Implement Procurement Maturity Model

Procurement Circle Benchmark report

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Introduction

Implement Consulting Group has developed a self-assessment tool which can be used by procurement departments working with or focusing on efficiency and their level of maturity within different areas of procurement.

It is a practical tool aimed at supporting the procurement department in becoming a key partner – a change agent within the company.

Eight core dimensions
Overview and input are structurally provided across eight core dimensions within procurement.

The individual dimensions cover areas that the procurement department handles on a daily basis – areas that include either specific practices and processes or methods and tools.

Seven dimensions address procurement themes and challenges regarding sourcing, strategy processes, the organisational structure, Procure-to-Pay (P-t-P), reporting and documentation, systems supporting the procurement department and supplier relationship management (SRM) – areas of procurement which the procurement department addresses on a daily basis, internally as well as across the company.

The eighth dimension, change and effect, reflects different aspects of change management when working with procurement. The dimension addresses the challenges that exist in a transformation process and especially the critical factors that must be addressed and handled for a continued change and effect.

Implement Consulting Group

Implement Consulting Group

Implement Consulting Group is one of Scandinavia's leading consulting companies and has more than 230 consultants working from offices in Denmark, Sweden and Norway.

Our ambition is to be the best consulting company in helping organisations carry out transformation processes. Our focus is on helping our customers create value by planning and implementing the best possible solution.

70% of all transformation processes that are launched do not create the intended effect. At Implement, we believe that words that do not lead to action are worthless and that a solution is not a solution until it has been implemented and created the intended impact.

Implement's view on procurement

Procurement is a functional discipline undergoing constant change. Ideas and methods are being developed in cooperation with our customers as well as in academic and professional partnerships.

Our focus is on developing solutions, tools and concepts that can be implemented and create the intended effect.

We want to be known as the most value-creating consultants when it comes to developing solut-ions. We want to ensure a practical use of com-petences and skills for an effective implement-ation of the different types of procurement projects. We regard these initia-tives as necessary for a professional and efficient pro-curement department.

Self-assessment tool

Implement Procurement Maturity Model

Self-assessment

Implement Procurement Maturity Model

Implement Procurement Maturity Model aims at providing your procurement department with:

An **OVERVIEW** of the maturity of the procurement department within eight dimensions

INPUT for making the work performed by the procurement department more efficient and professional by highlighting potential future development initiatives

INSPIRATION and ideas for improvement through benchmarking with similar procurement departments in other companies

Overview, input and inspiration form a platform for discussing and working with the potential improvement areas that are highlighted as a result of the self-assessment in order to start initiatives that can take the procurement department to a higher level of maturity and efficiency.

A database of inspiration
The Implement Procurement Maturity Model is also a benchmark database that propagates qualified benchmarks on maturity within the field of procurement.

The benchmark results are based on in-depth analysis and can be used for comparison and as a means for understanding the organisation's own maturity level.

Your participation will be handled anonymously and confidentially. The benchmark database provides an opportunity to benchmark your procurement department's maturity level with similar procurement departments and draw inspiration from practices, methods and tools that are used within these companies.

SELF-ASSESSMENT TOOL
The tool is inspired by the internationally renowned CMM maturity model, which is a well-documented model for evaluating a function's maturity level from different relevant dimensions.

The self-assessment tool focuses on each dimension as a collection of elements that describe certain aspects of maturity in an organisation. It is a collection of tangible elements, such as training and communication, processes and practices, techniques and automation, as well as less tangible elements, e.g. the ability to gain a high level of compliance, coherence and understanding for procurement decisions. All these elements describe aspects of procurement maturity in the company.

FIVE MATURITY LEVELS

The tool involves the five levels indicated below. At maturity level 5, practices, processes, methods and tools are considered to be at the highest level of maturity.

FIVE LEVELS

Ad hoc level: unmanaged without a defined goal or strategy. Everybody has his own approach towards processes and practices.

Repeated level: Uniform processes based on practical experience emerge. Acknowledgement of the need for improvements

Documented level: processes are defined/confirmed as standards and are documented

Managed level: organisational responsibilities are placed and vision, and goals are defined by management

Optimised level: management is focusing on achieving best practice through continuous optimisation and reporting
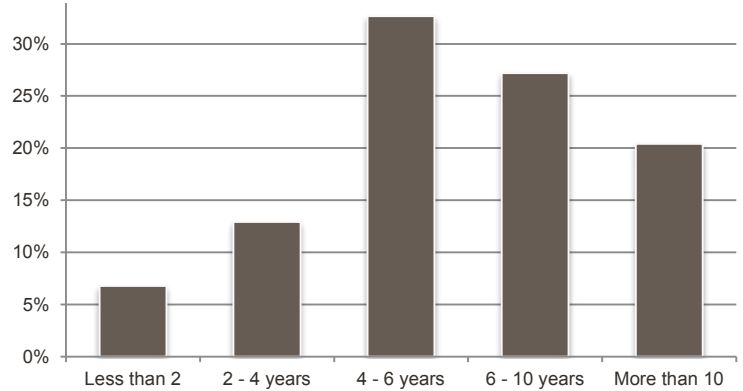
Procurement departments

Overview of the procurement departments from the participating companies

Overview of competences and educational level

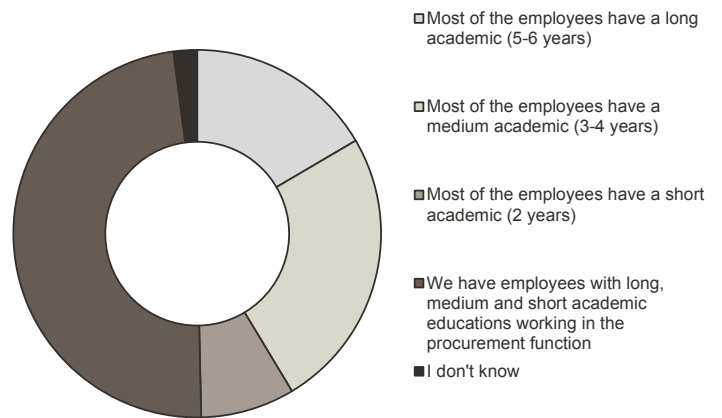**Working experience with procurement**

The procurement departments which have carried out a self-assessment via IPMM have stated the overall working experience with procurement and the level of education of the employees in the procurement department.

As shown in the figure on the right, the employees usually more than four years of working experience with procurement. Thus in general they are procurement managers with a solid expertise.

Education level

As shown in the figure stating the overall educational level in the procurement department, is equally distributed between short, medium-length and long academic educations.

- Most of the employees have a long academic (5-6 years)
- Most of the employees have a medium academic (3-4 years)
- Most of the employees have a short academic (2 years)
- We have employees with long, medium and short academic educations working in the procurement function
- I don't know

Procurement professional inspiration

A large number of sources are used for drawing inspiration for further development of the competences within procurement.

There are three predominant sources of inspiration.

The first one is through experience exchanges with peers, conferences and networking, Here, advantage is derived from direct dialogue with other procurement professionals for exchange of experience.
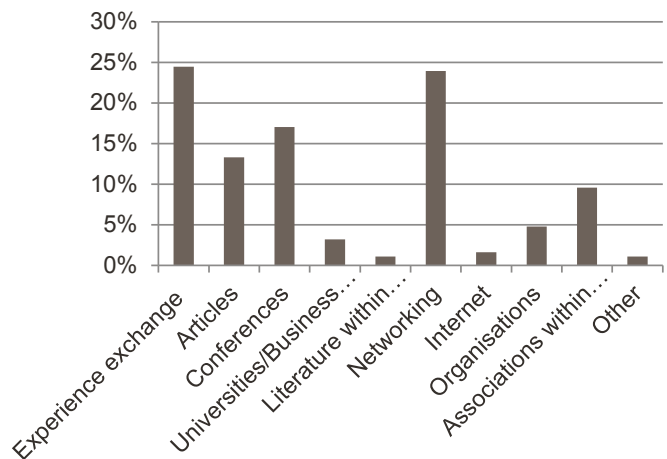
Procurement volume

Volume

A characteristic of the respondents which have carried out a self-assessment is that their organisations procurement volume is above EUR 1 billion per year.

