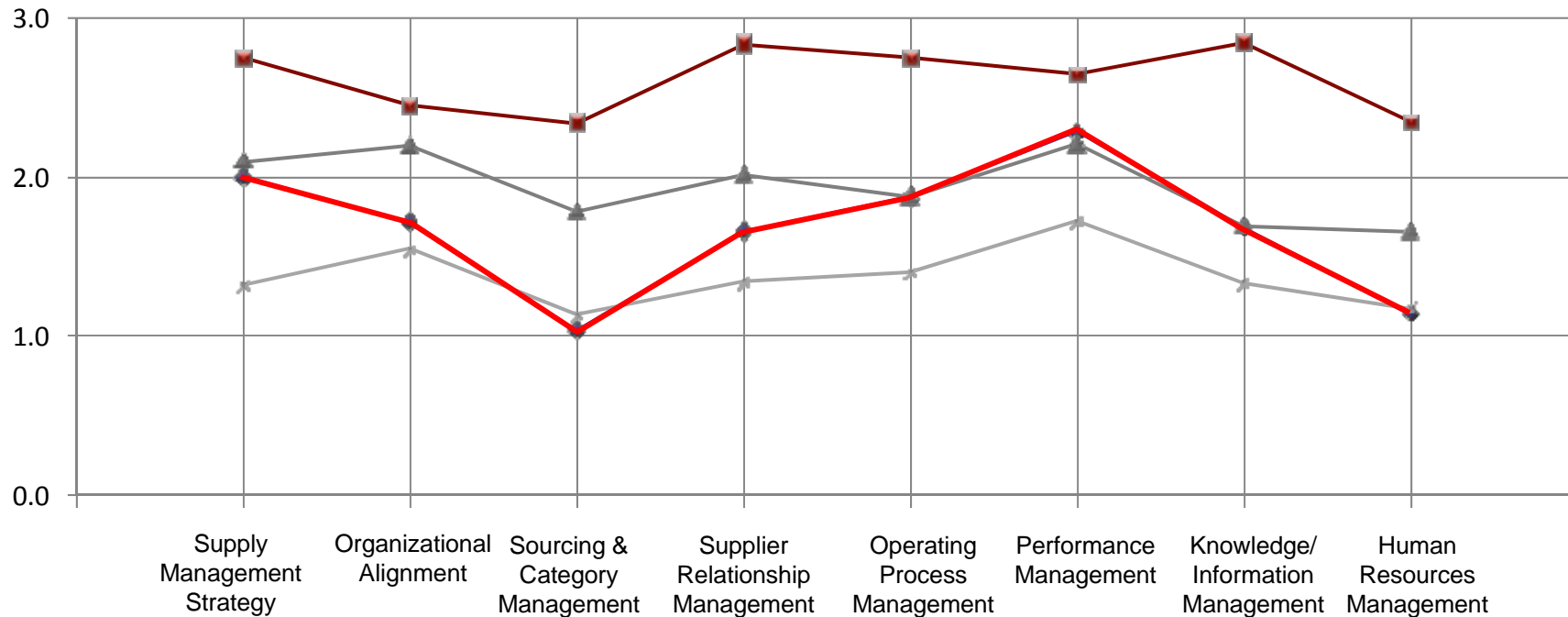
DIMENSION	Your Score	Overall Study Average	Top Score Overall	Industry Group Average	Primary Industry Average <sup>(1)</sup>	Region Average
Overall Performance	<b>1.67</b>	<b>1.25</b>	<b>2.82</b>	<b>1.37</b>	<b>1.36</b>	<b>1.20</b>
Procurement / Supply Management Strategy	<b>2.00</b>	1.17	3.00	1.32	1.28	1.05
Organizational Alignment	<b>1.72</b>	1.41	2.67	1.55	1.51	1.37
Sourcing & Category Management	<b>1.03</b>	1.08	2.88	1.13	1.09	1.00
Supplier Relationship Management	<b>1.66</b>	1.12	2.92	1.34	1.32	1.05
Operating Process Management	<b>1.88</b>	1.33	2.75	1.40	1.43	1.32
Performance Management	<b>2.29</b>	1.47	3.00	1.72	1.72	1.40
Knowledge / Information Management	<b>1.68</b>	1.30	3.00	1.33	1.31	1.28
Human Resources Management	<b>1.14</b>	1.14	2.54	1.17	1.20	1.09

Note: (1) If there are no values in this column, your company belongs to a primary industry with an insufficient number of participants in the original benchmarking group to make meaningful comparisons

Source: A.T. Kearney 2008 AEP study

# Example Inc. scores better than the average of the companies in its peer industry group

**Example Inc.**



Note: (1) This line shows the highest score achieved in each dimension of the companies in the industry group  
 (2) The 1<sup>st</sup> Quartile is comprised of the top companies in the industry group

