

Procurement Outsourcing:

A Strategic Imperative?

November 2007



Executive Summary

Organizations seeking to improve corporate performance often look to Business Process Outsourcing (BPO) services to streamline business processes and improve operational performance. Procurement is not immune from this pressure and outsourcing is becoming more accepted as a viable strategy for procurement performance improvement. Facilitating this push to the tipping point is the fact that procurement outsourcing is being leveraged to achieve strategic value beyond the cost-cutting, tactical benefits traditionally realized. While it is clear that those enterprises currently outsourcing prefer to pursue an incremental course, Best-in-Class companies have pushed the envelope deeper into full procurement outsourcing. But whether the choice is to outsource the procurement function in its entirety or incrementally, organizations have reported greater spend visibility, reduced procurement costs, and improved price savings as a result of procurement outsourcing.

Best-in-Class Performance

Aberdeen evaluated over 260 enterprises in October and November of 2007 and distinguished Best-in-Class enterprises by the percentage of enterprise spend under management and the cost to process a single requisition-to-order cycle. Best-in-Class enterprises in this study are notable for their superior performance and credit procurement outsourcing with contributing to the following benefits:

- 8.3% savings due to sourcing efforts from outsourcing operational and strategic sourcing
- 30% lower costs to process a requisitions than all other companies
- 55% rate of compliance to contractual agreements

Competitive Maturity Assessment

Best-in-Class performers shared many common characteristics with respect to procurement outsourcing. Best-in-Class companies are:

- Currently outsourcing 59% to 75% more of their spend
- 14% to 43% more likely to have a centralized procurement organization across the entire enterprise
- 2.5-times more likely to pursue full procurement outsourcing

Required Actions

- Evaluate procurement competencies to establish a baseline and identify outsourcing needs
- Appropriate people from within the enterprise and the procurement outsourcing provider to drive continuous improvement
- Move beyond cost-cutting to focus on the strategic value of outsourcing procurement

Procurement Outsourcing Defined

Aberdeen defines procurement outsourcing as either full or incremental. Full procurement outsourcing entails leveraging an outsourcing provider to manage all aspects (all processes and categories) of the source-to-settle cycle. Incremental outsourcing involves utilizing an outsourcing provider to manage either distinct source-to-settle processes across all categories of spend, all source-to settle processes across specific categories of spend, or a combination of these approaches.

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Chapter One: Benchmarking the Best-in-Class

Business Context

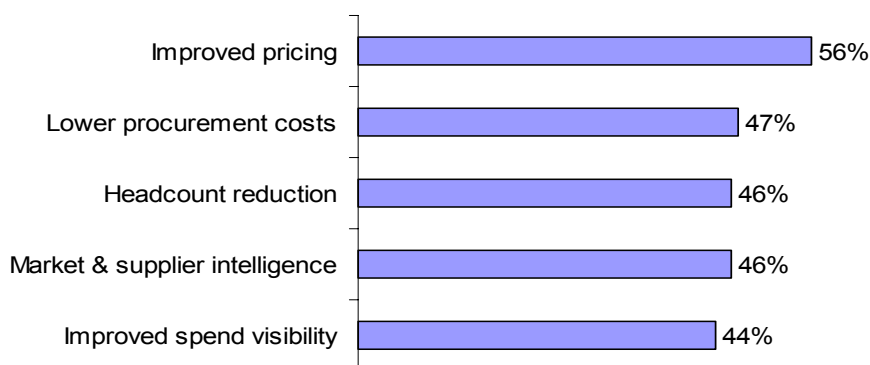
Organizations are constantly searching for ways to bolster bottom-line performance by not only increasing revenues, but also by decreasing the costs of doing business. To facilitate these outcomes, one strategy employed is to leverage Business Process Outsourcing (BPO) services to streamline business processes and improve operational performance. The groundswell of support for procurement outsourcing previously percolating is starting to simmer... but how far are enterprises willing to go? The answer lies with Best-in-Class enterprises that are shifting the procurement outsourcing paradigm from one that focuses on tactical, cost-cutting benefits to one driven by the strategic advantages of utilizing a third-party expert.

How High is the Tide Rising?

Procurement's strategic importance within an organization continues to rise and along with that higher profile comes greatly elevated performance expectations. CPOs are therefore looking outside their organization for expertise and support in their quest to drive strategic value through the enterprise and deliver results.

To meet these rising expectations, enterprises have developed clear expectations about the benefits they seek as a result of outsourcing their procurement operations. In line with what is generally expected of procurement groups by enterprise leaders, the top benefits realized from a procurement outsourcing relationship is the generation of cost savings on purchases (Figure 1).