Number of suppliers

The number of active suppliers, illustrated in the upper figure of the figures below,
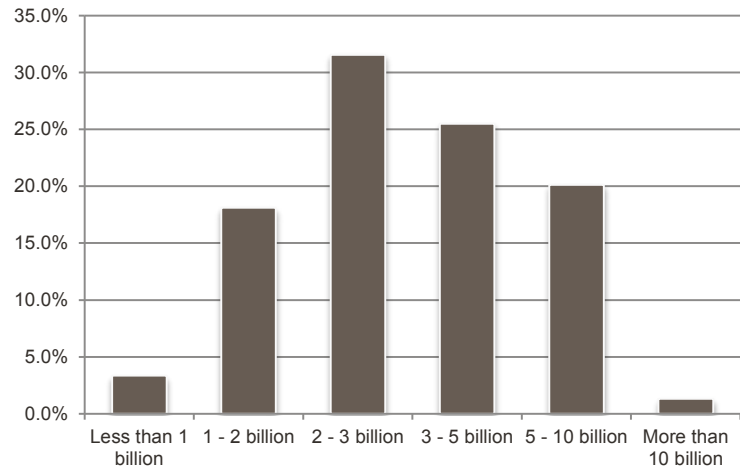
Number of suppliers
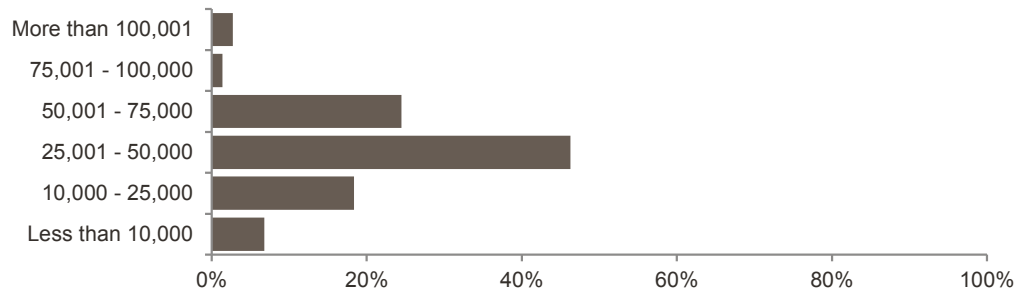
Number of invoices
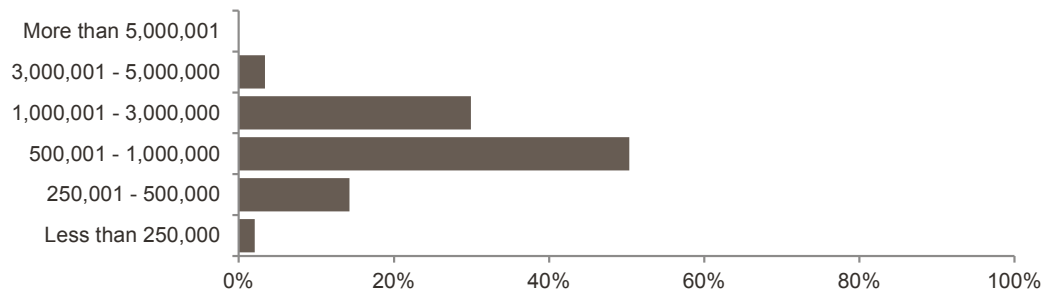
Overview of the procurement department and number of employees

Establishment of the procurement department
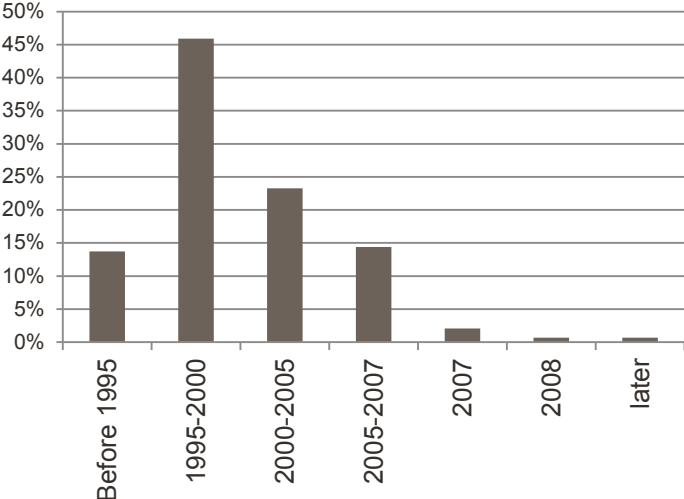
Procurement employees

The that have carried out a self-assessment via IPMM vary in terms of number of procurement employees, but most respondents have less than 200 employees in their procurement department.
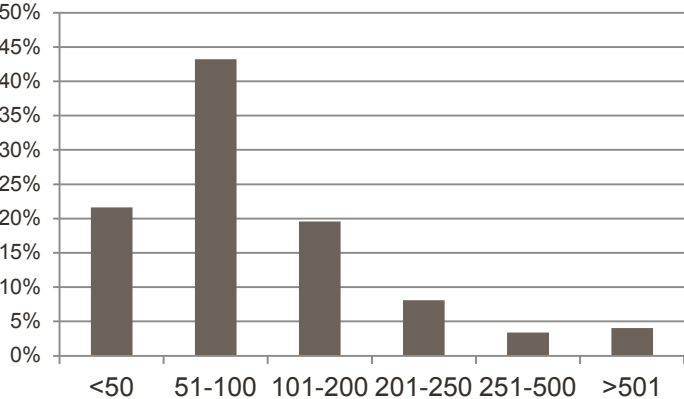
Employees in the organisation

The organisations that have carried out a self-assessment via IPMM vary in terms of number of employees, most have between 50,000-200,000 employees.
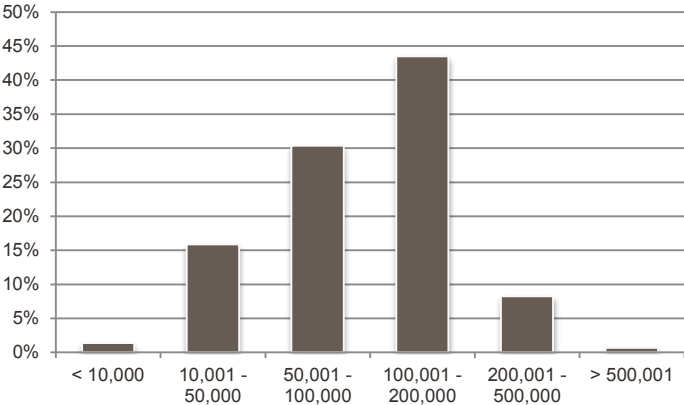
Insight and inspiration

Tendencies from IPMM

Insight and inspiration

Increased agility using e-auctions

One of the main themes in the very near future will be agility – the ability to identify and utilise market opportunities faster than the competitors. Procurement can contribute to creating this organisational agility by ensuring e.g. higher flexibility in the supply chain, more streamlined processes and a wider diffusion of methods and tools. A powerful tool for achieving this is the employment of frequent e-auctions.

Higher flexibility in the supply chain

By employing frequent e-auctions, a higher level of competition exposure is achieved compared to e.g. yearly RFQs. This provides an opportunity to obtain more frequently updated prices in product categories with high fluctuations in market prices.

Furthermore, it results in higher flexibility in relation to the items and volumes which are put in the auction tender. It is possible to adapt the volumes to the market situation, e.g. in case of increasing or declining price curves, or own demand in case of seasonal fluctuations or product life cycle developments. In this manner, it is possible to create tenders of only an immediate demand or create framework agreements for several years at a time.

Streamlined processes

At an e-auction, the time from the tender starts until an agreement is concluded is minimised to a very compact process. However, this can often be optimised by streamlining the process so that it becomes as effective and value-creating as possible.

Actual templates for e-auctions can be created, and the electronic nature makes it possible to include a large number of suppliers without increased resource requirements. In this manner, a level can be reached where an e-auction becomes a "non-event", meaning that it is something an organisation can do without any significant requirements for resources and planning unlike traditional sourcing projects.

Diffusion of methods and tools

An additional advantage is that the e-auction tool can be made available to the entire organisation and should, thus, not only be something which is used in the central procurement department. Through training of decentralised units, knowledge is spread throughout the organisation and, consequently, contributes to creating agility as tenders can be performed in a simple and effective manner from several places in the organisation.

In addition to the fact that knowledge and methods are shared across the organisation, the use of decentralised e-auctions also makes the organisation capable of covering more of its categories in organised tenders. Even though these categories may not justify a full sourcing project, substantial savings may still be obtained by offering up the spend through an e-auction, which justifies why spend covered by e-auctions might be a relevant KPI.

Consequently, e-auctions may become a central element in achieving increased organisational agility by benefitting from flexible, internal tender processes with greater supply chain flexibility as a result.

ORGANISATIONAL AGILITY

An organisation's ability to identify and utilise both sales promotion and cost-saving opportunities faster, more effectively and more accurately than their competitors is their source of organisational agility.

Managers cannot predict the nature, size or timing of these opportunities in advance. However, they can increase the probability of exploiting them in a better manner than their competitors.

Insight and inspiration

Green procurement
– what on earth is that?

Green or sustainable procurement defines a process which fundamentally takes into consideration other aspects of the purchase than only price and quality, but also the environmental, macroeconomic and social aspects of the purchased product's total life cycle.

A sustainable purchase e.g. considers the physical conditions under which we are working – whether our offices are environmentally responsible, whether there are low-energy light bulbs in the lamps, and whether organic food is served in the canteen. Sustainability can also be included in many of the considerations and cost calculations that are used in the procurement department, and there are significant opportunities for showing both financial and non-financial effects for companies who want to work with sustainability.

Sustainability and/or savings
Sustainable procurement is based on the total life cycle costs of a product or so-called Life Cycle Costing (LCC).

An example of LCC is a purchase of computers. Here it can be argued that the total life cycle costs will be smaller if not only the purchase price is considered, but also the costs related to the production and the use and disposal or recycling of the computers, which has become popular in the area of IT hardware.

NGOs, for instance FAIR, work with recycling of thousands of computers that are scrapped in Denmark every year. In developing countries, the computers are given a second life, a new employment in teaching in schools as well as in hospitals, and help improve dissemination of and access to information. This constitutes an environmental as well as a social aspect which influences the total life cycle cost of a computer.

A set of guidelines
Many Danish organisations have defined a strategy or guidelines for sustainable procurement as part of their overall strategy. But what does it take to make guidelines and strategies result in an increased number of sustainable purchases?

Integration into the purchasing process:
Integrate environmental, social and macroeconomic targets in various steps of the purchasing process, e.g. in relation to specifications, prequalification, evaluation of bids and award criteria.

