CPO RISING 2018: THE AGE OF INTELLIGENCE

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Ardent Partners
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TODAY’S MODERATOR

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Editor of CPO Rising &
Research Analyst,
Ardent Partners
CPO RISING: THE SITE FOR PROCUREMENT PROS

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AGENDA

- Introduction
- The State of the CPO
- The State of Procurement in 2018
- Best-in-Class Procurement Performance
- Strategies for Success
- Q&A
Research Report

- **Goal (I):** Capture the strategies, performance, and intentions of Chief Procurement Officers in 2018 (and beyond)
- **Goal (II):** Present a clear and comprehensive view of the “State of Procurement”
- **Goal (III):** Identify the strategies and levers that drive Best-in-Class results

**Approach**

- Utilize a web-based survey to capture responses from 324 CPOs and other procurement executives
- Interview 17 leading CPOs to add context and understand critical and emerging trends
- Leverage experience and orientation of a leading analyst team

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RESEARCH DEMOGRAPHICS (324 PARTICIPANTS)

**Job Title**
- 32% C or VP-Level
- 30% Director-Level
- 30% Manager
- 5% Staff
- 3% Consultant
- 5% Other

**Function**
- 85% Finance
- 5% Procurement
- 3% Supply Chain
- 3% Information Technology
- 3% Operations
- 2% Other
- 2% Consultant
RESEARCH DEMOGRAPHICS (324 PARTICIPANTS)

**Company Size (Annual revenue)**
- Large (> $1B): 68%
- Mid ($250 MM-$1B): 18%
- Small (< $250 MM): 14%

**Region**
- North America: 69%
- EMEA: 22%
- Asia-Pac: 9%
THE STATE OF THE CPO
“Instead of writing a big process and policy of ‘this is what you have to do,’ I’m focused on people first, and stakeholder engagement to build the good will and trust to be able to go invest in more process and technology.”

~ Chief Procurement Officer, eCommerce Retailer
ALIGNMENT BETWEEN PROCUREMENT’S FOCUS AND RESOURCES AND OVERALL BUSINESS OBJECTIVES

- Tightly aligned: 43%
- Partially aligned: 51%
- Poorly aligned: 6%
THE CPO’S TOP BUSINESS PRESSURES IN 2018

- **34%** Better communicate value and performance
- **32%** Identify more cost savings
- **24%** Better align procurement activities with business goals and needs
- **22%** Improve data management and use advanced analytics to identify/create more value
- **20%** Increase overall effectiveness and influence

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THE CPO’S TOP STRATEGIES FOR 2018

- Improve use of technology (buy new and/or improve current) 47%
- Improve collaboration with business 41%
- Improve stakeholder communication 34%
- Implement stronger policies and processes 28%
- Improve staff capabilities 27%
- Improve collaboration with suppliers 23%
THE CPO’S TOP OBJECTIVES (2018-2020)

<table>
<thead>
<tr>
<th>Objective</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilize Advanced Analytics</td>
<td>33%</td>
</tr>
<tr>
<td>Savings</td>
<td>31%</td>
</tr>
<tr>
<td>New/Better Technology</td>
<td>30%</td>
</tr>
<tr>
<td>People</td>
<td>30%</td>
</tr>
<tr>
<td>Processes</td>
<td>29%</td>
</tr>
<tr>
<td>Suppliers</td>
<td>28%</td>
</tr>
</tbody>
</table>
CPO’s Top Hurdles in 2018

- Budget constraints: 45%
- Staff/Talent constraints: 41%
- Challenges in aligning processes and systems: 38%
- Lack of engagement (internal): 23%
- Lack of technology infrastructure: 23%
CPO Game-Changers: What is Needed to Get Your Department to the Next Level of Performance?

- Better data visibility and analytical capabilities: 53%
- Earlier engagement on sourcing opportunities: 42%
- Increased agility across procurement operations: 25%
- More/better executive support or mandate: 21%
THE STATE OF PROCUREMENT IN 2018
“It’s not a secret that it all starts with the data. That’s the biggest challenge that I’m facing, coming into a unique situation where there’s no real procurement function. The data’s not necessarily in the right format, or in the right place. There are no internal systems – there’s no spend analytics.”