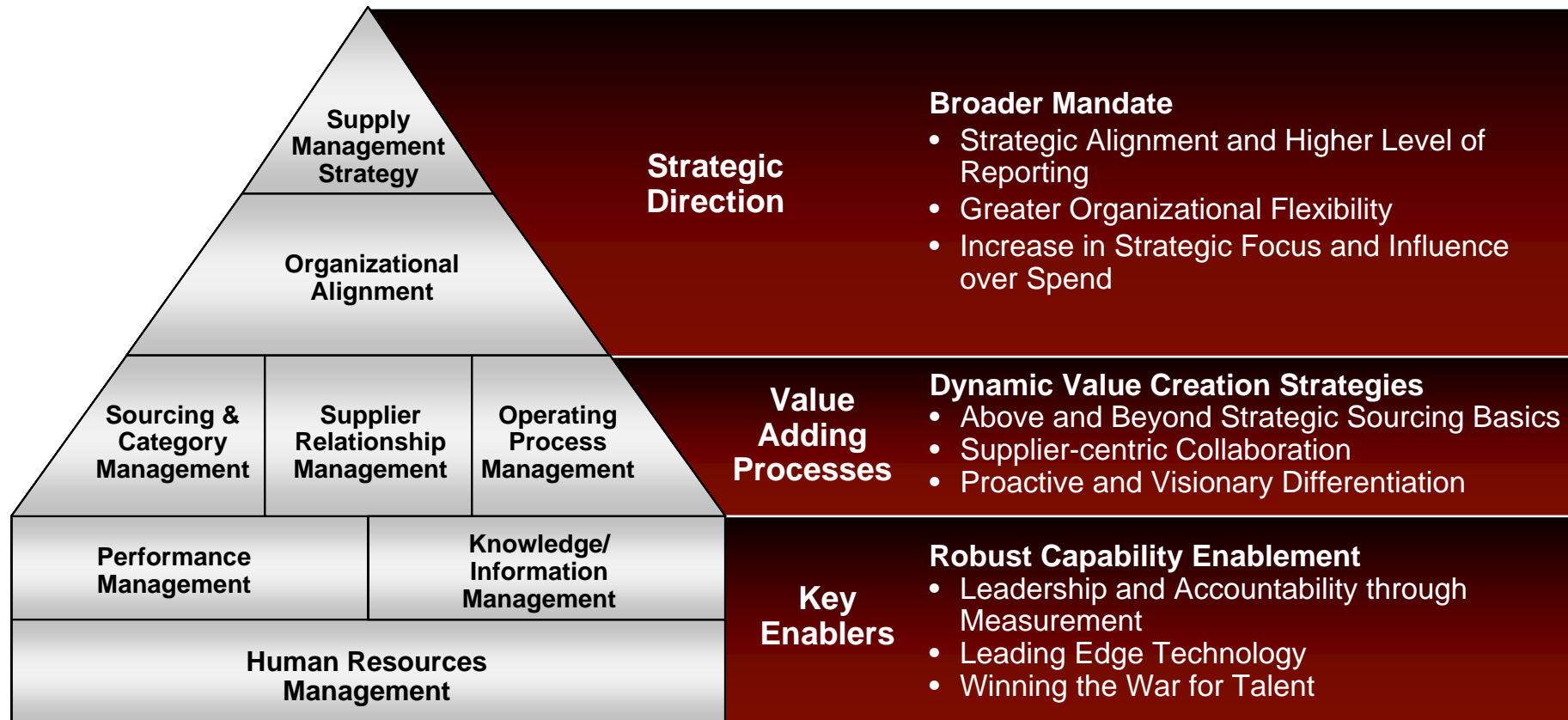
Source: A.T. Kearney 2008 AEP study

## Procurement at a Crossroads

# Leaders are evolving procurement practices across all key dimensions

## House of Purchasing and Supply Management™

## 2008 Insights

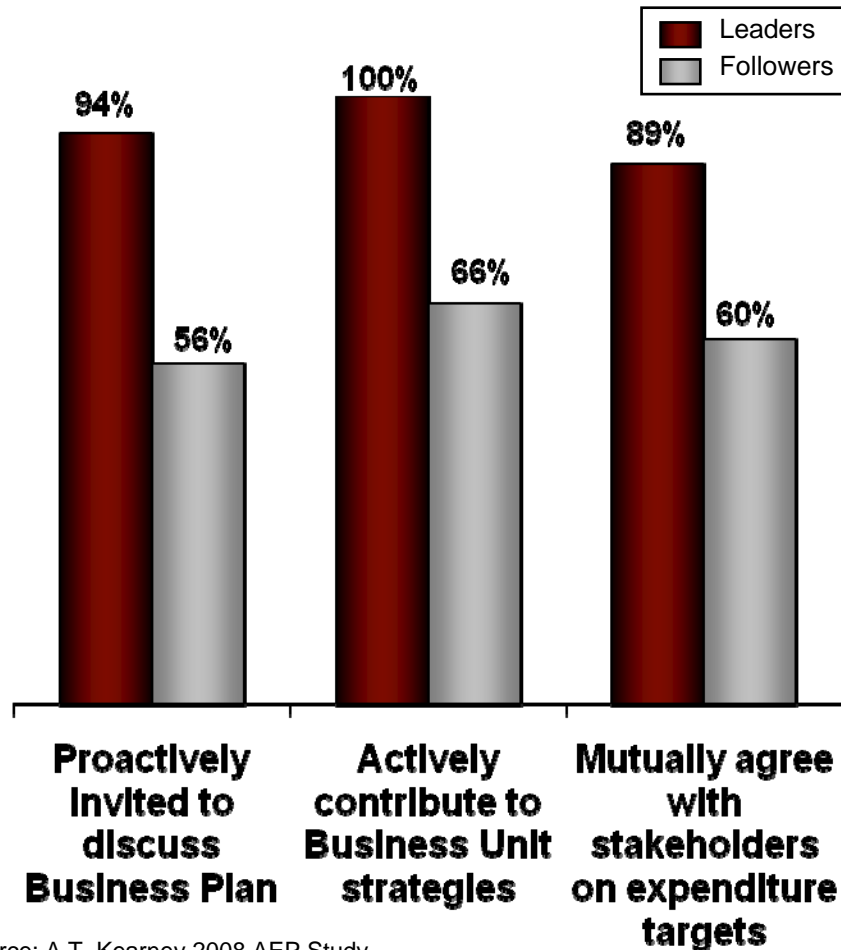


Source: A.T. Kearney 2008 AEP Study

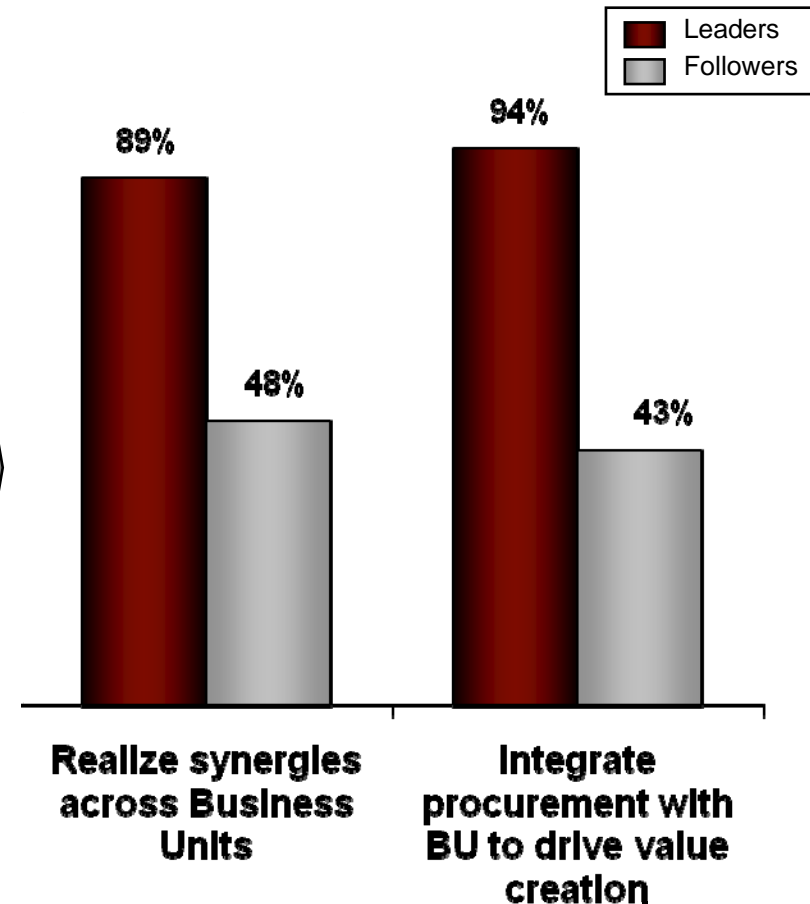
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# Leaders are more involved in development of corporate and business unit strategies