Uniform approach:
Implement a uniform approach across the organisation which includes e.g. LCC. This provides the procurement department with an opportunity to draw the organisation's attention to the fact that the best value for money may not be identified by looking at price and quality, but may rather be ensured by purchasing sustainably and preferring environmental and social alternatives as well.

Close the gap in competences:
Invest in a boost in competences which is required to be able to work with LCC analyses which are founded in various economic methods.

Quick-wins:
Introduce sustainability in relation to goods and services where supply is large, e.g. within goods like office furniture, cars and lighting or services such as waste disposal, canteen or transportation.

Achieving increased sustainability does not have to be complicated, but can be approached by expanding the existing cost definitions.

Insight and inspiration

New competences for strategic sourcing?

The traditional perception of strategic sourcing and the specialist competences required by employees working in the strategic sourcing department are changing. The category manager is increasingly required to operate across the various departments of the organisation and, in many cases, has to implement changes across value chains – both inside his own organisation and in relation to suppliers.

This requires that the category manager strengthens and focuses his competences within a number of specialist areas. At the same time, it may be beneficial to rethink the division of tasks in other areas, so that specialist competences e.g. within data analyses, the legal area, IT and functional competences from the rest of the organisation are used within procurement to a larger degree in order to support the competences required for the tasks performed by the category manager.

The challenges of strategic sourcing

The current challenges of the strategic sourcing department are based on the fact that the sourcing manager has to master a broad spectrum of competences to perform his tasks. In addition to being a category expert, he has to master negation techniques and contract formation and the related legal complexities. Moreover, he must be able to perform advanced quantitative analyses and have IT competences in order to be able to handle e-sourcing and other e-tools. Finally, significant strategic insight is required to ensure coordination of criteria, goals and processes with the other stakeholders in the organisation.

The category manager as a change agent

Even for the most talented category managers, it may be difficult to excel in all these areas with equal quality and effect.

An idea could, thus, be to reorganise the strategic sourcing department in such a manner that a range of specialist resources are made available to the category manager:

- Employees with financial and data handling competences focus on and deliver various analyses
- Employees with competences within system support of strategic sourcing organise negotiation and sourcing processes by means of e-sourcing
- Employees with legal competences handle the aspects concerning contract formation for multiple categories

In the surrounding organisation, there are also a number of relevant professional competences to cooperate with during the strategic sourcing process, including:

- Finance (documentation of savings, TCO)
- Sales and marketing (client, market and competitor analyses)

This type of organising gives the category manager the possibility of strengthening and focusing the competences which, in combination with category management, provide the opportunity to assume the role as change agent, in cooperation with the surrounding organisation and suppliers, of large improvement projects in the organisation. In future, strategic sourcing will require increased competences in relation to its role as a coordinating project manager while at the same time adding category-specific knowledge to the project.

> **FUTURE CORE COMPETENCES FOR STRATEGIC SOURCING**
> - Business insight and understanding
> - Programme management
> - Project management
> - Negotiation skills (internally and externally)
> - Strategy insight
> - Social competences

Insight and inspiration

Do you believe in master data?

Master data is the spine of the information flow in all organisations. If master data is correct and updated, both information, processes and coordination become easier than if there are errors and inaccuracies.

In many companies, the amount of data which has to be handled and maintained reaches staggering heights. This creates a situation with many different types of data, many stakeholders and (data) owners and a significant need for coordinated data management.

Data types and consequences
The above characteristics can, with good reason, be said to especially apply to data in the P-t-P process.

The P-t-P process is particularly dependent on valid and updated master data in order for it to be carried out effectively and optimally.

When the coherence in master data from item and supplier data to financial and payment data is created optimally and maintained, the P-t-P process can be carried out with a significant degree of automation and effectiveness.

But that very coherence in master data is at the same time the reason why P-t-P is so often left wanting in one or more steps of the process.

Classic master data errors in P-t-P include e.g. errors in item and supplier master data, terms of contract or payment which result in problems for the ordering departments as well as the finance and procurement departments.

Many stakeholders
There are several chefs in the kitchen of master data. The most obvious ones are strategic sourcing, operational purchasing, warehousing, production, R&D, finance and goods reception which are all stakeholders and owners of the master data which is the foundation of a successful P-t-P process. Add to that the possibility for several branches and factories across geographical locations as well as the company's approval hierarchy, and the recipe for a complex master data management situation is ready.

Management of master data
The handling of these issues is gathered in the term data governance, where central themes are the establishment of roles and responsibilities as well as the creation of rules, procedures and policies. Examples include a structure for naming and categorising items, formalisation of the process for creating an item in the system and management of rights to change data.

This responsibility may be handled by multiple departments in the organisation, but as a central player in the combined P-t-P process, the procurement department is in a strong position to become the primary driver of the change initiatives which are to ensure the quality of master data and, thus, an effective P-t-P process.

EXAMPLES OF EFFECTS OF MASTER DATA ERRORS

Error	Effect
Contract validity data	Wrong price
Wrong std. supplier	Wrong price
MOQ and pack size	Wrong volume
Supplier item number	Wrong item
Lead and processing time	Wrong time
Error in approval hierarchy	Late payment

Insight and inspiration

Does procurement speak the language of the board?

The procurement department's position in the organisation first of all depends on the purely procurement-related competences.

Additionally it will also increasingly depend on its ability to "tell the story" about the effect that the work of the procurement department has on the cost level of the organisation and, consequently, on its competitiveness.

No stakeholder is more important to reach in the right way than the organisation's board if procurement is to achieve a significant position in the organisation.

The story about the effect of the work performed by the procurement department is the story about how different types of savings and improvements can be documented and communicated in the tone of the board – which, in most organisations, is synonymous with a focus on optimisation of costs.

Savings – a term with multiple meanings

The complex interface of the procurement department and the broader organisation is caused by the many and different types of projects it is involved in. These have very diverse results which all come under the term savings:

- The pure sourcing project which focuses on achieving the lowest possible unit price.
- The transverse improvement project which aims at reducing the total operating costs of the organisation's supply chain.
- The long-term change project which aims at establishing solutions which will give the organisation the opportunity to avoid costs further down the road.
- The investment project which is intended to optimise both the investment budget and the derived operational costs in the total life-span of the equipment.

These are all examples of the diverse approaches to the concept of savings which the procurement department has to master and manage in order to be capable of documenting the realised savings.

Learn and be inspired by economists' approach to savings

The traditional financial approach to the concept of savings is based on the principle that costs disappear to some extent relative to the activity level of the organisation. The procurement department can be inspired by and learn from this approach in their work of documenting and reporting the effect of procurement projects.

Documentation and communication of actually reduced (i.e. eliminated) costs is one of the roads to increased appreciation of the work performed by the procurement department – also in the board room.

THE VARIABILITY OF COSTS

The level of **variability** of costs defines the relationship between resource requirements and activity. It describes the flexibility which the organisation has in terms of adjusting resources to activity levels.

Variable costs
Variable costs have complete variability and **disappear** in case of ceased activity.

Capacity costs
Capacity costs are characterised by having less variability than the activity and are, thus, not reduced at the same rate as the activity.

Insight and inspiration

Has TCO been used for designing the system landscape in procurement?

Different systems for supporting procurement, such as eSourcing, e-procurement, supplier databases and reporting systems, are increasingly used in the strategic and operational work of many procurement departments.

Very few organisations have actually integrated these systems on one common platform. Consequently, different systems are often used for contract management, sourcing, category management, reporting, supplier evaluation and supplier communication.

Several users
These systems are used for covering various needs and requirements, and the best system is often chosen on the basis of the needs of individual users or roles in the organisation. Here, there is a parallel to the world of soccer where the systems are equivalent to a player, and it is not always the team of star players that play together in the best way.

Fragmented system landscape
In addition to the fact that there are multiple users and roles, the available systems in the market have historically not been that strong when it comes to functionality and mature enough to be able to handle all procurement-related processes in one system.

On the basis of the above, the system landscape within procurement has become fragmented. The consequences of a fragmented system landscape may be waste in the processes which makes system integration necessary for optimal use of procurement data.

Integration
As a starting point, each system serves its own purpose by definition, but when looking across the system-supported procurement processes, this fragmented landscape creates challenges.

An example could be that the contract management system works as an archive and, consequently, does not make use of its content in situations where contract numbers have to be searched for and transferred manually to the ordering system.

Another example could be that the maintenance of master data is made more complicated because the same master data must be maintained in several systems which also stands in the way of a fast and easy reporting, e.g. due to non-correlating supplier numbers and names.

Is TCO also used for purchasing systems?
TCO considerations are a natural part of the procurement profession, but the question is whether that also includes the purchase of systems.

Each system is bought isolated based on functionality and, thus, on a TCO consideration which exclusively considers the initial acquisition costs and the daily operations and maintenance.

The TCO calculation should be taken to a higher level where you also include costs related to the flow and, thus, the multidirectional data exchange through the combined system landscape. What are the costs of e.g. management of master data, training, reporting, waste in processes etc. in this setup?

This basis for calculation should provide a real picture of the costs of an informed choice.

FUNCTIONALITY = EFFECTIVENESS

Insight and inspiration

Investing in your supplier relationship

The SRM dimension is the only dimension where the bank circle scores are lower than the IPMM average, which is based on inputs from production as well as service companies. Read the article and get inspiration from the SRM approach of production companies.

The turbulent markets of the last few years have been a trial for many suppliers, and several suppliers had to reduce capacity radically or fully go into receivership. These changes send shockwaves down the supply chain, and buying organisations may run into serious difficulties due to the changed situation of the supplier.

