



Reaching New Heights

The Dividends of Collaboration between Finance and Procurement

A report prepared jointly by CFO Research Services and Ariba

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Contents

About this Report	2
Thinking Strategically about Procurement	3
Procurement: Moving Up, Without Leaving Anything Behind	7
Signs of Transformation: Procurement's Evolution	9
Finance and Procurement: The Start of a Profitable Partnership	11
Sponsor's Perspective	13



About this Report

In December 2011, CFO Research Services (a unit of CFO Publishing LLC) conducted a survey among senior finance executives in North America, Europe, and Asia. All were employed at companies with annual revenues of \$100 million or more. The 263 respondents work in a variety of market segments, as follows:

Geography

North America	49%
Asia/Pacific (including India)	35%
Europe	15%

Annual revenue

US\$100 million to US\$500 million	38%
US\$500 million to US\$1 billion	17%
US\$1 billion to US\$5 billion	23%
More than US\$5 billion	22%

Titles

Chief financial officer	30%
EVP or SVP of finance	8%
VP of finance	8%
Director of finance	18%
Treasurer	3%
Controller	14%
Finance manager	7%
Other senior executive with finance responsibilities	4%
Other finance title	6%

Respondents work for companies in nearly every industry. The auto/industrial/manufacturing industries, the financial-services/real-estate/insurance industries, food/beverages/consumer packaged goods industries, the chemicals/energy/utilities industries, and the health-care industry are particularly well represented.

Note: Percentages may not total 100%, because of rounding.

We would like to thank the following people for sharing their insights with us in interviews:

John Lemmex, CFO, Bayer MaterialScience
Bill Velasco, Division Controller, Flowserve
Paul Lehmann, CFO, Overhead Door
Carlos Cesarman, CFO, PINFRA
Paul Janicki, CFO, Roquette America
Guy Steele, CFO, Union Supply
Anonymous bottling-company CFO

» Thinking Strategically About Procurement

There was nothing subtle about what drove executives at Union Supply Company to conclude in 2009 that the company's approach to procurement had expired. "We were looking at having to throw away almost \$400,000 worth of food that was beyond its due date," says Guy Steele, chief financial officer of the company, which supplies prison stores with food, clothing, electronics, and other goods. "As we got rid of it, we decided it was time to change the way we handled purchasing."

At the time, the company's annual revenues amounted to around \$90 million. This year, despite revenues that are projected to reach \$144 million, the company estimates that it will throw away (some will actually be donated to food banks) \$180,000 worth of inventory. "That's the dollar range where we're going to want to keep it," says Mr. Steele, who estimates that the company would be saddled with \$700,000 worth of expired products this year had "we not made the changes we needed to make. We needed to bring some more analysis to our procurement process."

Adding depth to the procurement function means thinking beyond superficial savings goals. While procurement has traditionally been recognized and rewarded solely on the basis of its cost-cutting ability, the function is now stretching to make a higher-value strategic contribution. By coordinating and integrating with other functions—notably finance—procurement is transcending its silo, emphasizing strategic activities

rather than transactional execution. Procurement's evolving corporate contribution is apparent to senior financial executives, who view the maturing function as becoming a source of companywide value. In December 2011, CFO Research Services surveyed 263 senior finance executives in North America, Europe, and Asia about their changing view of procurement and its role in the organization. Their views, as reflected in both the survey and in seven in-depth interviews, indicated that they perceive the function as capable of taking on a broad set of challenges, from strategic sourcing and more-collaborative e-commerce initiatives to overseeing outsourcing and near-sourcing relationships. In fact, as we will discuss later, procurement's ability to make productive use of automated systems has freed the function to work closely with finance to help address larger, more-complex issues.

At Union Supply, that transformation included a near-tripling of the function's head count, building a four-member procurement department into an 11-employee unit, overseen by a VP-level executive who was recruited from a grocery chain. Rather than a department composed only of buyers, the procurement function is now divided into a "replen staff" that handles day-to-day activities, issuing purchase orders and making inventory calculations. Above them are "category managers," who are responsible for finding new products, negotiating with manufacturers or their reps over price, and exploring any opportunities for private-label products. Union Supply car-

ries about 40,000 separate stock-keeping units (including sizes and colors of shoes and clothes), with about 35 different private-label brands.

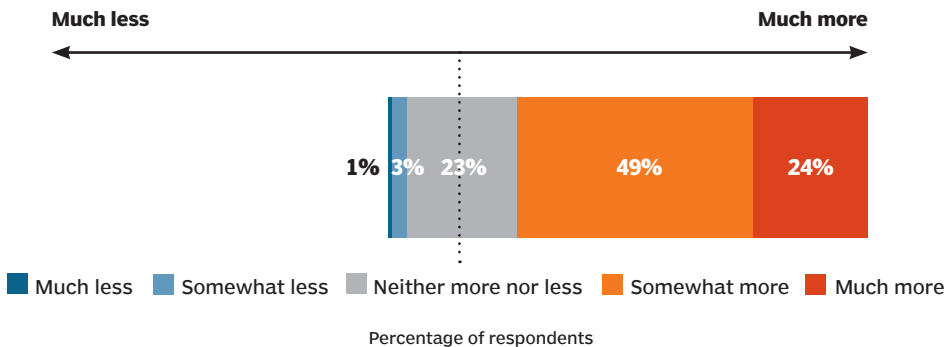
Union Supply may be growing, but its need to run a tight ship, procurement-wise, is no different from companies that are riding out the recession by maintaining a relentless focus on cost reduction. Still, from a finance point of view, it's no longer enough to have a procurement function that consists merely of "heads-down people who are placing the purchase orders," as Mr. Steele puts it. "You've got to have thinkers, negotiators, people who are part of the management team and who know what the plan is for the year and can lead their group to achieve that goal. You might not save a million dollars in wasted inventory in the first year, but the consequences of not thinking more about procurement are probably also very expensive."