Figure 1: Benefits Expected from Procurement Outsourcing



Source: Aberdeen Group, November 2007

Improved pricing and lower operating costs are tactical considerations for enterprise groups. However, the noteworthy addition to these positive impacts is that enterprises are also realizing more *strategic* benefits such as

Fast Facts

- ✓ CPOs are almost five-times more likely to select an incremental outsourcing strategy (specific source-to-settle processes) versus outsourcing the entire procurement function
- ✓ 45% of enterprises indicate that lowering the cost of procurement is the key pressure driving the outsourcing of procurement

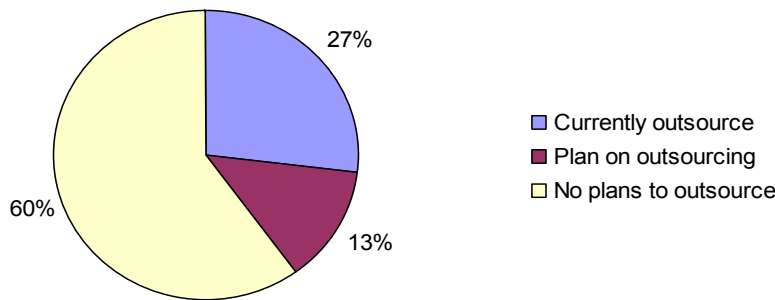
“While cost and price savings play a role in outsourcing, we base success primarily on time and resources available instead since we believe this makes us more competitive as a purchasing group.”

~ CPO, Large North American County

headcount reductions and access to market and supplier intelligence. Conducting business with fewer full-time equivalencies allows procurement groups to become more nimble and able to quickly adapt to constantly-changing supply markets. They also operate more strategically for the benefit of the enterprise due to the improved market visibility gained, making key purchasing decisions based on market pressures.

Although leveraging external expertise is now more widely accepted within the procurement community, there is still hesitation to fully commit to procurement outsourcing as a leading strategy. The tide is changing, though and the tipping point approaches, as 40% of enterprises surveyed indicated they will be outsourcing all or part of their procurement functions in the next two years (Figure 2).

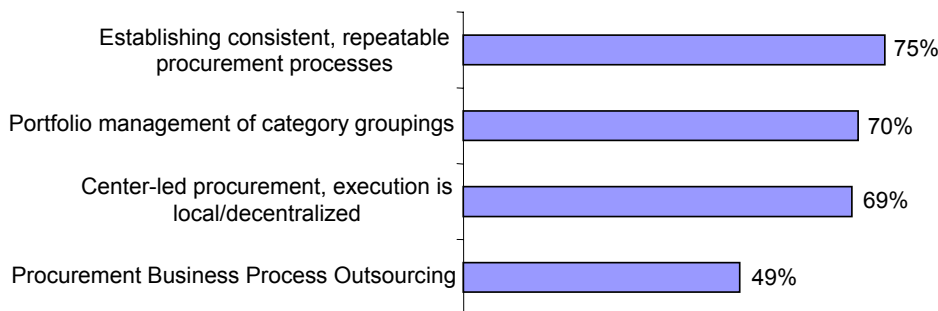
Figure 2: Current and Planned Procurement Outsourcing Activity



Source: Aberdeen Group, November 2007

Driving the use of outsourcing as a key procurement strategy is the CPO. As noted in Aberdeen's November 2006 report, *The CPO's Strategic Agenda: Managing People, Managing Spend*, many now consider procurement outsourcing as an essential strategy to deliver cost savings and process efficiencies (Figure 3).

Figure 3: CPO Strategies for Procurement Transformation



Source: Aberdeen Group, November 2007

While CPOs recognize the benefits of procurement outsourcing and are on the verge of action, there are still varied approaches to implementing this

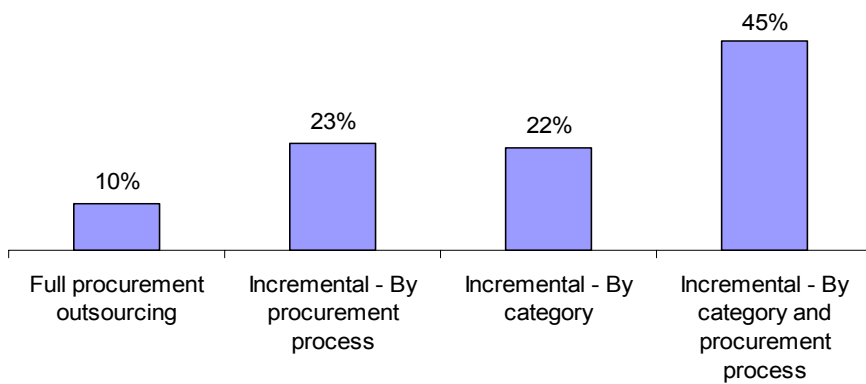
Procurement Outsourcing in Detail

Incremental outsourcing by procurement process refers to utilizing a third-party provider to oversee and execute one or more of the different stages of the procurement process. These process include spend analysis, sourcing, supplier information management, catalog management, procurement transaction management, contract management, etc. Such a strategy involves a procurement outsourcing provider assuming responsibility for the specific procurement processes across all spend categories managed by the procurement group.

Incremental outsourcing by category refers to utilizing a third-party provider to oversee and execute all of the procurement process for a specific category of spend. Categories include office supplies, computer hardware, computer software, MRO supplies, direct materials supplies, contract labor, travel and entertainment, etc.

strategy to facilitate procurement transformation and achieve enterprise-wide benefits. At the most basic level, a choice must be made between full procurement outsourcing (utilizing an outsourcing provider to manage the entire procurement function) and incremental procurement outsourcing (utilizing an outsourcing provider to manage select source-to-settle processes, the procurement cycle for specific categories, or both). Just as organizations engaged in procurement outsourcing are clear about the expected benefits of this strategy, it is also clear that a majority are not ready to offload the entire responsibility for enterprise procurement to a third-party solution or service provider. Instead, among those organizations that engage in procurement outsourcing, nine-times as many are likely to engage in incremental outsourcing of select procurement functions or specific spend categories (Figure 4).