**Procurement Involvement in Development of Corporate and Business Unit Strategy**  
 (% Companies Selecting 'Agree' and 'Strongly Agree')



**Procurement Strategy Elements**  
 (% Companies Selecting 'Plans in Place')

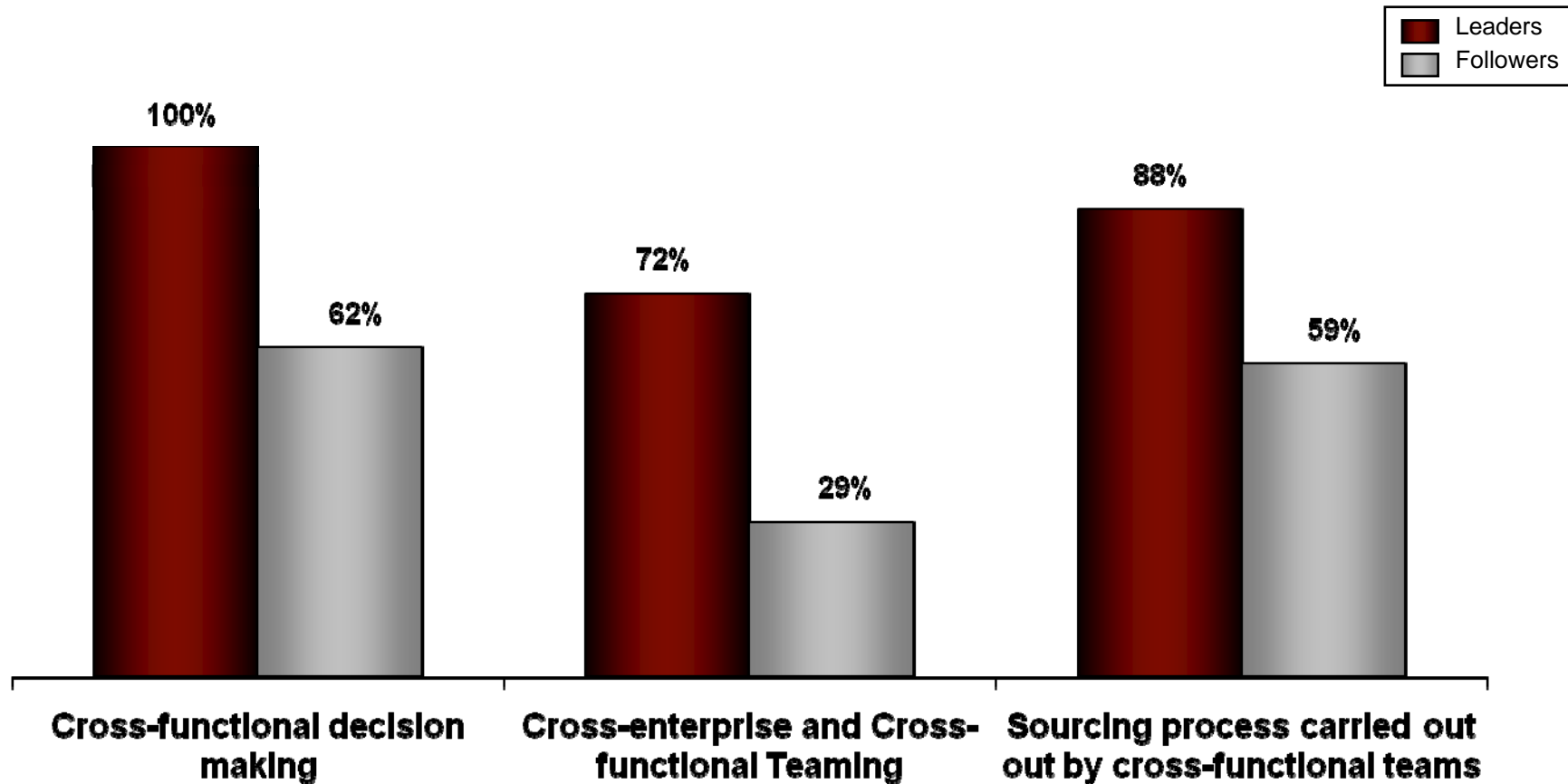


Source: A.T. Kearney 2008 AEP Study

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## Leaders more actively collaborate across organizational boundaries