Important segmentation
A supplier with strained liquidity will often exhibit a changed behaviour. To cover himself, the supplier will only produce to order which reduces flexibility and increases lead times. Pre-payment and partial shipments of larger orders are often required to ensure the cash flow. If a supplier is under heavy pressure, it may in extreme cases result in a disruption of the inflow of goods and potentially a stop in production. Of course, a change in status does not have the same consequences for all suppliers. With reference to the classic Kraljic matrix, it becomes especially important in this context to segment your supplier base in such a manner that you know how to focus your energy on long-term, strategic supplier relations in times of crisis.

Levers of procurement
Having identified strategic suppliers and recognised the potential risks of supplier liquidity under pressure, the question would be what you as a buying organisation can do to mitigate these risks. Flexibility with regard to payment terms is an obvious possibility of increasing the supplier's liquidity.

The classic procurement lever can, thus, be used the other way round if the supplier gains more benefit from the available capital in the supply chain than the buying organisation.

By increasing the flow of information with detailed and honest sharing of forecasts and sales expectations, you give the supplier the opportunity to perform more accurate planning and utilisation of resources. Ensuring a fluid buying pattern also helps the supplier keep the wheels going. On the other hand, if you let the fluctuations pass on up the supply chain, e.g. by cancelling all orders in order to use the available stock, it may completely destroy the cash flow of the supplier. Finally, you may commit yourself to buying a certain volume over a given period of time or create a reversed concession stock in which you buy a stock at the supplier's location for later use.

There are also more direct forms of investment in the supplier's liquidity. The buying organisation can take over excess machines or equipment at the supplier, which is then either leased back to the supplier or used as part of an insourcing. In the extreme consequence, it may also be relevant to consider actual financial investments in the supplier or a full takeover of the supplier to ensure the supply of necessary products.

The cheapest solution
It may sound challenging that you should optimise the supplier's liquidity rather than your own, but when seen in a risk perspective, it may very well turn out to be the cheapest solution. If, for instance, you lower your payment terms towards a supplier the reduced liquidity is likely to result in increased capital costs for the supplier.

The ultimate consequence could be that you have to go out and find a new supplier with the related costs for market analysis, auditing, creation in the systems, test of goods, approvals and certifications, establishment of a steady flow of goods etc. In other words, the most expensive solution in the short term may be the cheapest solution in the long term by optimising the liquidity of your strategic supplier rather than your own organisation's liquidity, if possible.

Insight and inspiration

Effective implementation

The development in IT systems enables more and more processes within procurement to be supported by IT, e.g. electronic approval of invoices or buying by means of electronic catalogues. But how does the procurement department ensure that the process optimisations which were promised as a result of increased automation or IT support are actually realised and creating the expected effect?

How can the procurement department in the best possible way fulfil the role as a change agent which is required in order for the IT implementation to be a success for all the parties involved?

The right people
It cannot be said often enough that it is important to identify the right people and engage them in the project at an early stage. IT-related projects are, of course, often managed by the IT, Finance or procurement department themselves. These departments are experts on either technology or functionality and, thus, perceive the project from that point of view. But if IT investments are to be delivered within the desired time frame and with the expected effect, it is important to include and establish an active dialogue with the real users of the system as well as other stakeholders at an early stage in the process.

Future users and super users may for instance be gathered in forums and participate in articulating the project purpose and in creating the framework for how the future supporting process can be optimised. At the same time, a not inconsiderable effect is obtained due to the fact that these participants are communicators of the project in their respective departments.

The establishment of these forums creates a sense of ownership, and resistance can, thus, be addressed from the beginning.

Importance

Realisation of the expected effect of an IT implementation presupposes a genuine feeling of importance for the people affected by the implementation in the organisation. This can be achieved through an agreement on what the process which is to be supported actually looks like as well as in which context the system is to be used. If the users themselves do not feel that the implementation is important to the company, it is hard for them to understand the need for the system, and the implementation, consequently, only happens at a technical level, but the use and the derived effect will be limited.

As change agents, it is important that the procurement and IT departments creates room for thought for many people – with room for reflection, doubt and understanding, which is especially relevant in case of a system supporting a process which is outside one's core tasks. Change agents may use tools, such as a clear communication strategy with newsletters and success stories, to establish the right positive attitude in the organisation towards the system. The establishment of an incentive structure must be coordinated with stakeholders and should focus on rewarding the so-called early adapters.

Focus on effect
The users' acceptance of the new system strongly depends on the advantages that the users believe to be gaining by using the systems. It would be the ideal situation if the IT implementation had a positive effect on the daily work of all users, but this is not always possible. For instance, the workload increases for the employees who now have to make the buy themselves or approve invoices. To obtain effect, it is important to recognise this issue and face it, challenge it and turn it around into the positive effect that the system has for the company in an overall perspective.

Self-assessment

Sample version

Average maturity level

The average maturity level for your company within the eight core dimensions will be presented below.

Your result of the self-assessment via IPMM will be presented in detail as follows:

- First, the maturity level in relation to each of the eight core dimensions is stated
- Secondly, the maturity level in relation to a theme is stated for each theme in the dimension
- Thirdly, the overall average maturity level for the dimension in question is stated

A weighted average has been used for the calculation of the maturity level.

On the following pages, the maturity level for each of the eight dimensions will be presented in detail.

Average maturity level for the 8 dimensions
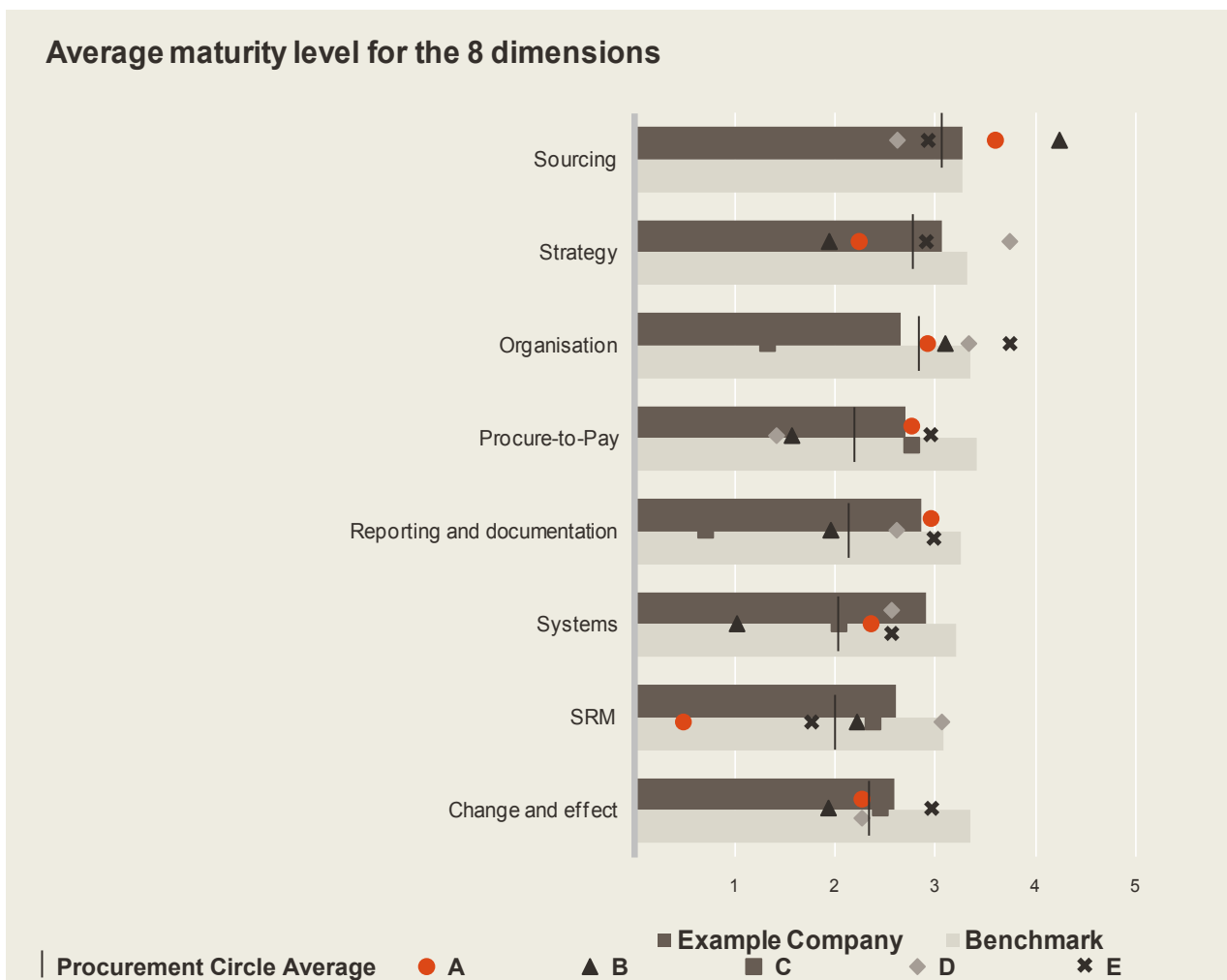
Sourcing

Sourcing is a formal, ongoing "programme" or methodology in which companies seek to identify the widest range and mix of suppliers, map current sourcing processes and rationalise their current supplier base, negotiate or renegotiate contracts to improve efficiency and reduce total cost of ownership, and get a closer relationship with key suppliers to maximise cooperation.