Figure 4: CPO's Choice of Outsourcing Model for Procurement



Source: Aberdeen Group, November 2007

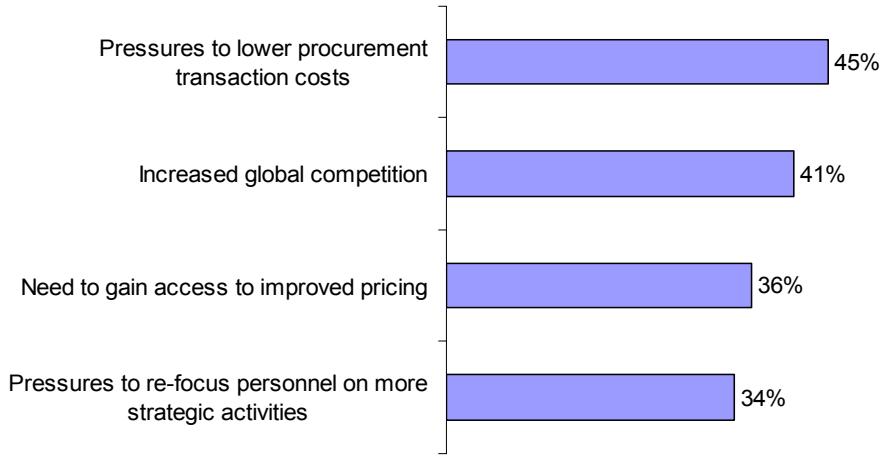
“Procurement is outsourced on both a process and category basis. Spend analysis is outsourced intermittently at a very high level but large service contracts (i.e. housekeeping and food services) is a long-standing practice that has proven successful for the last 5 years.”

~ Procurement Director, Large North American Healthcare Provider

Top Drivers for Action

The need to lower costs and drive savings are significant and common pressures faced by procurement organizations; they are also more tactical in nature. These groups are also being driven by the need to better position themselves strategically both within the enterprise (re-focusing personnel on more strategic activities) and also against their competitors (increased global competition), as shown in Figure 5.

Figure 5: Top Pressures Driving a Focus on Procurement Outsourcing



“Outsourcing procurement activities is necessary for us because we lack the in-house resources to properly manage such areas catalogues or invoices for our supply base. Outsourcing also provides us access to market pricing and knowledge that we don’t have the resources or time to develop.”

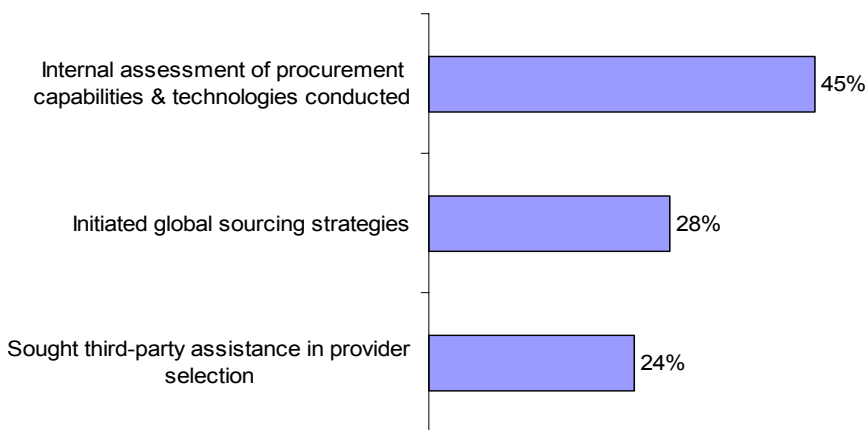
~ Director of Procurement,
European Municipality

Source: Aberdeen Group, November 2007

As with any outsourcing effort, the cost of doing business is a critical factor driving activity. Procurement is no different, as lower transaction costs are targeted as part of the outsourcing effort. The strategic role of procurement, though, is highlighted by the fact that global competition is also a significant driver for action and procurement is being looked to as a means of providing differentiation from industry competitors.

In response to the pressures faced and the challenges that must be overcome, many organizations are focusing on preparing themselves for the outsourcing relationship. Especially important for enterprises is to conduct an internal assessment of its procurement capabilities. This allows the procurement group to identify the key procurement processes that may be outsourced as less strategic and more tactical and which functions are lacking technology; it is these inefficient processes that lack technological support that often inhibit or slow procurement transformation (Figure 6).

Figure 6: Top Actions for Procurement Outsourcing



Source: Aberdeen Group, November 2007

The Maturity Class Framework

Top-performing enterprises effectively leveraging an outsourcing strategy for procurement activities are able to drive performance improvement. Aberdeen used two key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations: percentage of enterprise spend under the management of the procurement organization, and requisition-to-order processing costs. Table I summarizes the average performance of enterprises within the different maturity classes for this study.