~ Vice President, Procurement
High-Tech Industry
COMPETITIVE SOURCING IS TRENDING DOWN, BUT STILL BUSINESS AS USUAL

The CPO’s Top Strategies in 2009
- Increase sourcing activity: 50%
- Develop strategies to improve cash flow: 37%
- Develop supply risk mitigation strategies: 30%
- Improve contract compliance / reduce maverick spend: 25%

The CPO’s Top Strategies in 2014
- Source more: 31%
- Develop strategies to improve cash flow: 43%
- Develop supply risk mitigation strategies: 45%
- Improve contract compliance / reduce maverick spend: 2%

The CPO’s Top Strategies in 2018
- Source more: 8%
- Develop strategies to improve cash flow: 34%
- Develop supply risk mitigation strategies: 41%
- Improve contract compliance / reduce maverick spend: 19%
- Increase sourcing activity: 15%

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While sourcing capabilities are trending up (2018 v 2014)

- Ability to leverage spend data to identify sourcing opportunities: 51% (2014) to 71% (2018)
- Active sourcing program and/or pipeline: 59% (2014) to 66% (2018)
- Standardized sourcing process: 58% (2014) to 64% (2018)
- Standardized contracting process: 51% (2014) to 63% (2018)
- Standardized spend analysis process: 46% (2014) to 55% (2018)
## Technology Adoption

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>eProcurement</td>
<td>64%</td>
</tr>
<tr>
<td>eSourcing (and/or Reverse Auctions)</td>
<td>51%</td>
</tr>
<tr>
<td>Contract Repository</td>
<td>45%</td>
</tr>
<tr>
<td>Supplier Performance Management</td>
<td>44%</td>
</tr>
<tr>
<td>Business Networks</td>
<td>38%</td>
</tr>
<tr>
<td>Automated Spend Analysis</td>
<td>38%</td>
</tr>
<tr>
<td>Supplier Information Management</td>
<td>37%</td>
</tr>
<tr>
<td>Supply Risk Management</td>
<td>35%</td>
</tr>
<tr>
<td>ePayables (AP Automation)</td>
<td>33%</td>
</tr>
<tr>
<td>Contract Authoring</td>
<td>22%</td>
</tr>
<tr>
<td>Big Data Management Solutions</td>
<td>11%</td>
</tr>
</tbody>
</table>
HOW IMPORTANT IS IT TO ADOPT THE LATEST TECHNOLOGY

- Critical: 14%
- Very Important: 37%
- Important: 26%
- Somewhat Important: 18%
- Not Important: 5%
INNOVATION AND “INDUSTRY 4.0” TECHNOLOGIES

Advanced Analytics
Machine Learning
Deep Learning
Blockchain
Connected Devices / IoT

NLP
Chat Bots
RPA
BEST-IN-CLASS PROCUREMENT PERFORMANCE
“Everything we do is aligned with spend under management and spend visibility. Two offshoots of that are that data streams coming out will not only provide us with the ability to conduct more sourcing projects, they will also make us more effective at category management and provide more structure around that.

~ Vice President, Strategic Sourcing & Procurement

Agribusiness
## The 2018 Procurement Benchmarks

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spend under management</td>
<td>62.1%</td>
</tr>
<tr>
<td>Savings 2017 (Actual)</td>
<td>6.2%</td>
</tr>
<tr>
<td>Savings 2018 (Target)</td>
<td>6.0%</td>
</tr>
<tr>
<td>Addressable spend that is sourced</td>
<td>46.9%</td>
</tr>
<tr>
<td>Spend that is contract compliant</td>
<td>59.3%</td>
</tr>
<tr>
<td>Transactions that are contract compliant</td>
<td>68.0%</td>
</tr>
<tr>
<td>Contracts stored in a central, searchable repository</td>
<td>65.5%</td>
</tr>
<tr>
<td>Enabled suppliers</td>
<td>32.4%</td>
</tr>
</tbody>
</table>
Spend under Management: The percentage of total enterprise spend that a procurement organization manages or influences. Ardent Partners’ research has found that for every new dollar that is placed under management of the procurement department, the average enterprise realizes a benefit of between 6% and 12% during the first contract period.