Your maturity level for sourcing is shown below in relation to each theme as well as the overall maturity level for the sourcing dimension.

A weighted average has been used for the calculation of the maturity level.
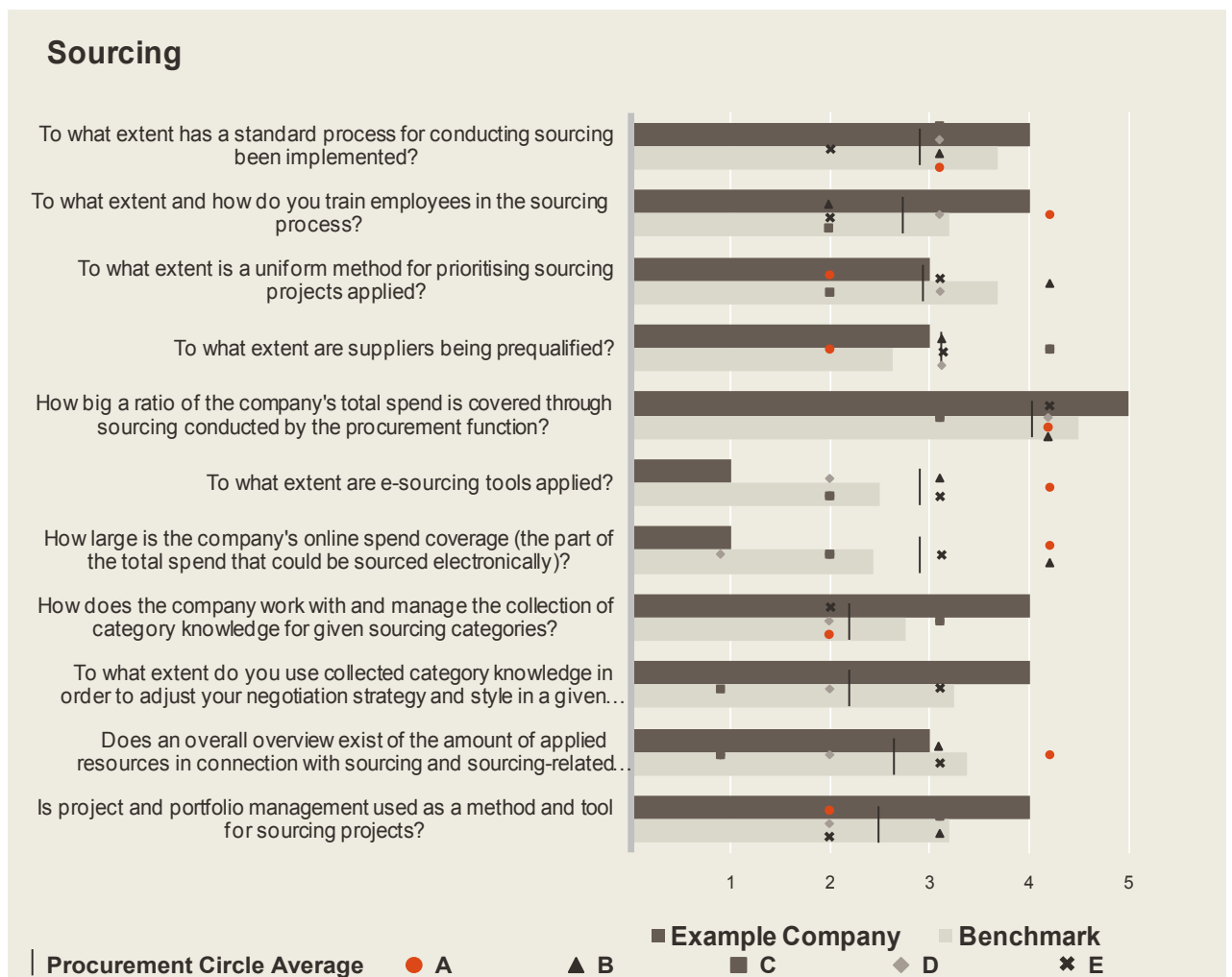
Best practice examples

Sourcing Process

The implementation of a structured and standardised sourcing process is a key component in achieving a high maturity level within sourcing.

A structured and standardised sourcing process makes it possible to:

- Work with a homogeneous sourcing approach across the organisation
- Establish a formalised training program in the process, which ensures the process highest possible effect
- Facilitate continuous optimisation and refinement of the process, so that the entire organisational learning is captured and stored in new processes
- Achieve better compliance in existing agreements
- Establish a common language on sourcing
- Create a common understanding of the content and structure of the assignment
- Simplify planning of the sourcing cycle
- Enlighten opportunities, pitfalls and legal matters
- Build a uniform business case view
- Deploy an e-sourcing tool

Potential tools:

- 5-9 steps sourcing process
- Establishing a formal training program around the process

Portfolio management

Well-developed portfolio management of sourcing projects provides benefits through better utilisation of resources and bigger effect of implemented projects.

A couple of effective methods include prioritising sourcing projects by means of:

- Securing a multi-annual cycle the secures frequent scoring of categories
- Setting criteria for prioritising, both in regard to saving potential, professional and technical complexity and the possibility of implementation in practice
- Analysing the current marked situation and analysing the punctuality of a project compared to the current state of the market
- Resource overview of availability and utilisation of available resources both within and outside the procurement department
- Estimating the potential and possibility of implementing categories. This is done through spend analysis in existing spend and with quantitative analysis and knowledge gathering internally and externally.
- Continuous updating (for instance monthly or quarterly) of the sourcing calendar and other resource demanding projects in the pipeline.

Clear communication and project planning in regard to and in corporation with the rest of the organisation in reference to current and future sourcing projects.

Potential tools:

- Multi-annual cycle of sourcing categories
- Spend analysis
- Estimation of potential

Strategy

Having an approved and defined procurement policy and strategy is essential to the organisation's general guidelines, objectives and success criteria in relation to working with procurement in the company.

Your maturity level for development of a procurement policy and strategy is shown below in relation to each theme as well as the overall maturity level for the strategy dimension.

A weighted average has been used for the calculation of the maturity level.

Strategy

Strategy chart showing maturity levels for questions:

- Does the company have a defined and approved procurement policy?
- Does the company have a defined and approved procurement strategy for direct spend?
- Does the company have a defined and approved procurement strategy for indirect spend?
- Does the company have a defined and approved procurement strategy for capex spend?
- Does the company have a defined procurement strategy for its strategically important categories?
- Does the company have a defined supplier strategy for each supplier supplying in a strategically important category?
- Does the company work with formalised sourcing plans?
- To what extent does the procurement department work with CSR in relation to strategic procurement?
- To what extent is risk management used as a method and tool within strategic procurement?
- Does the company work with projects focusing on change and/or optimisation across the company's value chain (e.g...
- Does the company apply offshoring of procurement categories?
- Does the company outsource procurement categories to third party vendors?
- Does the company source in low cost countries?

Legend: ■ Example Company ■ Benchmark | Procurement Circle Average ● A ▲ B ■ C ◆ D ✖ E

Best practice examples

Anchored strategy

A procurement strategy needs not only to be well-documented and current, it should also be anchored in the procurement department and as well as the entire organisation. This is achieved by:

- Making the strategy a part of the organisations overall business plan

- Securing that management has committed to specific targets for the procurement department e.g. the degree of contract application.

- Coordinating and balance the strategy with specific departments e.g. Retail operations, sales and marketing

- Appoint user groups, which include all participants in the whole process form purchasing to invoicing. The users are involved and work is structured and formalised with communication to significant stakeholders

- Procurement management having designed a road show in which they present the strategy to the organisations stakeholders

- Using benchmarks and external inputs such as analyses, various (price) indices and reports. These are used to adjust the strategy to secure a prober fit with the surroundings

Potential tools:

- Benchmarks, index and reports
- Appointments and facilitation of user groups
- Measurable business plans on management levels
- Road shows

Cross-organisational relations

Because of procurements many touch points across the organisation is successful implementations of procurement strategies often reliant of the procurement departments ability to handle the internal relations in the organisation. Relations handling can be strengthen through:

- Appointing a steering committee for procurement with a strong management mandate

- Creating a global coordination procurement department instead of small fragmented departments

- Reporting documented results throughout the organisation and communication the procurement success stories

- Establishing a relationship management role within the procurement department, to secure coordination and strong relationships with the rest of the organisation

LCC sourcing of CAPEX

LCC sourcing is expanded to include more than just standard items or items with a large part of the manual work in the cost structure.

Sourcing of production equipment and other CAPEX purchases can profitably be LCC sourced. Among other things because of the purchase size in connection with the possibility of reducing the investment.

Outsourcing or offshoring

Many organisations use LCC sourcing but the potential in offshoring purchases of some categories to e.g. outright outsourcing the procurement department to third party (among other things in reference to indirect procurement) can be included in offshoring.

Organisation

The organisational structure of the procurement department is important with regard to how the decision-making processes etc. are implemented within the procurement area.

Your maturity level for the organisational structure of the procurement department is shown below in relation to each theme as well as the overall maturity level for the organisation dimension.

A weighted average has been used for the calculation of the maturity level.

Organisation

At which management level is the person overall responsible for procurement located in the organisation?

Which competences do employees within procurement have?

Does the company have a defined career path for procurement employees focusing on professional skills?

To what extent does the company train operative procurement employees in handling orders within direct procurement?

To what extent does the company train operative procurement employees in handling orders within indirect procurement?

To what extent does the company train other procurement employees?