Table I: Procurement Outsourcing Benchmark Performance

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> 63% of enterprise spend under management \$14.15 to process a single requisition-to-order cycle
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> 49% of enterprise spend under management \$17.80 to process a single requisition-to-order cycle
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> 28% of enterprise spend under management \$33.00 to process a single requisition-to-order cycle

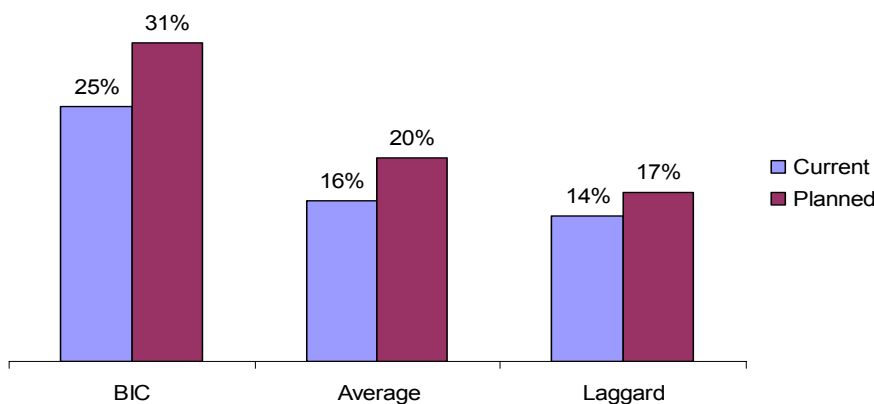
Spend Under Management

The classic measure of procurement’s impact on an enterprise is the percentage of non-payroll-related spend that falls under management of this group, what is commonly referred to as **spend under management**. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new dollar of spend brought under management.

Source: Aberdeen Group, November 2007

Best-in-Class enterprises demonstrate that pursuing an outsourcing strategy for procurement functions can be leveraged to greatly improve business performance. It is also clear that those enterprises willing to more readily pursue this path and outsource procurement activities for more of their spend are rewarded, as Best-in-Class companies currently outsource and plan to outsource more of their spend than their competitors (Figure 7).

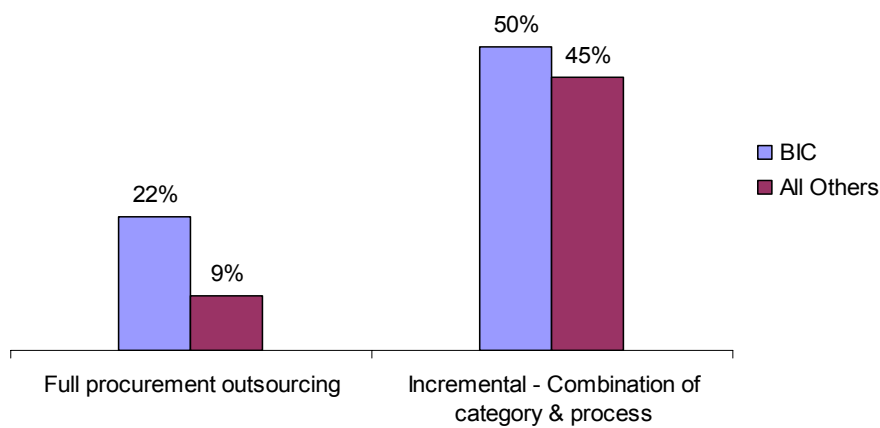
Figure 7: Percentage of Spend Outsourced - Current and Planned



Source: Aberdeen Group, November 2007

Proving integral to the success of Best-in-Class enterprises is the outsourcing model for procurement. Incremental procurement outsourcing is the most widely-utilized approach, but Best-in-Class organizations pursue a combination strategy of process-based and category-based more frequently than its peers. The greatest distinction, though, is in the fact that the Best-in-Class are more than **twice as likely** to pursue a full procurement outsourcing approach (Figure 8). This indicates that, for these performance leaders, procurement outsourcing has become a strategic differentiator that enables superior performance.

Figure 8: Full Procurement Outsourcing as a Strategy



Source: Aberdeen Group, November 2007

The combination of outsourcing more spend and more aggressively outsourcing by leveraging a full procurement outsourcing approach has allowed Best-in-Class enterprises to significantly outpace competitors across several key procurement metrics (Table 2).

Table 2: Procurement Performance after Procurement Outsourcing

Metric	Best-in-Class	All Others
Savings from sourcing	8.3%	7.6%
Contract compliance (of users to approved contracts)	55%	41%
Sourcing cycle times	8.2 days	9.9 days
Percentage of approved suppliers enabled for electronic transactions	31%	25%

Source: Aberdeen Group, November 2007

The improved performance of Best-in-Class enterprises is due to both strategic and tactical improvements. Sourcing savings result from the expertise of outsourcing providers in accessing and remaining abreast of

market intelligence, gaining visibility into key price and competitive pressure drivers that result in savings for their outsourcing clients. Outsourcing providers also have a wide breadth of experience and institutional knowledge in developing and negotiating procurement contracts, further driving cost savings from sourcing. Improvements in compliance and enablement of suppliers, along with the reduction in sourcing cycle times, are also results of the expertise of the outsourcers. However, it is the experience of the outsourcing providers in successfully establishing, repeating and enforcing processes that are integrated within an organization’s framework that drives success.

The Best-in-Class PACE Model

Aberdeen has shown that there is a clear relationship between the pressures companies identify and the actions they take, and their subsequent competitive performance. All participants should examine their prioritized PACE selections and determine whether there are valuable perspectives to be gleaned by comparison with the PACE priorities of Best-in-Class companies (Table 3).