- Industry Average has been ~60% for years
- Only 15% of CPOs have prioritized increasing it over next 2-3 years
- Yet, it is a fundamental metric that defines procurement success
### The 2018 Best-in-Class Procurement Framework

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spend under management</td>
<td>92.0%</td>
<td>55.2%</td>
</tr>
<tr>
<td>Savings 2017 (Actual)</td>
<td>7.1%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Savings 2018 (Target)</td>
<td>5.8%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Addressable spend that is sourced</td>
<td>69.8%</td>
<td>41.1%</td>
</tr>
<tr>
<td>Spend that is contract compliant</td>
<td>70.9%</td>
<td>52.8%</td>
</tr>
<tr>
<td>Transactions that are contract compliant</td>
<td>77.9%</td>
<td>65.6%</td>
</tr>
<tr>
<td>Contracts stored in a central, searchable repository</td>
<td>75.9%</td>
<td>62.3%</td>
</tr>
<tr>
<td>Enabled suppliers</td>
<td>33.1%</td>
<td>32.1%</td>
</tr>
</tbody>
</table>
TIGHT ALIGNMENT WITH BUSINESS OBJECTIVES
(BEST-IN-CLASS VS. ALL OTHERS)

Best-in-Class: 75%
All Others: 36%
The Best-in-Class Visibility Advantage

- Total enterprise spend: 84% (Best-in-Class), 51% (All Others)
- Spend under management: 79% (Best-in-Class), 51% (All Others)
- Identified or negotiated savings: 74% (Best-in-Class), 61% (All Others)
- Implemented savings: 63% (Best-in-Class), 40% (All Others)
- Booked savings: 58% (Best-in-Class), 38% (All Others)
- Supplier performance and supply risk issues: 53% (Best-in-Class), 31% (All Others)
- Procurement's financial impact: 47% (Best-in-Class), 40% (All Others)
- Contract compliance rates and maverick spend: 47% (Best-in-Class), 22% (All Others)
The Best-in-Class Technology Advantage

- Automated Spend Analysis: 34% (Best-in-Class), 48% (All Others)
- eSourcing (and/or Reverse Auctions): 34% (Best-in-Class), 43% (All Others)
- Automated Contract Management (Repository): 30% (Best-in-Class), 49% (All Others)
- Automated Contract Management (Authoring): 18% (Best-in-Class), 28% (All Others)
- eProcurement: 18% (Best-in-Class), 67% (All Others)
- ePayables (aka Accounts Payable Automation): 30% (Best-in-Class), 37% (All Others)
- Business, Supplier, or Payment Networks: 34% (Best-in-Class), 48% (All Others)
- Supplier Information Management: 34% (Best-in-Class), 44% (All Others)
- Supplier Performance Management: 34% (Best-in-Class), 48% (All Others)
- Supply Risk Management: 30% (Best-in-Class), 39% (All Others)
BEST-IN-CLASS CHARACTERISTICS

- Strong leadership
  - Engaged stakeholders
  - Executive alignment
- Technology adoption
  - Visibility and Intelligence
- Better training and support
  - Clear performance metrics and plans
- Interconnected business processes
  - Stronger collaborative ties
STRATEGIES FOR SUCCESS
The bridge to an intelligent procurement operation is not a single technology or approach. An ecosystem of interconnected and interdependent technologies makes the sum greater than the whole of parts.
Strategies for Success

- Focus on developing a proactive and agile operation
- Invest today for a better tomorrow
- Develop a plan with metrics on improving spend management
- Curate innovation within the department and supply chain
- Develop and hire data science capabilities
STRATEGIES FOR SUCCESS

- Invest in technology to automate core processes
- Identify legacy platforms that can be enhanced or replaced
- Make technology adoption a priority and mandate its use
- Collaborate with IT to track new and emerging technologies
Q&A (CONTACT INFORMATION)

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