**Extent of Internal Collaboration Initiated by Procurement**  
(% Companies)

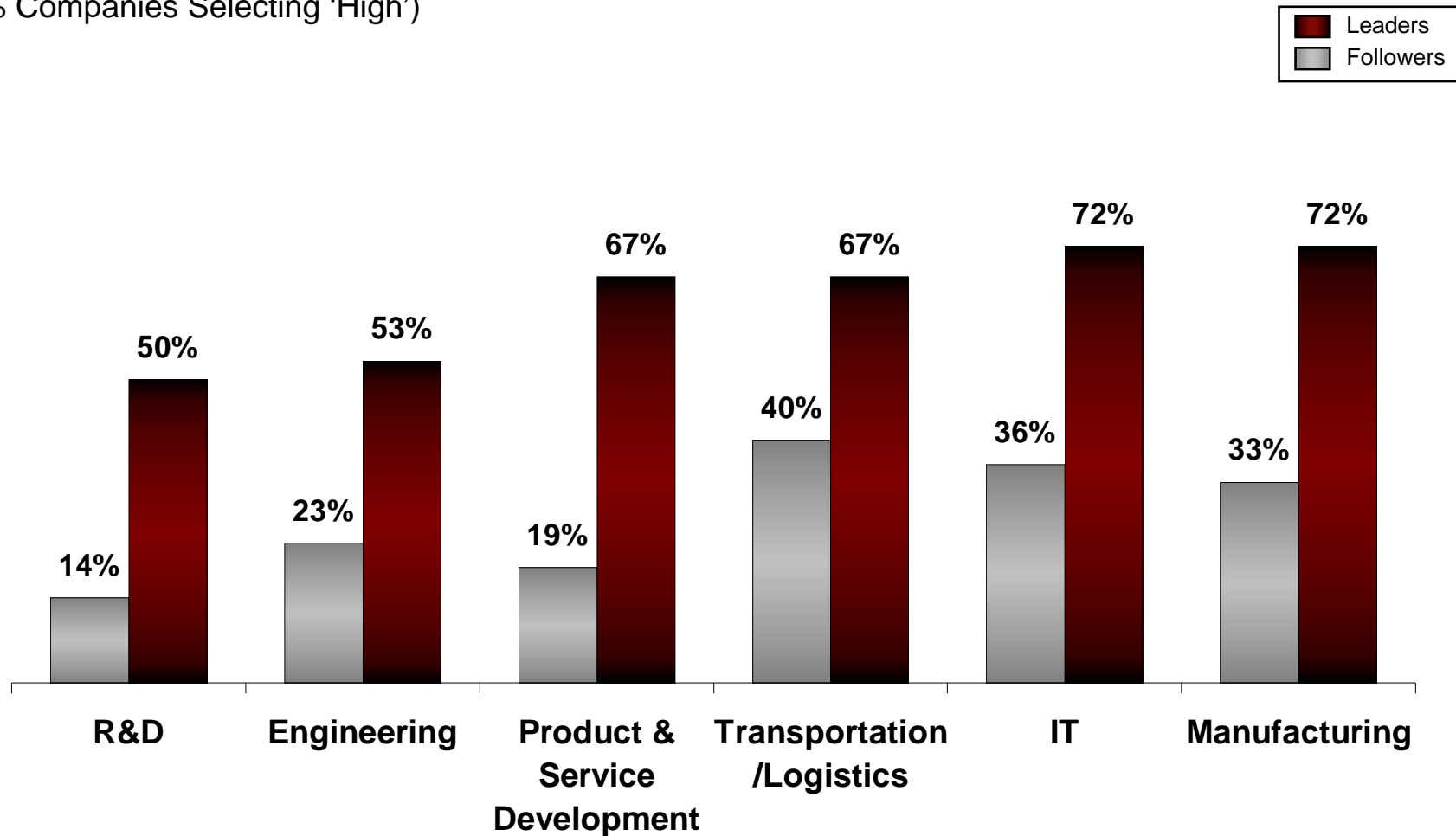


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## Leaders see an increase in both the level of procurement's market share of spend and involvement in other functions

### Procurement Involvement in Other Functions (% Companies Selecting 'High')



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# Leaders more systematically apply traditional Strategic Sourcing strategies

## Sourcing and Category Management Strategies for Achieving Cost Savings (% Companies Selecting 'Systematically Used')



### A.T. Kearney's Procurement "Gemstone"

**Leverage Oriented**

**Relationship Oriented**

- Pool volumes across organization
- Consolidate number of suppliers
- Bundle sub-categories and source

- Conduct value analysis through product performance testing
- Harmonize specifications or adopt industry standard specifications

- Compare "total" costs/ total value (TCO)
- On-line bidding and auctions
- Model "should-costs"
- Introduce new suppliers

- Optimize material flow
- Streamline ordering process
- Conduct training to minimize product waste and maximize service efficiency

- Expand geographic supply base
- Develop new suppliers in emerging markets
- Exploit global supply/demand imbalances

- Examine strategic make vs. buy
- Employ strategic alliances/ partnering
- Develop corporate point of contact and supplier governance

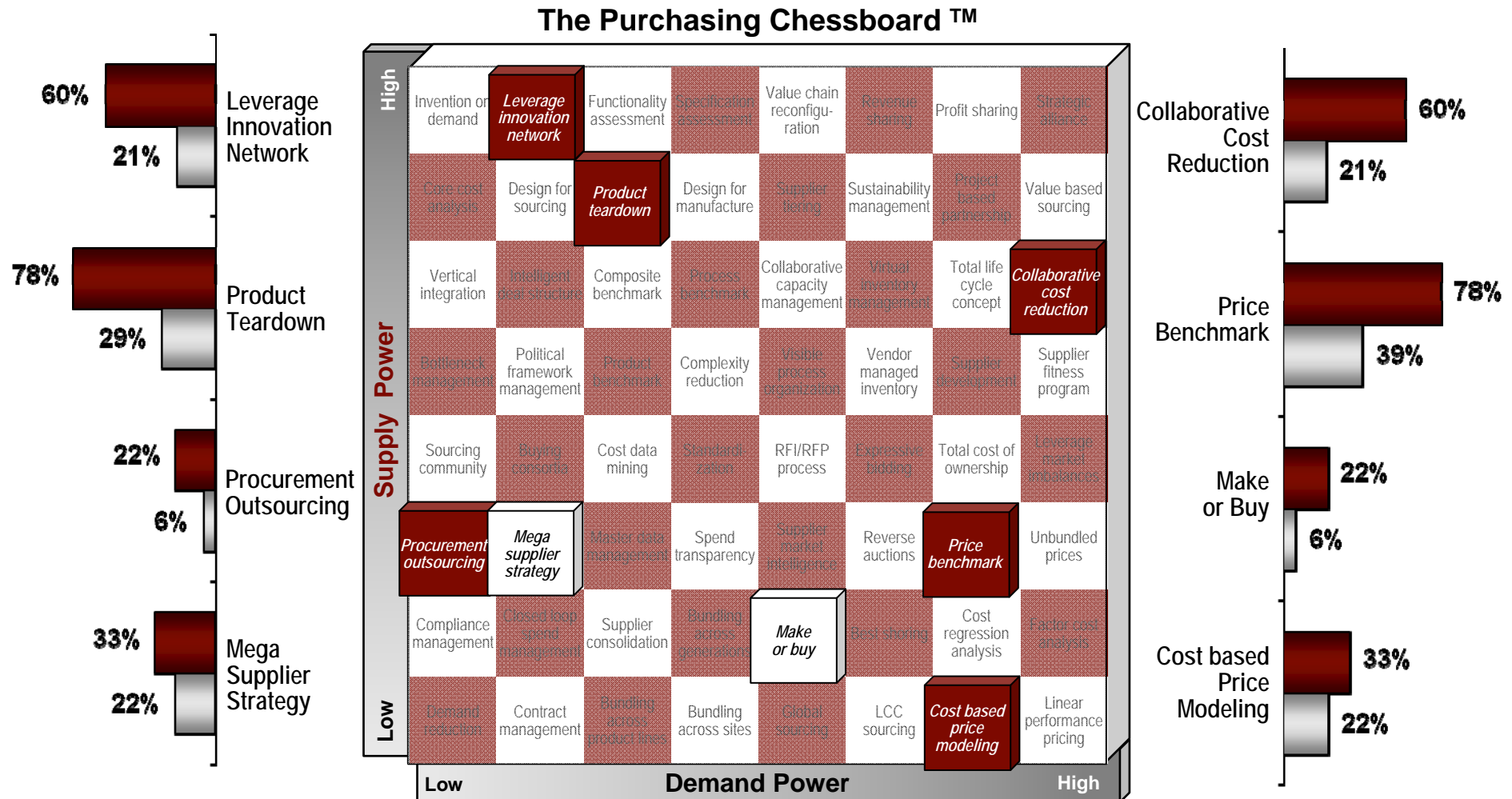


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# Leaders also stretch traditional Strategic Sourcing strategies