Table 3: The Best-in-Class PACE Framework

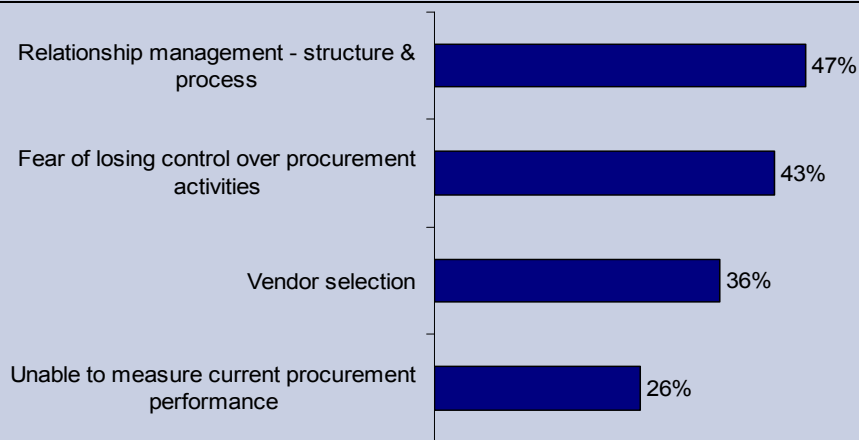
Pressures	Actions	Capabilities	Procurement Outsourcing Provider Skill Sets
<ul style="list-style-type: none"> ▪ Reduce costs of procurement ▪ Need to re-focus personnel on more strategic activities 	<ul style="list-style-type: none"> ▪ Conducted internal assessment of procurement process and technology capabilities ▪ Developed domain expertise for under-performing categories ▪ Initiated global sourcing efforts 	<ul style="list-style-type: none"> ▪ Centralized procurement organizational structure ▪ Standardized procurement processes ▪ Ability to measure performance of procurement activities ▪ Expertise in spend category management 	<ul style="list-style-type: none"> ▪ Delivery of cost savings as a result of procurement activities outsourced ▪ Support of global operations ▪ Delivery against SLAs, milestones, and procurement performance levels ▪ Sourcing process competency ▪ Spend category expertise ▪ Customer references - procurement outsourcing experience

Source: Aberdeen Group, November 2007

Aberdeen Insights – Procurement Outsourcing Hurdles

Unlike other initiatives related to procurement transformation, pursuing an outsourcing strategy also poses unique challenges (Figure 9). Procurement groups often do not have the competency developed to effectively manage relationships, leading to a perceived loss of control of the procurement activities.

Figure 9: Top Challenges to Effective Procurement Outsourcing



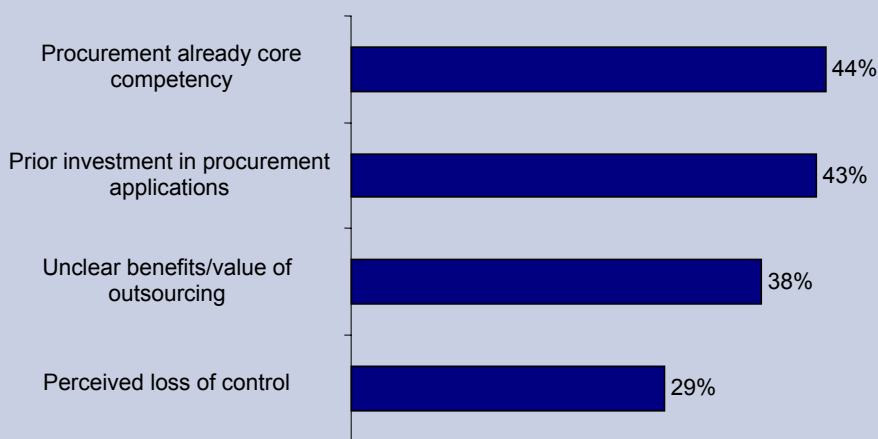
Source: Aberdeen Group, November 2007

“While the experience and competency of the outsourcing provider is key for success, we also work to manage the relationship within the procurement department, establishing standardized practices for the company.”

~ Procurement Manager, Large European Automotive company

Of those enterprises that indicated that procurement outsourcing is not, nor will it be part of their strategy, many already believe they have the proper structures and processes in place to drive savings and ensure procurement success. Prior investment in procurement technologies is a key determinant in the decision to not pursue procurement outsourcing (Figure 10).

Figure 10: Why Procurement Outsourcing Is Not Pursued



Source: Aberdeen Group, November 2007

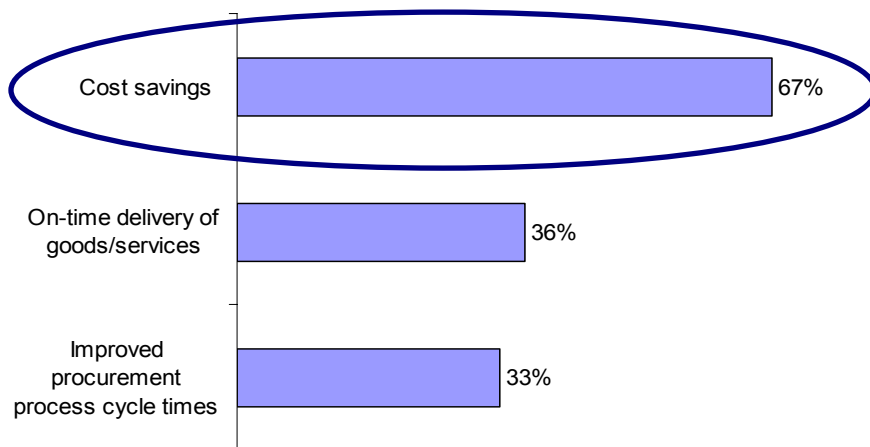
Chapter Two: Benchmarking Requirements for Success