When asked to characterize how "strategic-minded" (rather than purely tactical or transaction-focused) the procurement function has become as compared with three years ago, nearly three-quarters (73%) of respondents say it has become more strategic-minded. (See Figure 1 on page 4.)

In the past, the dialogue between the finance function and the procurement function reflected a transaction-focused mind-set. Procurement's job, as finance typically viewed it, was to acquire goods and services at the cheapest possible price (locking it in, where possible) and

Figure 1: Compared with three years ago, how strategic-minded is procurement at your company?

As the overwhelming majority of respondents see it, the procurement function's mindset has grown more strategic in the past three years.



on the best terms. “Obviously, the aim of the finance group is to pay the least possible as late as possible, and procurement looks to buy at the best price, without taking a more globalized perspective,” says the CFO of an Argentina-based bottler.

But that scenario has been reshaped by larger forces. The worldwide credit squeeze highlighted the financial frailty of some suppliers, whose condition put their corporate customers at risk. Natural disasters—last year’s floods in Thailand or the earthquake and tsunami that devastated Japan, to choose familiar examples—exposed some of the eco-system’s most delicate dimensions, creating supply disruptions that delayed production of cars and computers. Less dramatic events—such as price spikes in commodities like food and fuel—led procurement managers to weigh factors other than price and to invest in supplier relationships to ensure continuity of supply and mitigate risk. Using lower-cost suppliers, arrayed in longer supply chains, led to making trade-offs in terms of resiliency.

The global recession has also put the squeeze on margins, drawing the finance

function’s attention to the impact that procurement can have, beyond meeting savings targets. Operating in an era of limited growth, an enlightened procurement function can help to optimize cash and capital, using its understanding of the balance sheet to tailor discounts to specific customers or offer extended terms to suppliers. Working collaboratively, and equipped with the appropriate technology, finance and procurement can become effective stewards in managing working capital.

A small percentage of respondents perceive “great opportunity” for procurement in such high-value activities as “managing working capital” (44%), “managing risks to business performance” (36%), or “expanding into new markets or business lines” (25%). But a deeper examination of the data reveals that respondents who see great opportunity in such areas are more likely to be from companies that participate in a purchasing or supply network—digital communities through which businesses can find, connect, and collaborate with trading partners much like consumers do using Amazon.com, eBay, and Facebook. It stands to reason that finance leaders

at more technologically astute companies tend to be forward-looking, easily envisioning a not-too-distant future when the procurement department’s basic duties are much more automated. With the right tools and metrics in place, the procurement department can slip into a reinvented role, moving beyond such familiar tasks as sourcing, ordering, negotiating, and invoicing. Armed with the information they need, procurement executives can put it to use shaping strategies that advance larger priorities, positioning themselves to make a greater economic contribution to the business.

“As business gets more complicated and more global, it has added another facet to the whole issue of procurement,” says Paul Janicki, CFO of Roquette America, a producer of carbohydrate-based products used in food ingredients, pharmaceuticals, animal nutrition, and other industrial applications. “That’s why procurement has become more strategic; it’s now no longer just the means to do business, but it’s an area of optimization.”

One-third of respondents from companies that use purchase or supply networks see a “great opportunity” for the procurement function to increase its contribution to the objective of “expanding into new markets or business lines.” By comparison, only about 17% of those who don’t participate in these networks view that area as a great opportunity for procurement. “In terms of having procurement participate in managing working capital, 48% of those who use purchasing or supply networks saw “great opportunity,” while 39% of those who didn’t participate in such networks saw “great opportunity” for procurement in that realm. When asked to choose a response to a statement that “finance and procurement share

information about opportunities and concerns openly and readily at my company,” about 40% of those who currently use purchasing or supply networks chose to “agree strongly.” Among those who didn’t belong to such networks, just 24% made that choice.

Paul Lehmann, chief financial officer of Overhead Door Corp., a suburban Dallas-based manufacturer that traces its roots to 1921, says, “In the old days, procurement was really associated with people who were out buying stuff. Today, if you are doing it right, it’s much more of a strategic tool that’s a part of your arsenal of creating competitive advantage.”

Some respondents made it clear that they understood how important it was for their company to increase the procurement function’s level of automation. When asked to identify the most significant change in the procurement function during the past three years, they pointed to specific technological achievements. One finance executive wrote, for example, about “working to

get all vendors to invoice electronically and working to get invoice-purchase order reconciliation more automated.”

Another respondent cited the company’s “expanded use of technology to automate the approval function, better enabling the ability to get approval before purchasing at the requisition phase, rather than at the end when an invoice is processed.” And another saw the most significant change in procurement as being the “development and implementation of e-commerce functions (e-procurement/e-pay).”