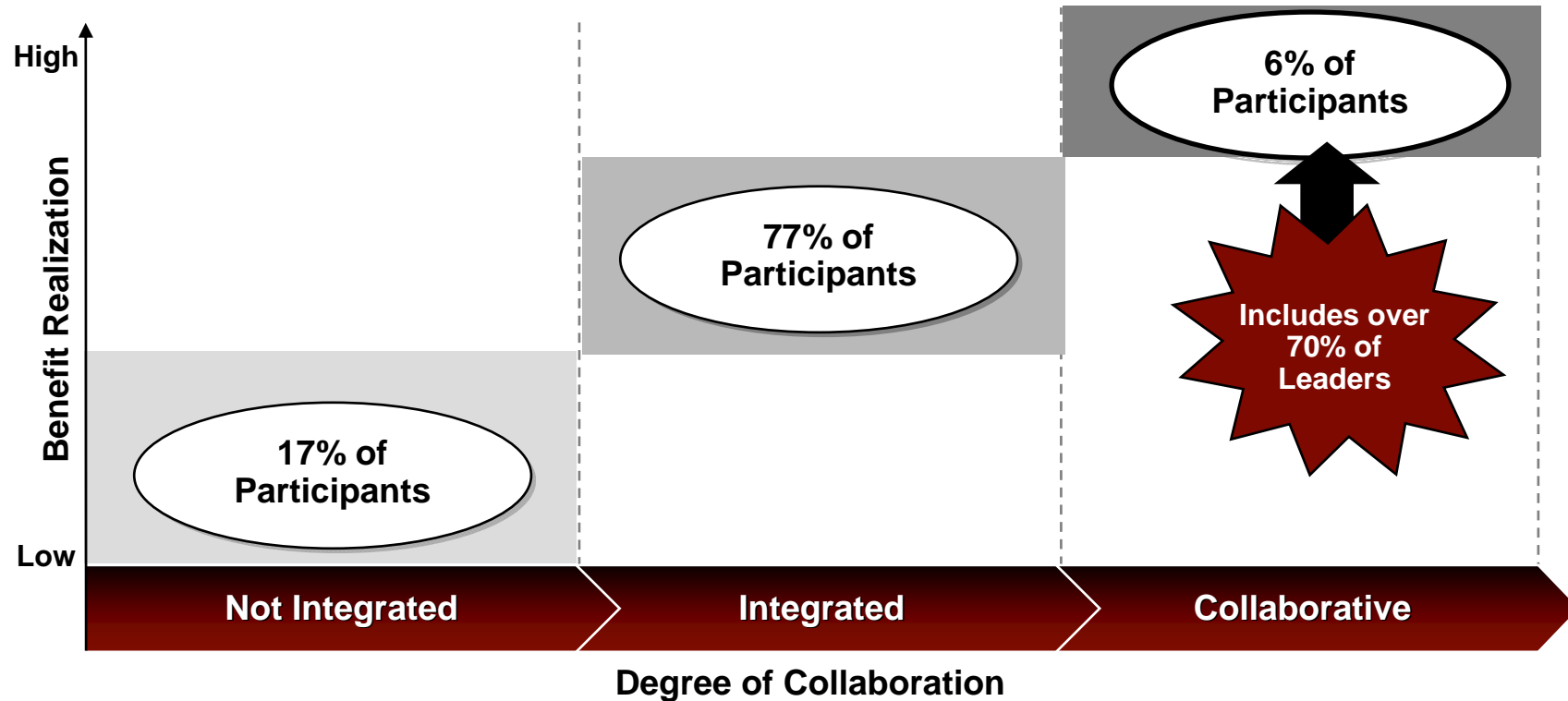
## Sourcing and Category Management Methods (% Companies Selecting 'Systematically Used')



Source: A.T. Kearney 2008 AEP Study

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# Companies that collaborate across the value chain realize greater benefits