The difficulties faced by an organization's procurement group in meeting and exceeding management expectations for delivering purchasing savings and reducing the cost of conducting procurement operations are alleviated by looking to a third-party for assistance. Outsourcing procurement processes to procurement outsourcing providers allows enterprises such advantages as access to best of breed technology, additional staffing / resources, operational efficiencies, and the ability to focus on more strategic activities, all with a focus on delivering saving on managed spend and driving procurement costs lower. Best-in-Class procurement consists of establishing a center-led procurement organizational structure, centralization of processes and policies, and the selection of discrete source-to-settle processes. While organizational structure and service offerings contribute significantly to outsourcing success, it is also critical to establish clearly articulated criteria for determining such success (Figure 11).

Fast Facts

- ✓ Two-thirds of enterprises cite cost savings as the top performance criteria included in their procurement outsourcing agreements
- ✓ Best-in-Class enterprises are 19% to 29% more likely to outsource procurement functions than Industry Average and Laggard companies

Figure 11: Critical Performance Criteria for Procurement Outsourcing Agreements



Source: Aberdeen Group, November 2007

Aligning with management expectations, procurement groups most often evaluate the performance of outsourcing relationships according to the delivery of cost savings, which have a direct impact on the enterprise's bottom-line. Inclusion of this Service Level Agreement (SLA) is even more pronounced for Best-in-Class enterprises compared to their peers; the Best-in-Class cite this as the most critical procurement 37% more frequently than all other companies, driving processing costs 57% lower as a result.

Case Study – Driving Results Through Accountability

For a large international automotive company, outsourcing has proven a key strategy for delivering savings in several complex categories. Most notably, the management of sourcing and purchasing activities for advertising is outsourced to a third-party expert, delivering 15 to 25% price savings on average. The expertise and competency of the service provider selected contributes greatly to this result but the procurement group facilitates success by including a cost savings threshold as the critical SLA to the outsourcing arrangement.

Competitive Assessment

Survey respondents fell into one of three categories: Best-in-Class, Industry Average, or Laggard. Companies were characterized in five major areas: (1) *process* – the level of standardization and scope the procurement group has defined for their current processes; (2) *organization* – the structure, skills, and capabilities of the organization as well as its general alignment with the strategic direction of the enterprise; (3) *knowledge* – the accessibility and visibility of information and data related to procurement performance, and the ability to leverage it across the enterprise; (4) *outsourced processes* – the level of outsourcing for specific procurement functions to improve procurement-related results; and (5) *performance* – the ability to identify, track, and then improve upon key performance indicators such as spend under management, requisition-to-order cycle costs, cost savings from sourcing efforts, contract compliance, etc.

Table 4 shows some of the processes, capabilities, technologies, and strategies employed by Best-in-Class, Average, and Laggard companies within the competitive framework

Table 4: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Outsource procurement processes		
	88%	74%	68%
	Outsource entire procurement function		
	22%	11%	10%
Organization	Centralized procurement group across regional or enterprise-wide level		
	50%	44%	35%
Knowledge	Evaluate and measure performance of procurement outsourcing relationship at least monthly or quarterly		
	53%	40%	37%

	Best-in-Class	Average	Laggards
Procurement Outsourcing	Procurement processes outsourced		
	<ul style="list-style-type: none"> ▪ 53% outsource spot buying / operational sourcing support ▪ 30% outsource supplier enablement 	<ul style="list-style-type: none"> ▪ 43% outsource spot buying / operational sourcing support ▪ 20% outsource supplier enablement 	<ul style="list-style-type: none"> ▪ 38% outsource spot buying / operational sourcing support ▪ 18% outsource supplier enablement
Performance	Ability to track and report savings on and resulting from procurement activities		
	44%	32%	27%

Source: Aberdeen Group, November 2007

Capabilities and Enablers

Aberdeen’s global supply management research has shown time and again that leveraging procurement services and tools allows procurement organizations to place more spend under management. As shown in this report, and earlier Aberdeen research efforts, companies that place more spend under management typically experience a host of other advantages as they relates to cost savings, process efficiency, and the ability of procurement departments to deliver greater strategic value across the enterprise. Some of those advantages include:

Process

Although the levels of procurement outsourcing are significant within each performance group, Best-in-Class companies outsource their procurement operations 24% more frequently than their peers. Best-in-Class enterprises understand the benefits of outsourcing and are thus more likely to leverage outsourcing services to attain greater performance levels, including improved processing costs and greater cost savings. They understand that it is a differentiating strategy that drives improved performance. Best-in-Class companies also push the procurement outsourcing envelope by engaging in full procurement outsourcing 57% more frequently than others.

Organization

A centralized procurement organization ensures that procurement decisions are consistent throughout the enterprise and also enables processes to be standardized so that procurement activities and their results are repeatable. Such an organizational structure also allows enterprises to more easily incorporate processes utilized by outsourcing providers into enterprise-wide practices. Best-in-Class enterprises are 14% more likely to establish a central-led procurement organization, contributing to their success by providing a stable leadership structure and preparing the procurement group to capitalize on effective practices.