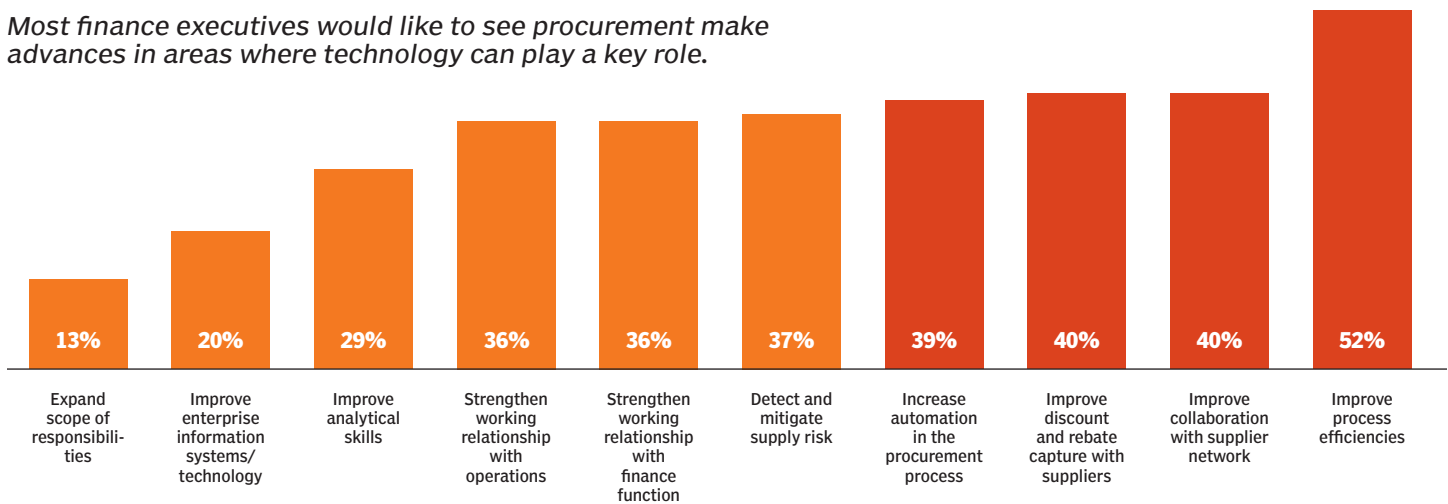
Such technology-enabled progress is also key to helping the procurement function become an even stronger contributor to company success, respondents say.

When asked to choose the most important improvements that procurement can make to reach that goal, about half (52%) chose “improve process efficiencies.” (See Figure 2.) “Increase automation in the procurement process” was chosen by about 40% of respondents, as were “improve collaboration with supplier network” and “improve discount and rebate capture with suppliers.”

As the function becomes more efficient, it can begin to focus a little less on tactical work and the short-term view and a little more on strategic activities and the long-term horizon. That means not only sharing the responsibility for the cost and quality of the finished product, but also understanding how its decisions—about acceptable lead times, say, or desirable inventory turns—affect costs across the supply chain. Empowered by that knowledge, procurement is no longer taking a one-way trip with its suppliers. With greater collaboration, the procurement function can confidently design, strategize, and ultimately execute agreements that support wider aims, such as strengthening the company’s financial health by improving its working capital. What has elevated the procurement function above its daily duties is the fact that “the number of tools and ways to procure has mushroomed,” observes Mr. Janicki. Technology has obliterated an earlier tradition where “you go to the vendor, you have three martinis, you negotiate a contract, and you go home,” as Mr. Janicki puts it. Now, “we make

Figure 2: What are the most important improvements the procurement function can make to contribute more to company success?

Most finance executives would like to see procurement make advances in areas where technology can play a key role.

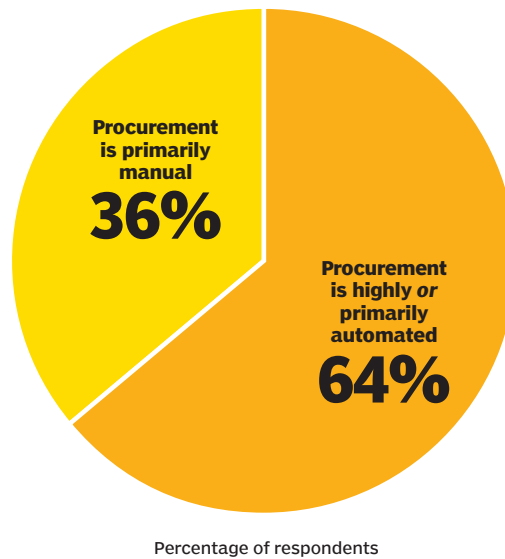


Respondents could choose up to four responses.

Note: 3% of respondents chose “Other,” and 1% chose “None of the above; the procurement function does not need to increase its contribution.”

Figure 3: How automated are companies' procurement processes?

Nearly two-thirds of respondents say that procurement processes at their firms are “highly” or “primarily” automated.



sure we appropriately use all the tools out there—the procurement websites, the auctions, and reverse auctions that have all come online.” Roquette is hardly alone in making sure it is proficient when it comes to procurement-related technology. The majority of survey respondents (59%) described the mix of automation in their procurement function as “Procurement is primarily automated, with some use of manual processes.” (See Figure 3.)

Companies that belong to purchasing or supply networks are much more likely to invest in more technology, at least in the near-term. Half of those respondents whose companies participate in a purchasing or supply network say that their company is planning to invest in automating its procurement processes in the next year; 29% of those who didn’t belong say they have such plans.

Technology confers two advantages on the procurement function. One is that the members of the procurement department can do a better job at what they already do: identifying opportunities

for cost reductions and tracking anticipated savings, monitoring and managing supplier performance, aggregating and standardizing spend data to make optimal business decisions. The other advantage is that it frees up the procurement function to broaden its purview; with its nonstrategic duties increasingly automated, it can turn its attention to forging a more productive and wide-ranging collaboration with its neighboring functions, including finance. One finance executive says that his procurement function needs to continue to improve its use of automation in order to “increase workflow efficiencies and provide better controls.” The upgrade, he adds, “should also allow the procurement department to work on more value-added roles rather than transactional ones.

Along with automation, the finance function also plays an important role in helping procurement gain mastery over its traditional duties. Finance, writes one survey respondent, “must share with procurement the trends in the finance

market to determine whether to buy on cash or credit, depending on the cost of borrowing.” Beyond that, writes another finance leader, the two functions need to “exchange procurement information more freely to achieve common goals of better management of inventory levels, working capital, and cash flow.”