Is the company's procurement volume centrally coordinated on a pan company basis?

How large a part of the company's procurement spend is coordinated on a centralised and decentralised basis…

How large a part of the company's procurement spend is coordinated on a centralised and decentralised basis…

To what extent has a standard process for category management been implemented?

Does the company operate with KPIs and measurements for the procurement function?

■ Example Company   ■ Benchmark

| Procurement Circle Average   ● A   ▲ B   ■ C   ◆ D   ✖ E

Best practice examples

High placement of the CPO

By placing the CPO as high as possible in the organisational hierarchy you attain:

- Increased focus on the procurement function being strategically important for the organisation
- Improved compliance and participation from the entire organisation
- Improved possibilities of realising procurement saving and coordinating procurement initiatives in the organisations budget procedure
- The possibility to organise procurement as an integrated part of the cross functional supply chain unit in the organisation

Education

Education of procurement employees is conducted through a formalised and structured course.

Potential tools:

- Establishing your own internal Procurement Academy
- Describe and determine requirements for employee categories competence profiles within the procurement department
- Focus on participation in external courses and seminars, which address new knowledge, tendencies and tools within procurement

Central coordination

Organizations that have implemented centrally coordinated procurement experience a number of advantages, including:

- Improved procurement and payment condition and ensuring necessary assortment
- Uniform processes, tools and systems (e-procurement)
- Potential for detailed knowledge about spend
- Increased potential for knowledge sharing and utilisation of cross functional synergies

- Making it possible to act as a unified organisation when contacting suppliers (one voice to the supplier)
- Improving the possibilities of setting indirect purchases on the agenda and consolidating the indirect purchases volume across the organisation

Effects of a procurement committee

Responsibility for the organizations total indirect procurement is organised in a procurement committee, which "owns" the entire procurement. There is a clear and formalised definition of roles and responsibility, including:

- Responsible for that the organisation understands and accepts the approved procurement initiatives and compliance demands
- Appointment of global category ownership with responsibility for development and implementation of category strategies and cooperation with end users
- Establishing a unit, with responsibility for business development, including development for employees, processes and tools

Procure-to-Pay

The entire P-t-P process from acknowledgment of needs to goods reception to the actual invoicing and payment is a cross-organisational process involving a large number of employees and departments in the organisation. It, thus, characterises the progress of the P-t-P process and often the current maturity level of the organisation.

Your maturity level for the P-t-P process is shown below in relation to each theme as well as the overall maturity level for the P-t-P dimension.

A weighted average has been used for the calculation of the maturity level.

Procure-to-Pay

| Procurement Circle Average | ● A | ▲ B | ■ C | ◆ D | ✖ E |
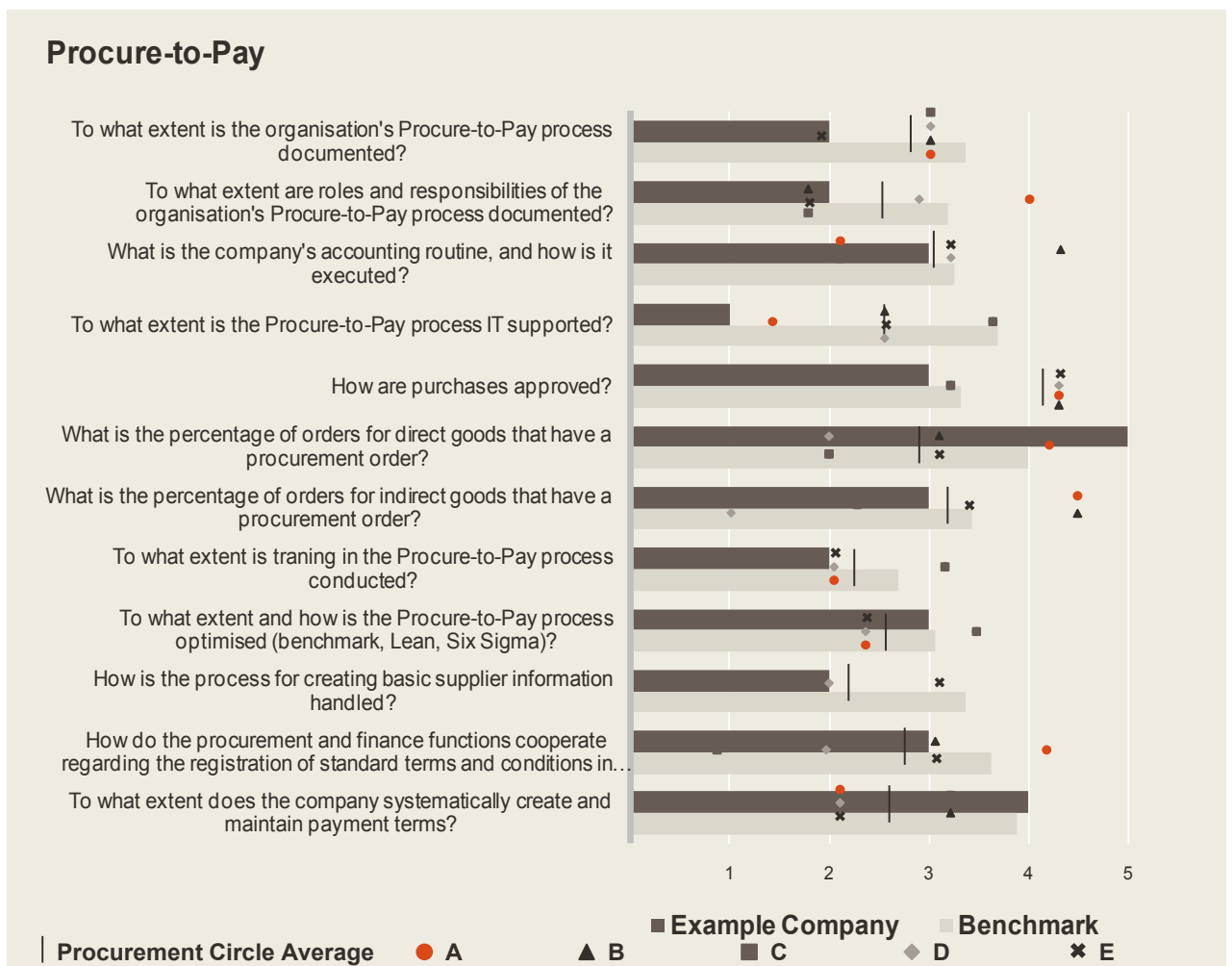
Best practice examples

Documenting the process
- The procurement process i mapped and documented across the organisation
- Different procurement processes in regard to types of product category is mapped and described
- Communication about present procurement process(es) is located in e.g. an intranet based procurement portal together with information on systems, suppliers, procedure descriptions, internal education etc.

Potential tools:
- Lean (tools and methods), mapping tools e.g. flow charts and value stream mapping
- Management tools (ISO standards etc.)

Roles and responsibilities
- Roles and responsibilities in relation to the specific processes are described, approved and communicated widely in the organisation
- Weekly coordination meetings secures that problems is being addressed and solved effectively by the people responsible, thus that the entire process runs smoothly
- Process owners (national and global) have a continuous focus on development and operations of the P-t-P process

Potential tools:
- Clear infrastructure for communication, including intranet, e-mail and meeting forums
- Continuous organisation of courses with focus on process, interfaces and responsibilities shifts

Optimisation of the approval procedure
An optimisation including automation of the approval procedure for the entire P-t-P process secures unification of data, controllability and accessibility of performance history in the system.
- Based on product delivery in the system, establish a procedure for purchasing approval

- Establish and communicate disposition rules for procurement in the organisation e.g. that products below X € do not require approval and that purchases above X € are approved based on the requisition in the system

Potential tools:
- Clear infrastructure for communication, including intranet, e-mail and meeting forums
- Continuous organisation of courses with focus on process, interfaces and responsibilities shifts.

Use of procurement orders
A significant action to insure greater transparency compared to the organisations total purchasing and data quality in general is to increase the proportion of purchase orders.
- Procurement from product delivery to invoicing is supported and joined by the generated procurement order in the system
- Efforts to increase system integration in relation to electronic procurement catalogues
- The procurement department is responsible for data quality, including product maintenance, prices, specifications and other master data
- The procurement department can help with and performs a good service compared to ensuring that a high proportion of purchases are based on a procurement order

Potential tools:
- Clear infrastructure for communication, including intranet, e-mail and meeting forums
- Co-worker training, super user training and workshops are also available tools

Reporting and documentation

Reporting and follow-up on procurement savings, including documentation of realised benefits, are a central aspect of the procurement department's work with optimisation of procurement.

Your maturity level for reporting and documentation of procurement savings is shown below in relation to each theme as well as the overall maturity level for the reporting and documentation dimension.

A weighted average has been used for the calculation of the maturity level.

Reporting and documentation

Does the company operate with spend management?

To what extent does the procurement function use cost and savings definitions?

To what extent does the procurement function manage through the use of performance targets?

To what extent does procurement conduct spend analyses based on spend mapping and categorisation?

To what extent are savings calculated by the procurement function validated by an unbiased third party?

To what extent are actual prices compared to prices negotiated in the contract for indirect procurement?

To what extent are actual prices compared to prices negotiated in the contract for direct procurement?

How are procurement savings documented?

To what extent does the company monitor contract compliance?

How does the procurement function cooperate with the finance function as to establishing basic procurement information and…

How is basic supplier information categorised?

To what extent does the procurement function try to optimise payment terms?