Knowledge Management

Best-in-Class organizations are 43% more likely to evaluate and measure performance of the procurement outsourcing relationship at least monthly or quarterly. Regular management of the relationship ensures that services levels are being met and, if not, then solutions can then be developed to improve the performance of the procurement outsourcing service provider. The Best-in-Class are also more likely to take an even more attentive approach to relationship management by monitoring performance on a daily basis. They are six-times more likely to do this than all other companies (12% versus 2%).

Procurement Processes Outsourced

Enterprises that outsource procurement are more likely to outsource specific procurement processes as opposed to outsourcing the entire procurement function (Figure 4). While organizations in each competitive group outsource different procurement functions to some degree, those outsourced by the Best-in-Class contribute most directly to the performance they demonstrate against other enterprises in areas such as:

- Best-in-Class enterprises outsource contract management 135% more frequently than all other companies, leading to 35% higher contract compliance rates.
- Average Purchase Price Variance (PPV) for the Best-in-Class is 22% lower than all others as a result of outsourcing catalog content management 120% more frequently than all others. Effective catalog management enables both buyers and suppliers to be aware of updated pricing. PPV is defined as the average variation in price from the contracted rate for regularly purchased goods or services.
- Best-in-Class enterprises are 23% more likely to outsource spot buying / operational sourcing, and are 124% more likely to outsource strategic sourcing, resulting in realized sourcing savings that are 9% higher.
- Best-in-Class enterprises utilize third-party providers for supplier enablement activities 90% more frequently than all others, leading to the electronic processing of purchase orders, invoices, and electronic payments between 19% and 27% more frequently.

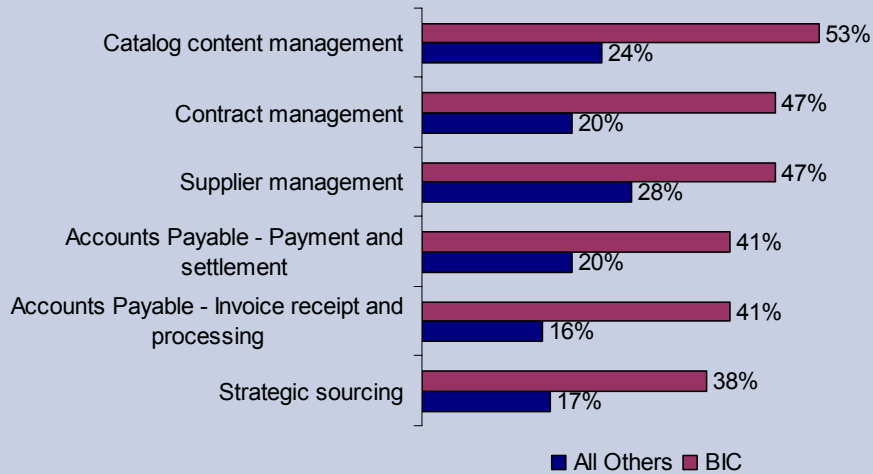
Performance Management

Best-in-Class enterprises are 44% to 62% more likely to demonstrate the ability to measure the performance of their procurement activities. This is imperative for the procurement group as a whole, but especially as it relates to the procurement outsourcing relationship. Without the ability to measure and monitor performance, there is no way to identify areas for improvement, whether improvement has occurred, or whether any other tangible benefits of procurement outsourcing have taken place.

Aberdeen Insights – Procurement Outsourcing as a Strategic Tool

In addition to those outlined earlier, Best-in-Class enterprises also outsource several additional procurement processes more frequently than all other companies (Figure 12).

Figure 12: Additional Procurement Processes Outsourced



Source: Aberdeen Group, November 2007

As business environments continue to remain highly competitive, enterprises constantly seek alternative avenues to improve corporate performance and differentiate themselves from their competition. Procurement is now viewed as a weapon in delivering bottom-line results - either through savings on enterprise spend or those resulting from improved operations. In turn, Best-in-Class organizations have also begun to seek third-party expertise outside of their organization in the form of procurement outsourcing. These procurement outsourcing providers enable these corporate procurement departments to fully leverage their talent and drive positive results to the enterprise.

Chapter Three: Required Actions

Procurement outsourcing is reaching a tipping point. Procurement organizations recognize the benefits that can be realized by leveraging third-party expertise and are now moving this function along the same path already tread by HR and IT groups. It is no longer a just a tactical effort but a strategic tool that can be used to deliver great value to the enterprise. Based on our research results, Aberdeen recommends the following strategies for improved results from procurement outsourcing:

All Enterprises Steps to Success

- **Evaluate procurement competencies.** Conduct an internal assessment of procurement processes, organizational structures, and technology capabilities to identify areas of procurement in which the group lacks capabilities and can be subsequently outsourced to drive performance improvement. It is critical to have a baseline understanding of enterprise procurement capabilities before deciding on what should or should not be outsourced.
- **Appropriate people from within the enterprise and the procurement outsourcing provider to drive continuous improvement.** It is critical that there is an effort to sustain continuous improvement in the procurement outsourcing relationship. Beyond measurement and monitoring of the performance of the outsourcing provider, it is important that all necessary information is made available to the provider at all times. A detailed plan must be made to ensure the flow of information between the outsourcing partners so that performance is optimized and benefits are achieved.