Undoubtedly, the economic downturn has already played a part in uniting the two functions, pushing them beyond cost reduction and promoting the cross-pollination of ideas, as they scout for innovative ways to buoy the bottom line. The CFO of the bottling company in Argentina says that at his company, procurement and finance have had to collaborate more in an environment where interest rates are soaring. Together, the two functions “can help the company do better, and can improve profitability by managing payment terms.” They also work to save money by “trying to combine purchases so there’s one shipment instead of two—or trying to get them delivered closer to the time when they are needed and not before.”

» Procurement: Moving Up, Without Leaving Anything Behind

Survey results reveal that while procurement may be taking a new perspective, the function is by no means abandoning its familiar role as a cost-cutter. When asked to characterize how involved the procurement function is in finding opportunities for cost savings, more than three-quarters of respondents (77%) say that the procurement function is “very involved.” (See Figure 4.) Roughly as many respondents (75%) chose “very involved” when characterizing procurement’s involvement in strengthening relationships with suppliers. Those relationships—as reflected in the contracts that get written, say, or the planning that takes place—can also be a source of cost-containment. “Procurement works more with suppliers in understanding when we need them, where we need

them, and which are the economies of scale that we can take advantage of, either by volume or by other synergies with the suppliers,” says Bill Velasco, division controller at Flowserve Corp., a \$4 billion industrial equipment supplier based in Irving, Texas. Identifying and managing the best suppliers of materials and services helps reduce costs and turn supplier management into a competitive advantage. “Procurement is the faucet through which all the money goes,” notes Carlos Cesarman, CFO of PINFRA, a Mexico-based construction firm that also operates toll systems for highways, parking lots, bridges, and ports.

Answering a survey question about the most significant transformation that has occurred in the procurement function

over the past three years, one respondent writes that his employer has been “holding procurement responsible for hitting targets on cost reductions.” Others describe “increased scrutiny of expenditures” and “being more cost-effective in searching for solutions.” Another respondent succinctly summed up the procurement function’s challenge over the last three years as “driving cost savings in the current economic environment.”

In their responses to survey questions, finance executives also made it clear that the procurement function still has plenty of work to do refining its cost-cutting skills. One respondent suggested that procurement become “more analytically focused to determine opportunities to improve efficiencies

Figure 4: In which activities is procurement most involved?

The function’s focus is currently on finding cost savings and working with suppliers.

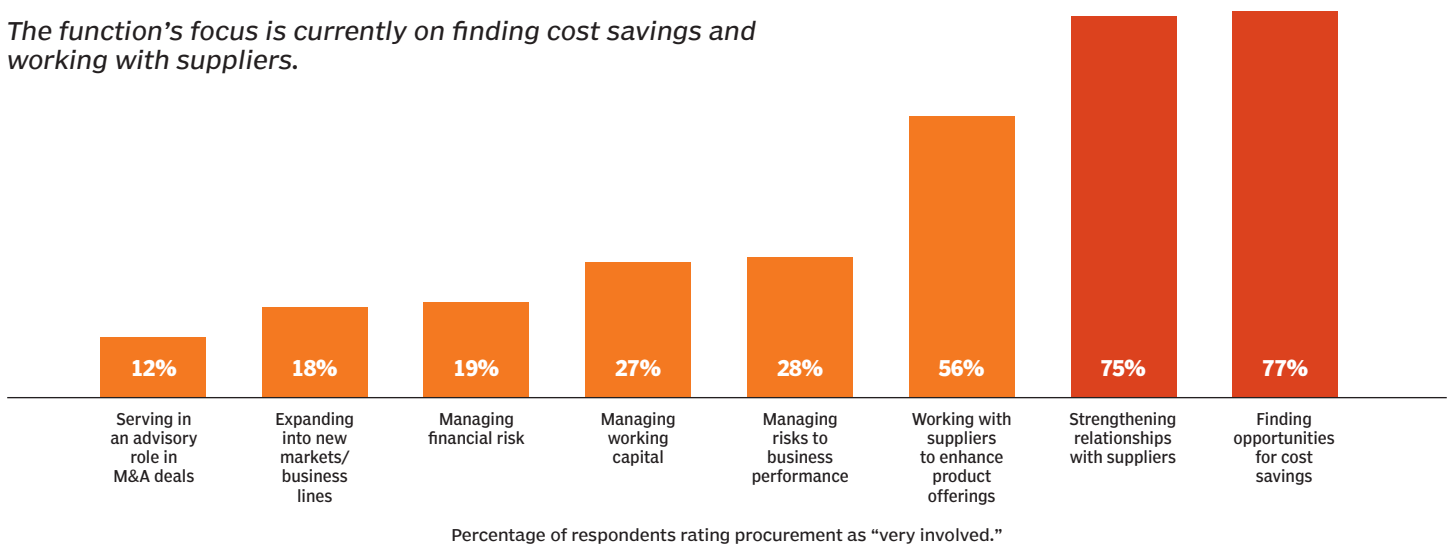
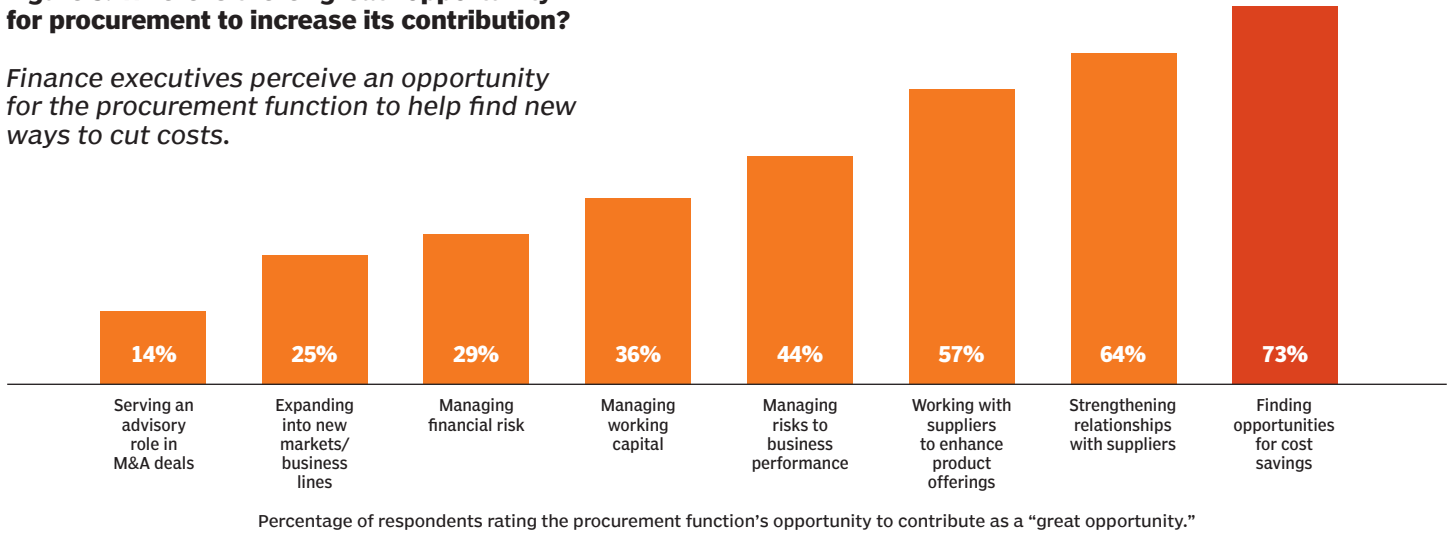