1 2 3 4 5

■ **Example Company**   ■ **Benchmark**

| **Procurement Circle Average** | ● **A** | ▲ **B** | ■ **C** | ◆ **D** | ✖ **E** |

Best practice examples

Allocation of savings

There is established a formal structure for how any gains received from new contracts is allocated between central and decentralized offices, including, to which purposes the gains from new contracts can be used.

- Realisation of gains and other effects of the implementation of procurement projects are integrated with the organisations other economic and budget follow up procedures
- Regular meetings with controllers and other business units discussing the allocation of savings
- Business structures where the savings follows the user
- Business cases are prepared on major procurement projects where actual results are reviewed by the finance department, approving and executing cost savings to users, according to agreement

Potential tools:
- Formalised incentive model
- Economy and budget model

Control of actual price aginst contract price

There are defined, described and decided on formal process for following up on actual price against contract price, including how often and how samples were selected for price controls and by whom.

Partial system support:
- Integrating data from the procurement system (agreed price) and data from the economic function (contract prices)
- Integrating data from other systems e.g. "spend-module" and the procurement system and others

Full system support:

- Full integration between the procurement and the economy system, so price deviations is reported
- All purchases are made through contracts in the ERP. Clear procedures for how deviations are handled. No payment shall be made at different prices without active decision

Saving and cost concepts

Work is structured through statements and documentation of procurement benefits and effects associated with the use of agreements. Gains and effects are documented in a formal business case; the content and structure are clarified by consuming departments, which approves that the documented benefits and effects are realized.

Working with documentation of both real economic effects and other internal impacts, including use of structured inventory statements and documentation of the overall total contract costs.

- View savings potential based on whether it is a CAPEX or indirect procurement, disposable supplies and others
- Introduce cost avoidance, lifecycle cost, ABC and other tools for more dimensions when considering the procurement
- Introduce different total cost scenarios, for example in relation to reducing storage cost and process savings etc.
- Introduce a model of how savings are calculated

Potential tools:
- Benchmarking prices and processes, assessing the organization's cost structure (variable, non-variable costs, reversible and non-reversible costs)
- TCO tools and structure (TCO: Total Cost of Ownership)
- Data Warehouse Solutions for extraction, structuring of data and report generation

System support

IT systems supporting procurement processes across the organisation and ensuring system integration to e.g. the financial system of the organisation can contribute to the establishment of efficient processes – both within the actual procurement area and in other parts of the organisation.

Your maturity level for system support of the procurement area is shown below in relation to each theme as well as the overall maturity level for the system support dimension.

A weighted average has been used for the calculation of the maturity level.

Systems

How is the company's system infrastructure within procurement and finance documented?

Is there a defined and implemented policy for how procurement can be supported by IT tools?

To what extent is the procurement process supported by IT tools and to what extent are the company's various IT…

To what extent is the procurement process regarding indirect spend supported by e-catalogues?

How much of the indirect spend is covered by using e-catalogues?

To what extent do the daily users request system support concerning procurement?

How is the training in procurement- related system usage organised?

To what extent is information regarding forecast, warehouse levels (VMI) and sales orders etc. shared with suppliers?

Does the organisation follow up on the usage of systems supporting procurement?

Does the company use a datawarehouse solution (spend cube) in order to collect raw data for procurement analyses?

1   2   3   4   5

■ Example Company   ■ Benchmark

| Procurement Circle Average | ● A | ▲ B | ■ C | ◆ D | ✖ E |

Best practice examples

Integrated systems

System integration between finance and procurement system allows optimisation of procurement processes as follows:

- Manuel order / invoice processing is reduced through use of electronic document management through EDI or other communication hubs, with the ability to match incoming invoices against orders shipped. There is no need for manual processing of transactions that match

- Simplified ordering process for products classified as suitable for e-catalogue, these products need only minor involvement of the purchasing department in the daily ordering process

Handling master data

Possible tools and approaches to update product master data in the system:

- Suppliers is in the contracts required to update their product master data with agreed frequency

- Product master data maintenance is centralized in one department ensures that maintenance happens after a structured process (the department is typically internal, but the task can also be outsourced to a service provider)

- Products with frequent updates are handled either without cost in the system, or alternatively handled through a punch-out solution where the product is retrieved back into the procurement system from the supplier web shop

Support and implementation of systems

Implementation and increased use of procurement systems and e-catalogues are typically supported through:

- Road Shows, where the system is introduced or (re-)launched

- Education at the users address so they experience teaching in their familiar environment

- E-learning and other relevant information that is comprehensive and easily accessible on the intranet

- Appointment of local super users, perhaps at department level. Super users converts requisitions to orders, thus ensuring a consistent use of the system. This also imply that not everyone in the department is required to understand the use of the system

- User-friendly set-up, where system users are automatically logged onto the system through single sign-on

Datawarehouse

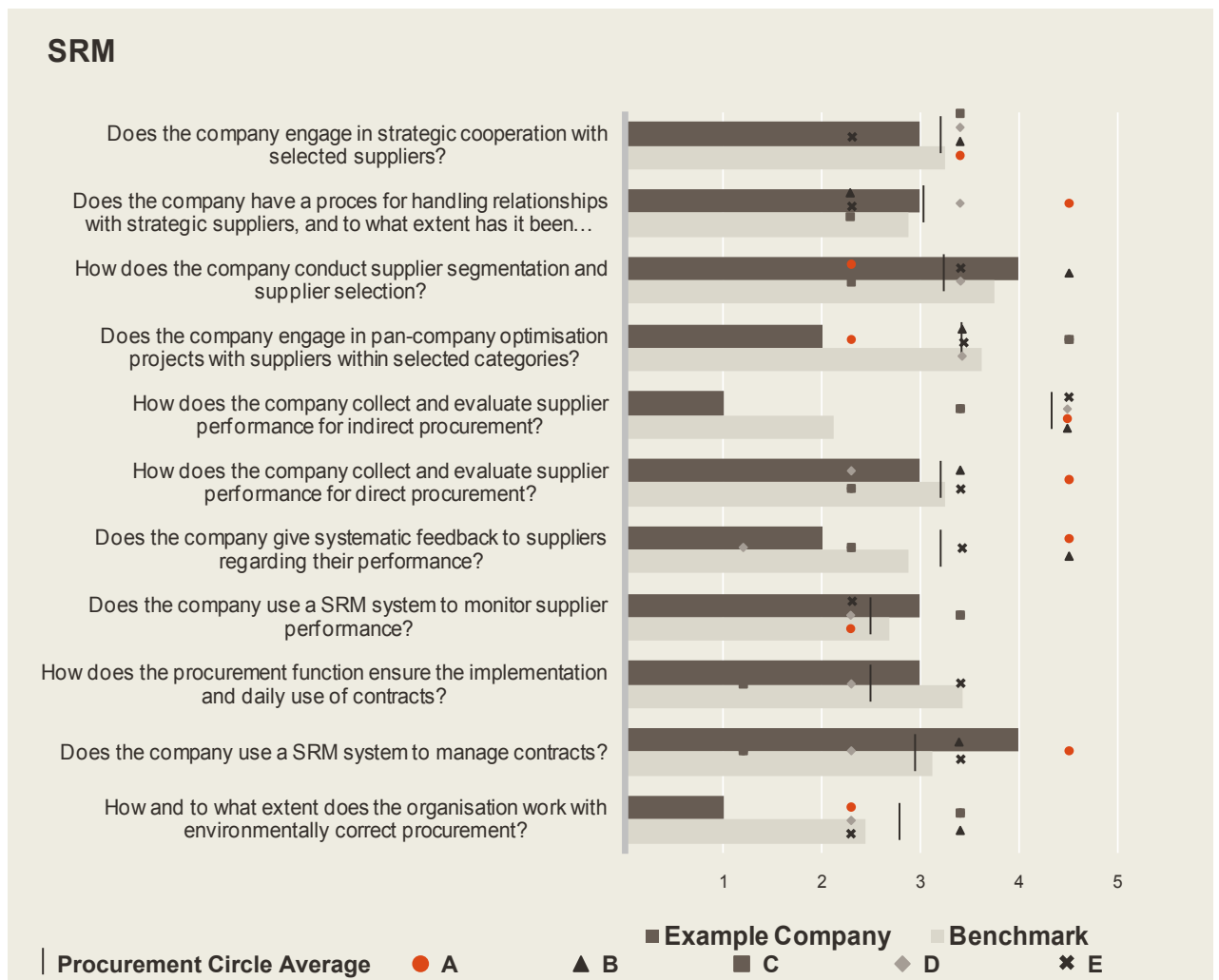With the use of a data warehouse solution the following effects are typically achieved:

- Spend overview at category level, which is especially relevant for category controllers

- Spend overview at supplier level, which is especially relevant for category controllers

- Compliance can be measured based on facts

- Spend overview creates input to the sourcing strategy

Supplier relationship management

The procurement department's cooperation with and management of suppliers contribute to improving and optimising cooperation relations and deliveries from the supplier to the surrounding organisation in terms of e.g. optimal price, quality, service and delivery.

Your maturity level for cooperation with and management of suppliers is shown below in relation to each theme as well as the overall maturity level for the supplier relationship management dimension.

A weighted average has been used for the calculation of the maturity level.

SRM

Does the company engage in strategic cooperation with selected suppliers?

Does the company have a proces for handling relationships with strategic suppliers, and to what extent has it been…

How does the company conduct supplier segmentation and supplier selection?