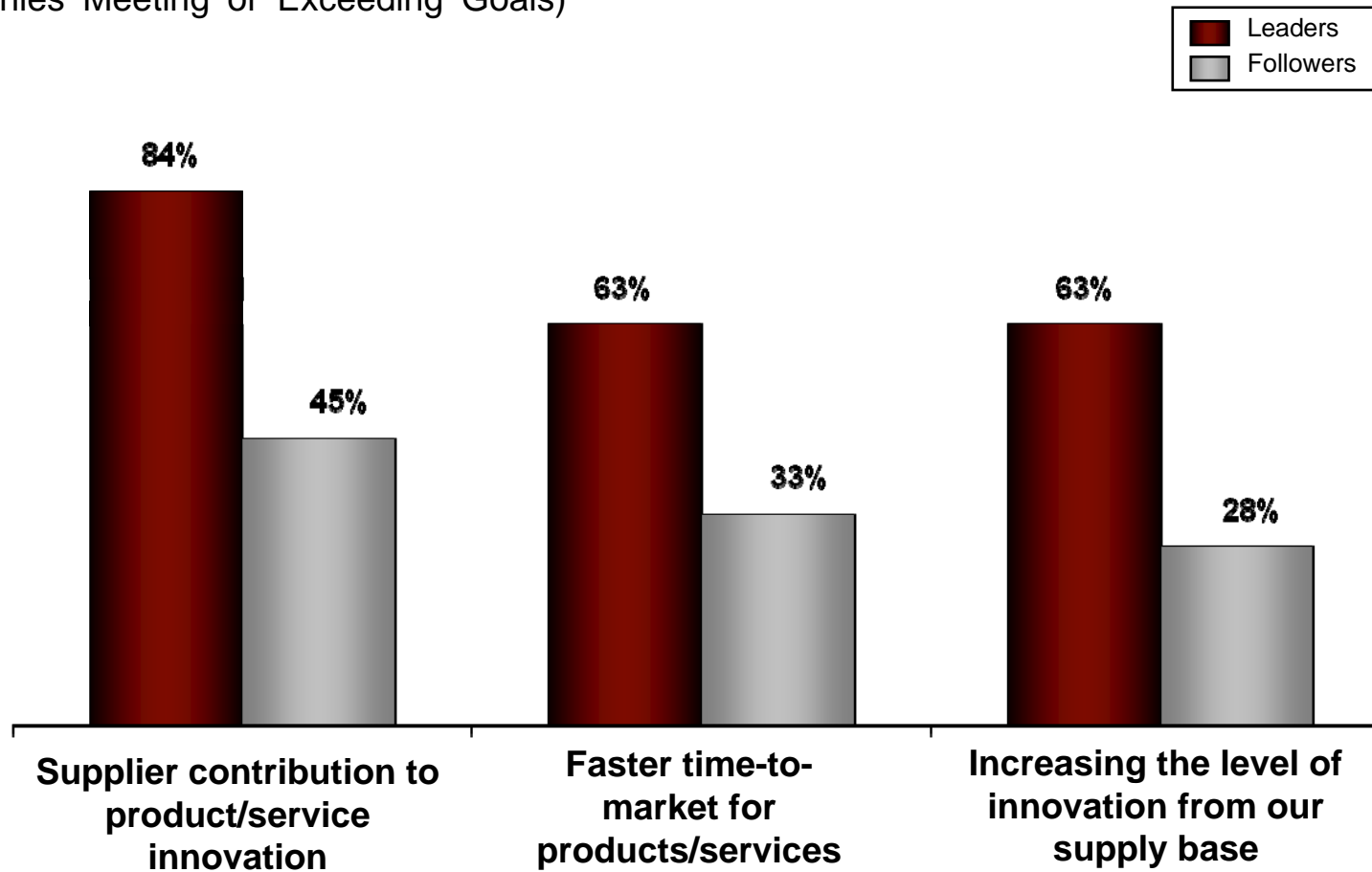


	Not Integrated	Integrated	Collaborative
<b>Relationship</b>	• Arms-length	• Opportunistic pursuit of joint goals within bounds of existing relationship	• Shared common goals to improve existing business and find new opportunities
<b>Information Sharing</b>	• Low level of joint information sharing	• Information sharing to improve the current business	• Open access to relevant information
<b>Degree of Teaming</b>	• Low participation of cross-functional teams	• Ad-hoc participation of cross-functional teams	• Involves full participation of cross-functional teams
<b>Use of Tools</b>	• Use of traditional procurement tools & technologies	• Use of electronic and on-line collaboration technologies	• Systematically use on-line collaboration technologies

Source: A.T. Kearney 2008 AEP Study

## Collaborative partnerships with suppliers lead to improved market advantages for leaders

**Extent of Supplier Collaboration Activities**  
(% Companies 'Meeting' or 'Exceeding' Goals)

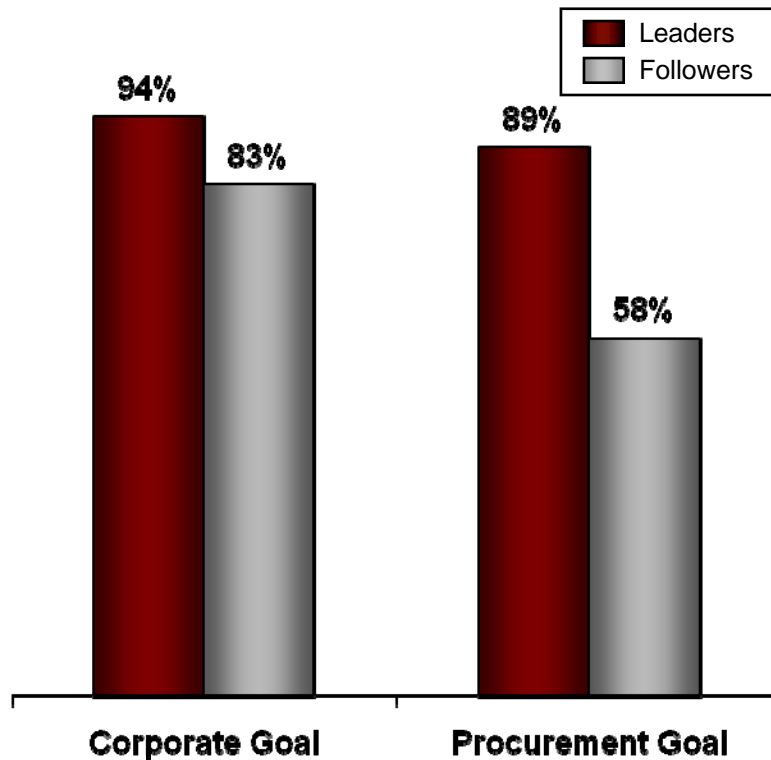


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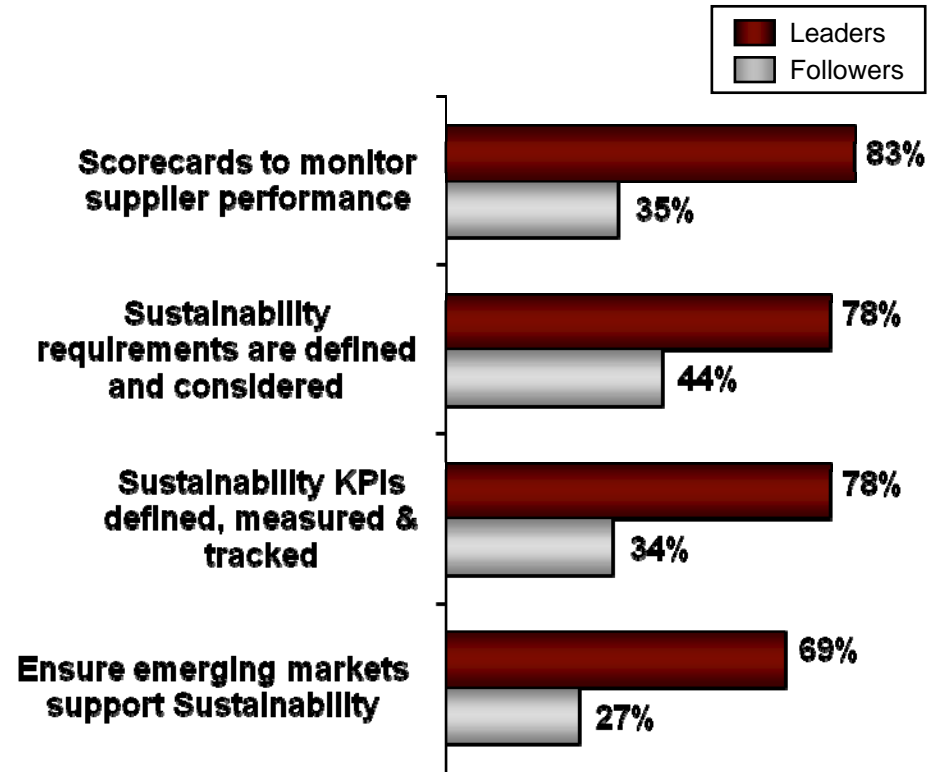
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## Leaders proactively address sustainability concerns by setting strategic goals and by monitoring supplier compliance