Figure 5: Where is there “great” opportunity for procurement to increase its contribution?

Finance executives perceive an opportunity for the procurement function to help find new ways to cut costs.



and save costs” in the next few years. In one question, we asked finance executives how much opportunity exists at their company for the procurement function to increase its contribution to certain objectives. Nearly three-quarters see “great opportunity” for procurement in “finding opportunities for cost-savings.” (See Figure 5.)

How best to position procurement to meet its cost-savings targets? When asked about how the procurement function is organized at their company, about half (52%) of respondents chose to describe it as “Centralized at the enterprise level.” (See Figure 6.) A much higher proportion of those respondents -- as compared to those who described their procurement function as centralized at the business unit level or decentralized -- reported that their cost-savings targets had increased in fiscal 2011. Two-thirds of respondents in that group say their cost-cutting targets increased last year, a compared to slightly above half of respondents in the other two groups. Furthermore, respondents who describe their procurement function as centralized at the enterprise level were also slightly

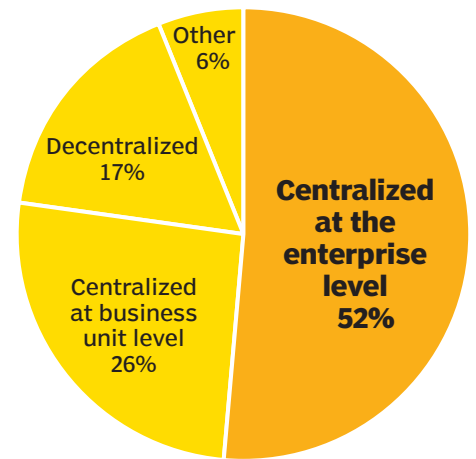
more likely to have set more aggressive targets for fiscal 2012.

In addition, enterprisewide centralization appears to weave a tighter working relationship between procurement and finance -- and operations. One-third (34%) of respondents whose companies have procurement centralized at the enterprise level say that finance often supports the relationship between the procurement function and line of business management by making recommendations or providing direction. Among those with decentralized procurement functions, only a stark 11% say the same.

In their answers to an open-ended question about the most significant change in the procurement function at their company, many respondents wrote with enthusiasm about the shift to a centralized procurement function. One finance executive wrote that “earlier, procurement was decentralized...but recently it has become centralized and more efficient.” Another respondent mentioned that management at his company had gained “more awareness about the advantages of centralized purchasing.”

Figure 6: How are procurement functions often organized?

About half of respondents described their procurement functions as centralized at the enterprise level.



Percentage of respondents
Note: Percentages may not total 100%, due to rounding.

» Signs of Transformation: Procurement's Evolution

Procurement is in the midst of making the transition from being a functional service-provider to serving as a source of skilled analysis and intelligent decision-making. Nobody expects that change to happen overnight. But clearly, in the eyes of finance executives, the procurement function has made diligent progress over the past four years.

Compared with our 2007 survey (*CFOs' Views on Procurement—Information, Risk, and Money*), the procurement function has improved in performing its core duties. Five years ago, 15% of respondents rated their procurement function's ability to supply information for managing relationships and negotiating with vendors as "excellent." This year, more than one in four gave procurement a rating of "excellent." (See Figure 7.) Similarly, the proportion of respondents this year who see room for improvement in these critical areas fell by 5 and 10 percentage points, respectively, as compared with 2007. Even with this progress, 47% of respondents say that when it comes to providing information for business planning and forecasting, the procurement function needs improvement; 48% of respondents say procurement needs improvement in supporting risk analysis. A slightly smaller proportion, 42%, says procurement's performance "needs improvement" when it comes to providing information and analyses for cash flow and working-capital management decisions. (See Figure 8 on page 10.)

Clearly, some challenges remain, notably at the intersection between procurement and its closest peers, organizationally speaking. More than one-third of respondents selected "detect and mitigate supply risk" (37%), "strengthen its working relationship with the finance function" (36%), or "strengthen its working relationship with operations" (36%) as among the highest-value improvements that procurement can make in the future.