Laggard Steps to Success

- **Establish standardized procurement processes and baseline core competencies.** Best-in-Class enterprises are 77% more likely than Laggards to have standardized procurement processes in place. Process standardization enables knowledge and those practices that are most effective to be readily exchanged between the enterprise and its outsourcing partner.
- **Select the procurement outsourcing provider based on past and future performance capabilities.** Best-in-Class organizations use the ability to deliver cost savings as their top criteria for selection of a procurement outsourcing provider 28% more frequently than Laggards. They were also 22% more likely than their peers to choose an outsourcing partner based on their past ability to meet SLAs in other procurement deals. While price should certainly be taken into account when choosing an outsourcing provider, it should not necessarily be the most critical criteria for selection. The Best-in-Class are 2.7-times less likely to utilize price as a criteria for selection.

Fast Facts

- √ All enterprises should first conduct an assessment of their procurement processes, structures, and technologies to identify the scope of outsourcing required and the outsourcing model that best fits their needs
- √ Selecting a procurement outsourcing provider should be forward looking, in addition to looking at past accomplishments and references
- √ Detailed SLAs and regular review cycles are critical for success and should be included in outsourcing contracts
- √ Leverage the strategic benefits of outsourcing procurement instead of focusing only on tactical, cost-cutting improvements

Industry Average Steps to Success

- **Establish a center-led procurement group.** Best-in-Class organizations are 44% more likely to have a center-led procurement organization. Centralizing oversight in such a manner focuses decision-making with one group and reduces the chances of varied decisions and subsequent outcomes when leadership is decentralized. A centralized procurement organization also ensures that there are fewer relationship managers and points of contact with the outsourcing provider, streamlining communications by establishing a leadership focus.
- **Include detailed SLAs and a regular timeline for review in your contract.** Measurement and monitoring of the procurement outsourcing relationship should take place on at least a monthly or quarterly basis. The Best-in-Class are 33% more likely to measure and review the performance of the outsourcing provider this frequently, ensuring that they are constantly informed and updated about how well or poorly the outsourcing provider is managing the procurement activities or categories it oversees. Key SLAs most commonly included by the Best-in-Class are price savings, procurement transaction cost savings, improved contract compliance rates, and increased spend under management.

Best-in-Class Steps to Success

- **Move beyond cost-cutting to drive strategic value from outsourcing.** Best-in-Class enterprises have leveraged procurement outsourcing to address the strategic pressures felt and have benefited from the differentiation provided. They have more readily gained access to supplier and market intelligence, procurement technologies, and have re-allocated personnel to other strategic activities, leading to a more streamlined, capable, and nimble group. These changes have also resulted in tactical benefits such as lower procurement transaction costs, price savings, and improved contract compliance rates.
- **Manage the development of procurement outsourcing strategies and implement cross-functionally.** A major factor in the successful execution of a procurement outsourcing relationship entails enlisting support and input from appropriate senior leaders from other parts of the organization, such as finance, IT, and operations. Engaging executive leadership from across the organization will help ensure the success of the outsourcing relationship by providing a support structure to help implement the outsourcing decisions, establishing an avenue to communicate successes throughout the enterprise, and presenting a structured group that can review, solve, and escalate problems.

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Appendix A: Research Methodology

In October and November 2007, Aberdeen examined the use, experience, and intentions of pursuing procurement outsourcing as a strategy for administering procurement programs of more than 260 enterprises in a diverse set of industries.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on procurement outsourcing strategies, experiences, and results.

Responding enterprises included the following:

- **Job title:** The majority of the research sample included respondents with the following job titles: C-level executive (16%), vice presidents (8%), director (21%), manager (36%), consultants and other (19%).
- **Job function:** Procurement (49%), logistics / supply chain (16%), business process management (6%), information technology (4%), finance (3%), other (22%).
- **Industry:** High technology (13%), financial services (12%), computer equipment and peripherals (9%), and a distribution across 29 other industries.
- **Geography:** 60% of the research respondents were from North America, 24% were from Europe, Middle East and Africa, and 16% were from Asia-Pacific.
- **Company size:** 47% of respondents were from large enterprises (annual revenues above US \$1 billion); 26% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 27% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of this benchmark report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Table 5: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, November 2007

Table 6: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, November 2007

Table 7: Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, November 2007

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report include:

- [E-Procurement Benchmark Report: E-Procurement 2.0](#), August 2006
- [Source-to-Settle: Compliance Clues for the CFO](#), October 2006
- [The CPO's Strategic Agenda: Managing People, Managing Spend](#), November 2006
- [The Advanced Sourcing and Negotiation Benchmark Report: The Art and Science of the Deal](#), January 2007
- [E-Payables: Advancing A/P Automation](#), March 2007
- [Supplier Enablement: Connecting with Suppliers to Build Lasting Relationships](#), May 2007
- [Spend Analysis: Working Too Hard for the Money](#), August 2007
- [E-Payables solution Selection: Your 2007-2008 Guide to A/P Transformation](#), September 2007

Information on these and any other Aberdeen publications can be found at <http://www.aberdeen.com/channel/procs.asp>.

Aberdeen's [2007 Global Supply Management Research Agenda](#) is also available.

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Author: William Browning III, Research Analyst, Global Supply Management, william.browning@aberdeen.com

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