**Corporate & Procurement Strategy Goals for Sustainability & Social Responsibility**  
 (% Companies Selecting 'Strongly Agree')



**Meeting the Sustainability Requirements**  
 (% Companies Selecting 'Systematically Used')



***“Our commitment (to Sustainability) is part of our consumer promise, our corporate values and our supply strategy” – P&G***

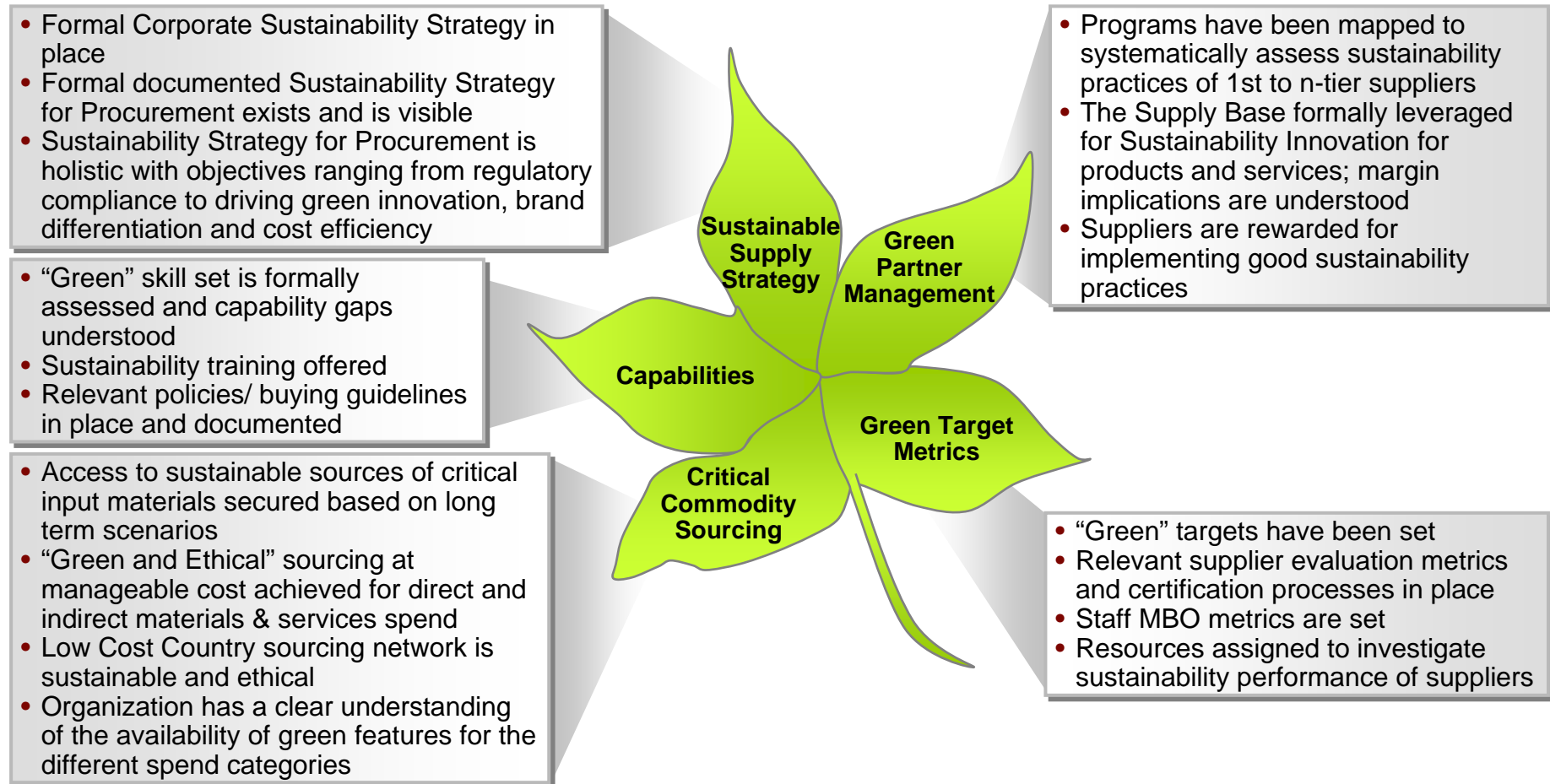
Source: A.T. Kearney 2008 AEP Study; P&G

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# Recent A.T. Kearney research identified five dimensions of successful sustainable supply management