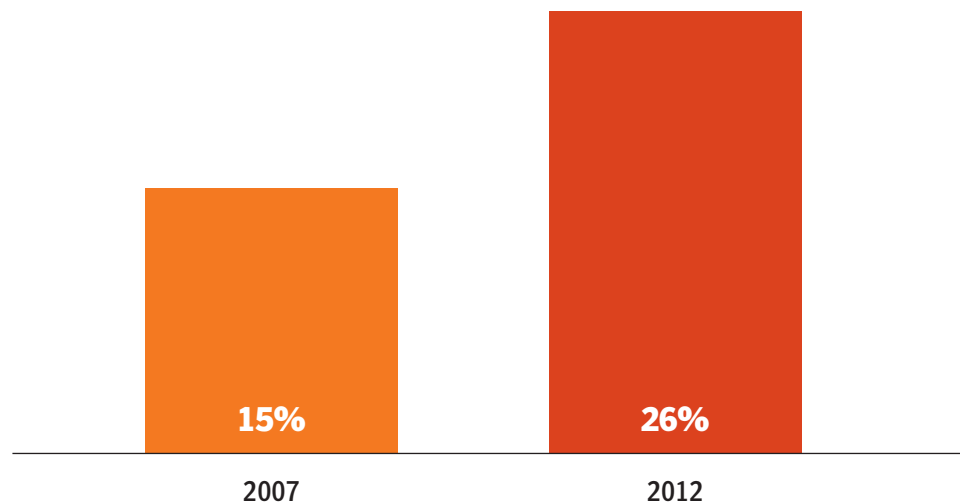
Respondents draw a distinction, it seems, between procurement's awareness of the bigger picture and its capacity for actually transforming that knowledge into

astute analysis. With the search for top-line growth putting a premium on ever more nimble—and often complex—business models, the procurement function may indeed need to keep improving the sophistication of its analytical abilities. Understanding the effects that will likely ripple out from a decision to invest in inventory, for instance, may very well be more challenging than ever.

Is the procurement function up to the task? Survey results suggest that finance executives may feel hesitant about how high procurement can climb, at least based on how it is currently constituted

Figure 7: Excellence in Core Procurement Activities

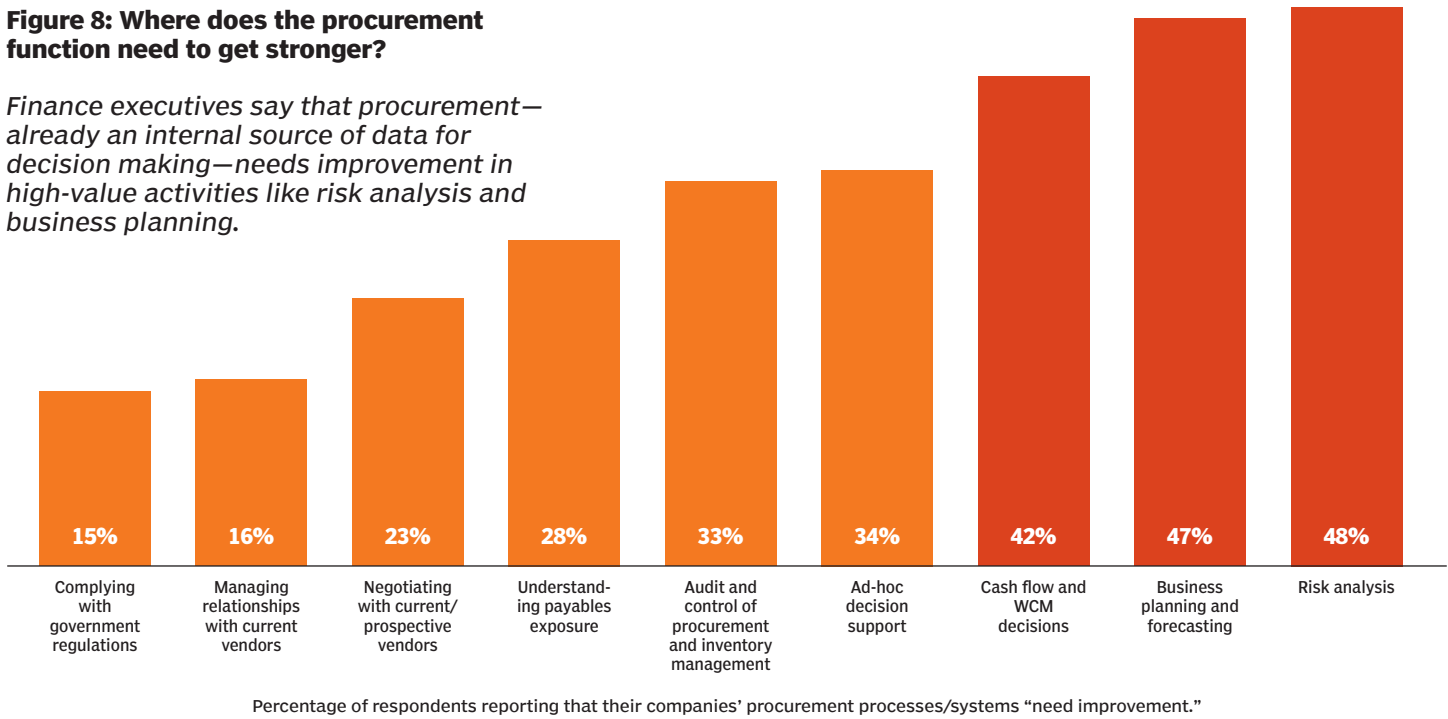
The procurement function has improved in performing its core duties of managing relationships and negotiating with vendors since our 2007 survey.



Percentage of respondents rating procurement's performance as "excellent" in each year.

Figure 8: Where does the procurement function need to get stronger?