Does the company engage in pan-company optimisation projects with suppliers within selected categories?

How does the company collect and evaluate supplier performance for indirect procurement?

How does the company collect and evaluate supplier performance for direct procurement?

Does the company give systematic feedback to suppliers regarding their performance?

Does the company use a SRM system to monitor supplier performance?

How does the procurement function ensure the implementation and daily use of contracts?

Does the company use a SRM system to manage contracts?

How and to what extent does the organisation work with environmentally correct procurement?

Legend: ■ **Example Company** ■ **Benchmark** | **Procurement Circle Average** ● A ▲ B ■ C ◆ D ✖ E

Best practice examples

Segmentation

The chosen parameters for supplier segmentation methods, including:

- The Kraljic model (bottleneck, commodity, and strategic leverage
- Consistency of supply, economy and knowledge of the area
- Supplier volume, number of alternative suppliers, costs associated with replacement for the supplier

Relationship transparency

Transparency in relation to selected suppliers makes it possible to create transparency in the common global value chain. Based on this transparency, the cost structure of the value chain is discussed and it is collectively decided on saving targets for the cooperation in a plan is formulated. It is typically done by identifying the value created through the individual cost products.

Relationship cost

Savings can be generated from:

- Reduction of direct costs by identifying unnecessary costs such as packaging, cheaper materials, etc.
- Reduction of direct costs by helping the supplier to source its products and services (e.g. the supplier may offer to purchase products indirectly through its agreements)
- Optimization of the supplier's liquidity needs
- Optimize processes in the interface between the supplier and the purchasing entity, such as improved logistics set-up due to adapted parcel size, synchronized delivery times or better product designations for use of scanners, etc.

Placement of responsibility

Responsibility for the SRM system is placed in the procurement department, and the system ensures the following effects:

- Structure and overview of the agreements, both within the department and externally at the users
- Overview and increased compliance then the users purchase starts in the SRM system
- Attention on expiring contracts through an alert

- function that alerts the contract responsible if expiry date is near
- Better prepared supplier meetings due to the available trade history

Agreement implementation

Implementation and operation of agreements is included as a process step in the overall sourcing process in order to achieve an efficient implementation of agreements and contract use.

- Establish clear communication via the intranet, leaflets, databases, or by request to purchase which the categories and groups that you have agreements and which not
- Carry out regular training for staff at different levels of the organization in relation to the practical application of the agreements, including the implementation of supplier road shows, where users meet suppliers as a part of the agreement implementation

Potential tools:

- Various media for communication (intranet, brochures / flyers, procurement manuals, etc.)
- User-friendly electronic catalogues in the procurement system
- Monthly updated supplier lists on the intranet
- User Meetings and vendor road shows

Cooperation parameters

On-going feedback to the supplier ensures focus on the important cooperation parameters through a consistent quality evaluation.

- Compared to the product category and the specific sourcing area supplier criteria that are essential to collect, analyse and evaluate - both in relations to the phase, where the contract is entered (e.g. ethical attitudes and financial strength) and relative to the subsequent operation of the agreement (e.g. documenting delivery capacity) are selected
- There are established a formal process model for supplier evaluation through follow-up meetings with a fixed agenda, where project participants during the procurement process also are involved

Change and effect

The dimension change and effect deals with the ways and the tools in which and with which the procurement department works with implementation of change processes as well as the effects thereof.

Your maturity level for the work with implementation of lasting changes and the effect thereof is shown below in relation to each theme as well as the overall maturity level for the change and effect dimension.

A weighted average has been used for the calculation of the maturity level.

Change and effect

Chart comparing Example Company, Benchmark, Procurement Circle Average, A, B, C, D, E across the following questions:

- How good are you at marketing/selling the competences of the procurement function to the rest of the organisation?
- Have roles and responsibilities within procurement been defined, documented and implemented within the organisation?
- To what extent does the company use stakeholder groups in connection with sourcing?
- Does the company operate with a documented and implemented formal escalation model within procurement?
- To what extent does the company operate with an incentive model for the distribution of savings of sourced products and…
- To what extent does the procurement function engage in Service Level Agreements with the rest of the organisation?
- How and to what extent does the procurement function collect feedback from their internal customers?
- To what extent has a procurement governance model been implemented in the organisation?
- To what extent does the procurement function operate based on a given mandate from management?
- How does the procurement function establish close and successful relations with the rest of the organisation?
- Is there a clear communication strategy for how to tell success stories of projects in which the procurement function…
- How do you handle resistance in connection with procurement-related problems?

Legend: ■ Example Company   ■ Benchmark | Procurement Circle Average   ● A   ▲ B   ■ C   ◆ D   ✖ E

Best practice examples

Documentation of results

Procurement functions that achieve significant changes throughout the organisation in relation to conduct in the procurement of products and services, are working structured with documenting the results of the procurement projects that are implemented.

Elements in the documentation of results are among other statements of the realized savings, but also statements of non-financial performance, such as the implementation of agreements through effective contract processes. Management of internal relations and stakeholders etc. can also be communicated and used to cooperate an effect full transformation and improvement of the organisations total purchases.

Possible tools:

- Regular reporting on progress and realized savings
- Communications of "the good procurement story" through various channels (intranet, newsletters, articles, etc.)
- Establishment of meeting forums with stakeholders and key relationships

Clear roles and responsibility

Change and effect in the procurement process is achieved by establishing clear roles and responsibilities in the overall procurement and sourcing process.

The most mature procurement functions have described processes, roles, responsibilities and duties to a level that enables the delegation of category responsibility in selected categories to employees outside the procurement department.

Possible tools:

- Process descriptions
- Role and responsibility descriptions

Projects as delivery form

Procurement departments which help to implement powerful changes are in many contexts operated as project organizations with projects as delivery form.

This requires that the procurement function can implement multiple and cross-cutting improvement and change projects. This is an essential element of achieving change and effect management of the various stakeholders in the organization and external stakeholders in terms of suppliers.

The project approach as delivery form requires competencies in the procurement function to plan and implement projects within the agreed time, resource and performance framework there are put forward and approved.

Possible tools:

- Project management tools (PRINCE2, IMPA etc.)

Escalation model

Organisations where the procurement function has successfully changed purchasing behaviours, have often established a formalised escalation model to cope with potential undesirable purchasing behaviour.

The escalation model ensures that there has been a senior management decision on the process to be followed if it is necessary to escalate any disagreement about current purchasing behaviour.

An essential element of the escalation model is the identification of the organisational levels that are to be included in every stage of the escalation.

This establishes a formal mandate to the procurement function in relation to the purchasing behaviour that is desired in the organisation, which is described in the procurement policy.

Summary and the further cooperation

Thank you for using the self-assessment tool, the Implement Procurement Maturity Model.

We hope that the process has been value-creating and inspiring, and that you will use it as a stepping stone for reaching a higher level of maturity in your procurement department.

Spotting initiatives and getting inspired
Your self-assessment via IPMM is a solid platform for identifying improvements and prioritising future procurement initiatives and projects in your company.

It is recommended to estimate the impact of the initiatives as well as their feasibility to ensure an optimal utilisation of resources.

Subsequently, a project plan for the realisation of the initiatives can be worked out.

An informal sum-up meeting
We would also like to enter into further dialogue with you about the result of the self-assessment and the possibilities of reaching a higher level of maturity. You are most welcome to contact us for a discussion about procurement maturity on the telephone or perhaps for arranging a meeting for joint reflection.

The next self-assessment
In the longer term, we would recommend you to carry out another self-assessment, perhaps in a year, when you have started up some of the improvement initiatives that this self-assessment has encouraged you to implement. In this manner, you will gain an interesting insight into the effect of your initiatives and the general development of your procurement department.

Prioritisation of identified initiatives
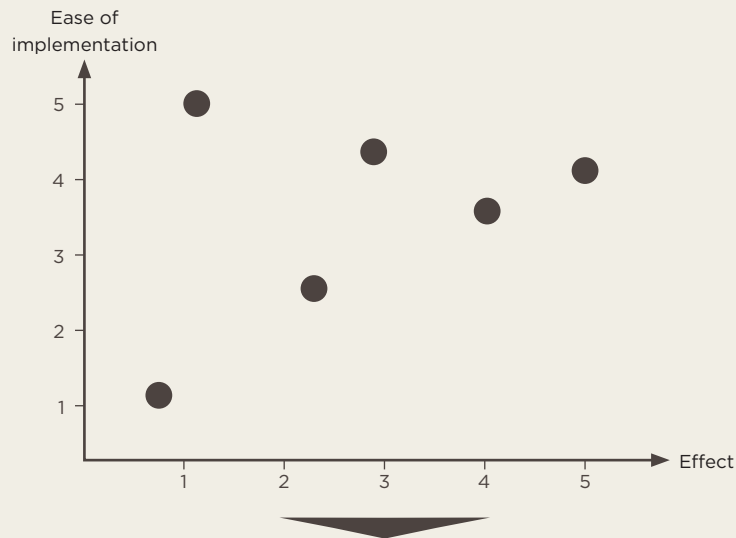
Prioritisation	Planning	Kickoff	Initiative 1	Initiative 2	
• Map initiatives	• Detailed planning of initiatives	• Joint kickoff meeting	• Detailing of initiative	• Detailing of initiative	...
• Workshop: prioritise initiatives	• Ensure resources	• Initial analysis	• Processes	• Processes	
	• Goal setting	• Fields of responsibility	• Roles and responsibilities	• Roles and responsibilities	
			• Systems	• Systems	

For more information, please contact:

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