## A.T. Kearney’s Framework for Success in Sustainable Supply Management

**AT&K EARNEY**  
**“Supply Leaf”**

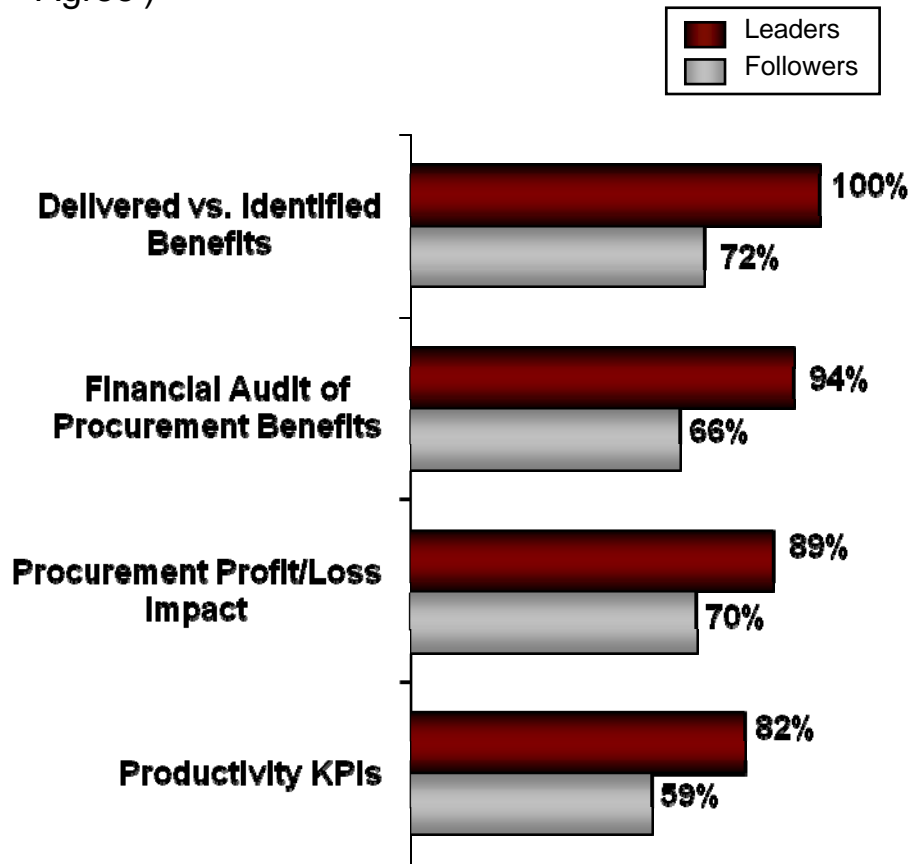


Source: A.T. Kearney 2007 Sustainability Management Survey

# Leaders make significantly greater use of traditional measures and are far ahead on adopting new metrics/methods

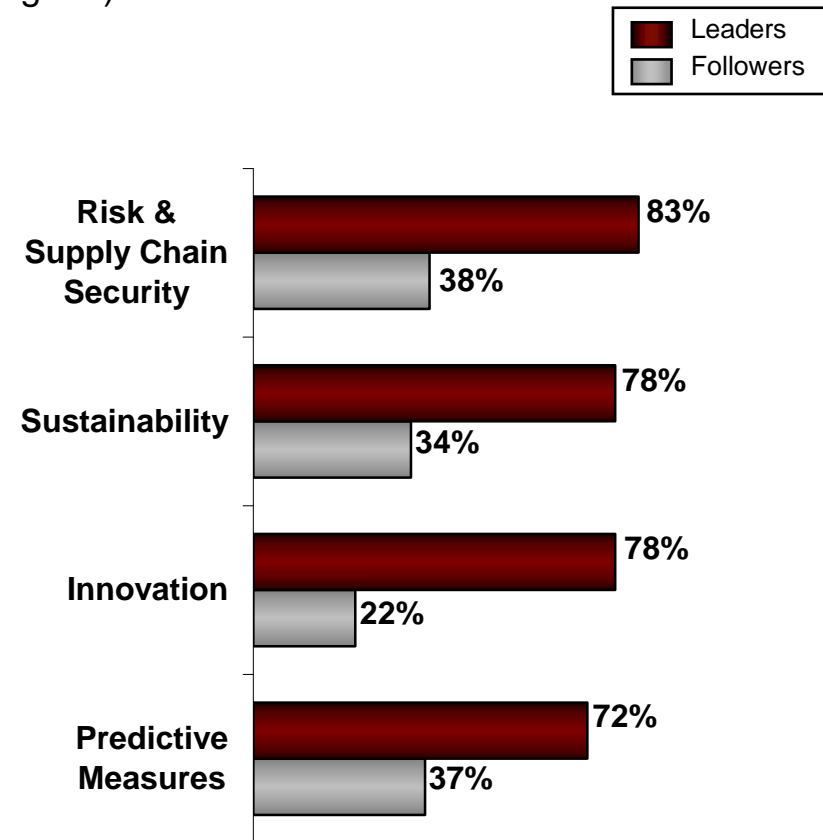
## Traditional Metrics & Methods for Measuring Procurement Performance

(% Companies Selecting 'Agree' and 'Strongly Agree')



## New Metrics & Methods for Measuring Procurement Performance

(% Companies Selecting 'Agree' and 'Strongly Agree')

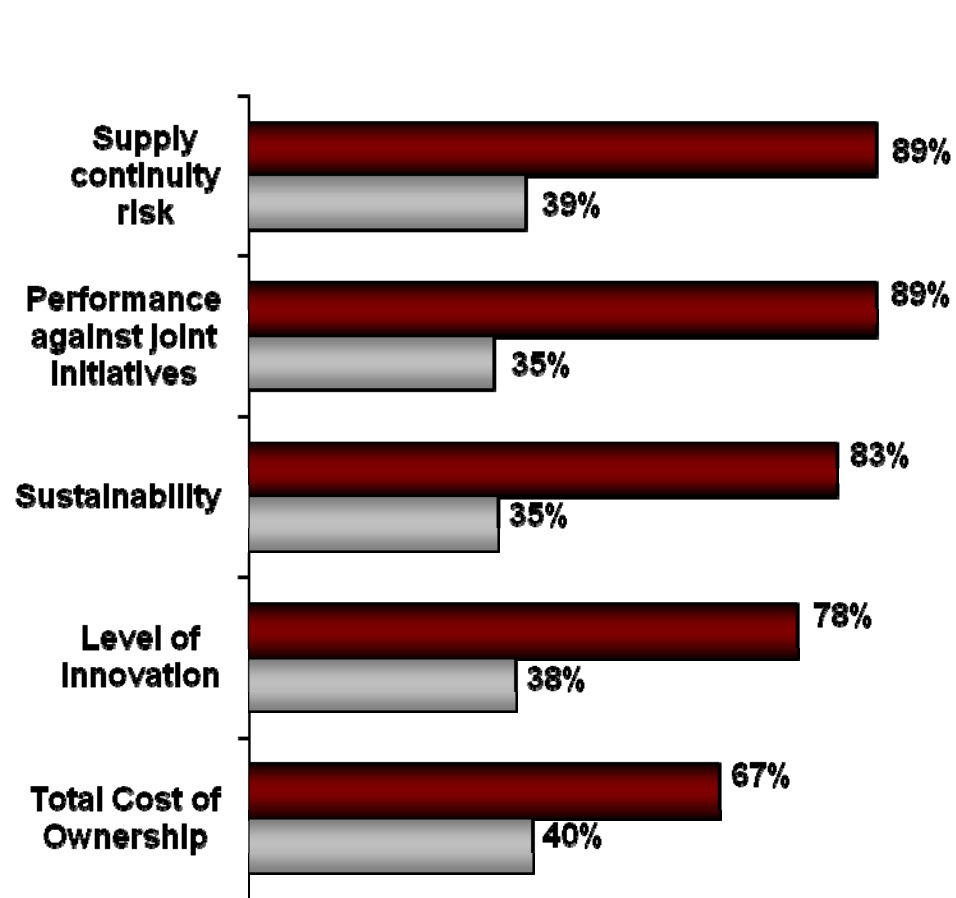


Source: A.T. Kearney 2008 AEP Study

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# Leaders use more comprehensive metrics and approaches – beyond simple cost reduction and service level KPIs – to measure suppliers

## Metrics for Measuring Supplier Performance in Supplier Scorecards (% Companies for Strategic Suppliers)



### Additional Observations

- 81% of leaders have supplier scorecards in place vs. 39% of followers
- 61% of leaders conduct joint two-way evaluations with suppliers for most categories vs. 23% of followers
- Poor supplier performance triggers communications with suppliers for 86% of leaders compared to 58% of followers
- 86% of leaders involve internal users to evaluate suppliers vs. 53% of followers

Source: A.T. Kearney 2008 AEP Study

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