Finance executives say that procurement—already an internal source of data for decision making—needs improvement in high-value activities like risk analysis and business planning.



within their companies. Fewer than half of respondents (43%) agree to any extent that their company's procurement group has "excellent analytical and business problem-solving skills." One-third of respondents disagree, while another 25% can muster only "neutral" in response. In a different question, finance executives revealed the limits of their confidence in procurement's ability to capitalize on their opportunity to play a strategic role. Overall, respondents are more likely to see "some opportunity," as opposed to "great opportunity," for procurement to increase its contribution in areas that are outside of its traditional function. These areas include: managing risks to business performance (49% chose "some opportunity"; 36% selected "great opportunity"), managing financial risk (54% versus 29%), and expanding into new markets or business lines (42% versus 25%).

In their responses to open-ended questions, survey participants call for procurement

to enhance its analytical and high-value business skills. One respondent says that procurement must "be trained on the basics of finance and options available for vendor financing," while another says the function at his company needs to possess "more analytical strengths." Yet another lists characteristics that members of the procurement department need to cultivate, including having "an open mindset" and "a drive to change."

Mr. Lehmann, of Overhead Door, points out that the procurement function has successfully managed to make big shifts before. As companies began looking overseas for suppliers, procurement executives had to "not just find a supplier, but find the right supplier," he says. "They had to get into strategic sourcing, and they needed to begin to understand product specifications, our value proposition for how we differentiate ourselves in the market, and what our definition was of the appropriate level of quality." Procurement learned, Mr. Lehmann says,

to evaluate the manufacturing capabilities of suppliers in China, Vietnam, Thailand, and Indonesia. And when, for example, a certain supplier of circuit boards started producing products with a higher defect rate, a procurement executive had to figure out what had gone wrong—which meant investigating the supplier's upstream suppliers.

Given the scope of such challenges, the procurement function "takes a businessperson with a good sense of the dynamics of the market, an understanding of our business strategy and our product portfolio—and an understanding of our supplier base, of course," says Mr. Lehmann. "They've got to put all the pieces together and make sure we find an optimal solution." At the last two companies where he's worked, that has meant assigning a financial person to work with a procurement team. "They are supporting procurement by analyzing the total supply-chain costs of a source: What are the freights

and duties? The lead times? What's the cost of insurance? There's a lot of analysis that goes into all of that."

At Bayer MaterialScience, a \$3 billion maker of high-tech materials, CFO John Lemmex says that "as globalization continues forward, the people in procurement are trying to develop their strategic and negotiating skills. They have to think about the global synergies, looking for efficient ways for us to leverage our purchasing."

Finance and Procurement: The Beginning of a Profitable Partnership

The need for more analytical and general business skills in procurement isn't the only thing keeping the two functions apart. In one survey question, 35% of respondents cited "organizational resistance" as one of their three biggest barriers to aligning finance and procurement at their company. Mr. Velasco, of Flowserve, says that he sees "signs of movement" at his company but that "there are other priorities that are more critical to the company. Once we have certain areas in order, then we can move to the next level of priorities." At Overhead Door, Mr. Lehmann also preaches patience, explaining that it takes time to assemble the disbursed pieces of procurement into a centralized function through which every purchase gets made. The business units, he suggests, don't instantly embrace the idea. "Divisions sometimes resist giving up their own purchasing function," Mr. Lehmann says. "Eventually, they come around."

As procurement becomes highly integrated with finance—and with operations—the freshly aligned functions can constitute an operating model that is not only fast moving and flexible, but also a source of sustainable competitive advantage. Typically, procurement's participation starts after many key decisions have been made, leaving contracts to be negotiated and written. However, an aligned procurement function might serve as

a channel through which suppliers can funnel their innovative ideas, working with them to identify joint opportunities or analyze existing situations to improve profitability or enhance revenue. Mr. Lehmann envisions that procurement "could have a significant impact on decisions surrounding the design of a product in terms of where the price of the underlying commodity is going." Thanks to the early input of a strategically aligned procurement function, the company wouldn't find itself "with a product that looks good today but that we can't sell in two years because we can't raise the price sufficiently," Mr. Lehmann says. "More and more today, product innovation has to be a cross-functional effort involving engineering, manufacturing, procurement, finance, and product marketing."

For now, though, many finance executives have yet to see procurement as a frequent source of good ideas for improving business performance. Only 44% of respondents agree—few of them "strongly"—with the statement, "Procurement at my company often develops good ideas for improving financial, operating, and risk performance." (See Figure 9 on page 12.) This is perhaps an indication that at some companies, procurement has yet to gain a foothold in its new domain. How will they know when they've made the transformation from cost controllers to financial managers?

As one respondent writes, procurement will have become a strategic function when it can “look past ‘best price’ and more toward limiting our working-capital investment in inventory, even if it means paying a slightly higher price for a smaller lot.”

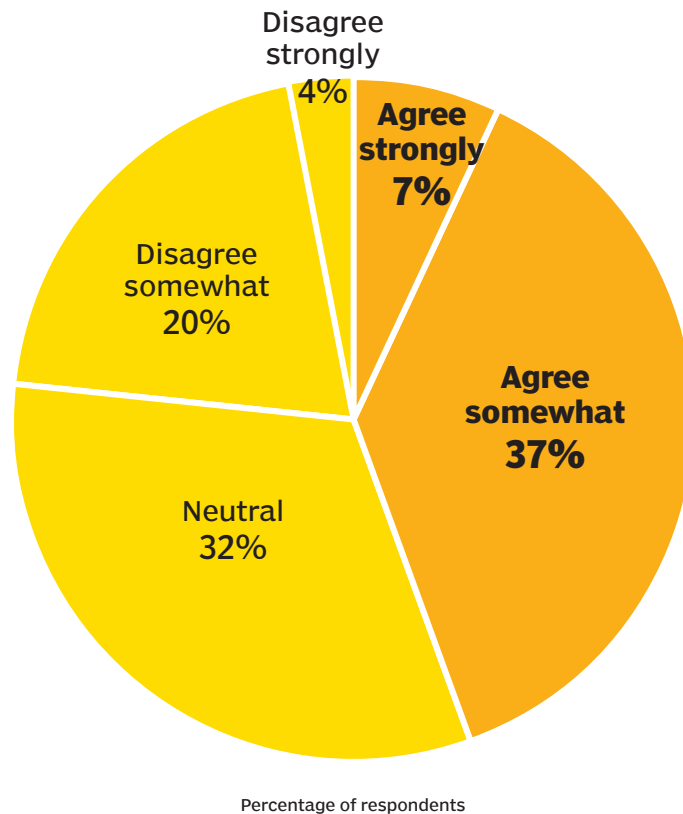
That is where the challenge for procurement begins, as far as finance executives are concerned. “The smarter procurement is, the more it understands about the business, the more it can help the organization make decisions,” says Mr. Lehmann. Mr. Cesarman of PINFRA says that when procurement is “part of the operating and financial decisions, it becomes part of the business process, saving you a lot of money.”

For procurement, that shift represents a higher level of input, far above its traditional role of translating simple requirements—“buy cheap”—into action, and having its performance judged by the absence of stock shortages. Aided by their skilled use of technology, procurement executives may find it financially prudent to, for example, buy an urgently needed machine part overseas and have it flown in overnight, as opposed to keeping an extra part on hand. Mr. Cesarman argues that it is “very strategic” for procurement “to understand the objectives of where we’re going and even argue the other side and to say, ‘It’s not how much you spend, it’s the quality of the things you purchase.’”

The kind of decision he describes is not as simple as choosing the lowest price. As the procurement function gets itself positioned to become a source of higher value, it is bound to find that its knowledge and expertise will be tested and pushed in new directions. But enabled by tight collaboration and technological dexterity, procurement executives can lead their function—and ultimately their organizations—to new heights of success.

Figure 9: “Procurement at my company often develops good ideas for improving financial, operating, and risk performance.”

Many executives have yet to see procurement as a frequent source of good ideas for improving business performance.



»» Sponsor's Perspective

Procurement Uses Technology to Grow Its Own Way

Over the past decade, procurement has successfully transformed itself from a backroom function to a strategic capability. No longer simply the “buying organization,” procurement has taken the lead on initiatives to drive cost savings and process efficiencies that improve performance and profits. But the transformation is far from complete. The opportunity for procurement to drive company success has never been greater. As the findings of this report indicate, procurement can and should play an even stronger leadership role in driving cost savings and companywide value.

To reach this next level, procurement will need to forge an even closer alliance with finance and further automate key commerce processes—from sourcing and order through invoice and payment. It's a tall order, but with the help of a new breed of technologies, it can be fulfilled.

Throughout history, businesses have attempted to capitalize on advances in technology to drive step changes in their performance. In the 1980s, they embraced the desktop PC to simplify routine tasks such as producing documents, presentations, and spreadsheets to make employees more productive. In the 1990s and early 2000s, they latched on to the enterprise operating system and moved to streamline whole functions such as procurement and human resources.

Today, they are reaching for the cloud and tapping into digital networks through which they can connect and collaborate more efficiently with customers, suppliers, and trading partners across the street and around the world.

Why? Because they realize that they cannot achieve their cost, revenue, and cash-flow goals without being able to efficiently engage with customers and collaborate with their supply chain. The traditional enterprise, which operated largely as an isolated entity, is officially dead. Business today is all about the “extraprise.”

In the extraprise, it's not about executing a process within a company, but across the entire value chain. It's not about the intelligence within an organization, but the intelligence networks that are developed through communities. It's not about doing things faster, but tapping insights and best practices to do things better.

It's about being connected, efficient, and informed. Connected to networks that facilitate collaboration around key commerce processes. Efficient by automating tactical, transactional work to drive greater efficiency and productivity. Informed by participating in communities that deliver market insights and best practices to fuel optimal performance and decisions. ►



Traditional operating models and enterprise applications don't allow for this. But open business networks do, and they are paving the way for companies to achieve new levels of productivity.

Much like their social counterparts, business networks provide:

- Cloud-based applications that allow organizations that share a business process to share the underlying technology infrastructure that enables that process and ensure that all parties are collaborating around the same information and coordinating process execution on a common platform.
- A community or network of partners through which companies can quickly discover, qualify, connect, and collaborate with trading partners to share and execute a process.
- Capabilities in the form of best practices, community-derived intelligence, and other unique features or services, which are available only to members of the community, such as unique analytics, preferred financing, or group discounts.

Think of them as Twitter, Facebook, LinkedIn, or Amazon.com for business:

- They are easy to access and use. There's no need to download software or worry about upgrades; you simply need a web-enabled device to access a shared experience from anywhere in the world.
- Everything is integrated. You don't need to worry about connecting to individual partners; they are all accessible through a single interface.

Leveraging such networks, procurement executives can facilitate the automation and collaboration clearly called for by finance executives surveyed as part of this report. They can glean new insights and enable new processes by being connected to a community of their partners and peers. They can efficiently discover and qualify new sources of supply and track and coordinate orders across their supply chain. They can gain transparency into payables and receivables status to make informed working-capital decisions.

And as the findings of this report suggest, they can become more proactive in helping the corporation meet broader financial objectives and fueling future growth, profitability, and differentiation.

Many companies remain skeptical of the notion that technologies like those used to drive personal commerce can be applied in the business world. But others—like those who participated in this report—have seen the writing on the wall and recognize that the future of commerce, and ultimately their success, will be driven by them.

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