

Procurement Benchmarking In the Age of Business Intelligence



Today's complex, lengthy, and data-driven supply chains make effective data management essential for procurement organizations who want to become world-class in performance, profitability, and competitive strength. *Procurement benchmarking*—setting clear standards for performance and compliance, and using metrics such as key performance indicators (KPIs) to evaluate how well procurement strategies and processes meet those standards—is one of the most important tools procurement teams can use to transform spend data into better decision making and more effective sourcing strategies that support your business goals.

By developing and implementing effective procurement benchmarking processes, you can make sure your organization is building value, meeting its goals, and securing an optimal return on investment (ROI) for every dollar spent.

The Importance of Effective Procurement Benchmarking

Measuring performance and making appropriate adjustments is an important part of business process management in general, but it's especially so for a business-critical function like procurement. Through the use of procurement analytics and purchasing KPIs like cost avoidance, purchase order cycle times, and supplier compliance rate, procurement teams can effectively evaluate overall procurement performance and parse spend data to refine and streamline workflows for greater efficiency *and* effectiveness.

This refinement is important to more than just procurement, of course. A company's procurement strategies and spend management approach both have significant impact on the ability of each department and business unit to meet their goals and support organizational growth while keeping costs low and value high. And the data they produce is a crucial source of business intelligence.

As chief procurement officers (CPOs) and other procurement leaders at best-in-class organizations continue to shift procurement's role toward value creation in the modern digital marketplace, they are also establishing procurement as a center for company-wide digital transformation. They understand just how important digital tools and proper data management are to the competitive strength, agility, and resilience of their businesses—particularly in a global economy where crises like the coronavirus pandemic, natural disasters, and international conflicts can disrupt supply chains and threaten to cripple operations at the drop of a hat.

Consequently, any organization looking to achieve world class procurement, optimize their business intelligence capabilities, and compete effectively at the same time must also embrace the value of the benchmarking process.

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Procurement Benchmarking: Best Practices

It would be more than a little disingenuous to claim any particular set of sourcing and procurement benchmarks is universal in utility and value. But following best practices can help nearly every organization identify their unique business needs and develop a benchmarking process to ensure they are met.

1. Begin with a Plan

To put your procurement benchmarks to their best possible use, you need a plan for:

- Identifying the benchmarks with the biggest impact on your procurement performance, operational effectiveness, and competitive strength.
- Formalizing those benchmarks and developing an implementation plan for tracking them effectively.
- Obtaining the digital tools necessary to analyze performance, spend, and compliance data for actionable insights.

Your procurement team can craft a plan more easily by answering a few basic questions about your business needs, goals, and priorities.

1. Which procurement benchmarks related to today's workflows are most

important?

2. Are there other benchmarks we should establish to measure the potential impact of new processes?
3. What benchmarks have the greatest value for our internal and external stakeholders? To what degree, if at all, should these benchmarks be customized for each stakeholder?
4. What scope should we establish for our benchmarks? Too few will provide insufficient business intelligence; too many will bog down the system with more measuring than actionable improvements.
5. How specific should each benchmark be to provide the broadest possible utility while preserving contextual value?
6. What data sources should be used? What eSourcing and eProcurement tools are available to provide broad and granular analysis of benchmark data from our selected sources?
7. What processes will be used to organize and execute procurement benchmarking? Will these processes be a distinct system, or integrated into our overall business process management approach?
8. What methodologies will be used to measure the effectiveness of best practices? Which benchmarks must be established in order to evaluate the evaluation process itself for maximum return on investment?
9. How can we minimize the expense of procurement benchmarking?
10. What processes must we update or develop in order to apply the insights collected from procurement benchmarking to continuous improvement, organizational and operational optimization, and our business process management paradigm?

By answering these questions, you'll have a much firmer grasp on what you want to measure, how you want to measure results, and the approach you want to use in effectively managing both process optimization *and* the evaluation process itself.

2. Tie Benchmarking to Your Desired Business Outcomes

While its immediate purpose is to support procurement transformation through optimization, procurement benchmarking is part of a larger set of processes designed to improve value to drive better competitive performance and profitability at the enterprise level.

In simpler terms, procurement benchmarks should provide useful business intelligence on potential organization-wide improvements as well as the workflows and metrics to which they are directly connected.

Ensure your benchmarks make the cut by:

- Collaborating directly with your finance team to ensure your procurement benchmarks align with internal accounting frameworks (e.g. Return on Investment Capital (ROIC), Economic Value Added (EVA), Return on Assets (ROA), etc.).
- Taking advantage of existing sourcing and procurement benchmarks within your industry. For example, the American Productivity & Quality Center (APQC) provides key procurement benchmarks for many industries, including the petroleum and chemical industries, the automotive industry, and more.
- Establishing and tracking a general “total procurement ROI.” This metric provides a useful enterprise-level overview of procurement efficiency and effectiveness. It’s calculated using a simple formula:

(Total annual cost savings generated by procurement + Any additional concrete financial benefits) / Annual cost of the procurement function

A faster, “rule of thumb” version of this metric is also sometimes calculated as X dollars spent for every \$1,000 of earned revenue, with a 10 to 1 return on

procurement investment as the most common benchmark.

- Connecting your procurement benchmarks to enterprise benefits and value creation via:
 - **Spending flows**, used to link spend data to revenue generated, resources consumed, etc. while also providing a reliable method for showing how spend impacts cash flow and profit/loss in your financial records through the use of spend analysis. Benchmarks used in these flow may include:
 - Spend under management
 - Cost reduction (“hard” savings focused on lowering total cost of ownership, or TCO through cost comparisons over time)
 - Cost avoidance (“soft” savings captured through proactive maintenance, process improvement, etc.)
 - **Supply chain flows**, used by many companies to monitor supplier performance and compliance. Benchmarks built into these flows are used to build a strategic, agile, and resilient supply chain while also providing useful insights for establishing and strengthening supplier relationships. Often, organizations have a specific and discrete set of supply chain management KPIs they use in tandem with procurement benchmarks, including:
 - Number of vendors
 - Supplier compliance rates
 - Supply chain cycle time
 - Inventory turnover rates
 - **Data flows**, where benchmarks like average approval time, error rates, etc. are used to evaluate process efficiency (including the efficiency of the benchmarking process) and the effectiveness with which stakeholder needs are met. Benchmarks connected to this datastream include:

- Average cost of processing a purchase order
- Number of purchase orders processed electronically
- Average purchase order processing time

3. Invest in Procurement Technology

Having a plan and knowing what you want to measure for optimal performance is just the beginning. To really extract complete value from your sourcing and procurement benchmarks, you need the digital tools necessary to spin the straw of big data into the sparkling gold of optimized processes, maximum ROI, and invaluable actionable insights. There's simply too much data being generated in contemporary procurement to maintain a competitive posture if you're using manual, paper-based processes.

By implementing a procurement solution such as Planergy, your procurement organization gains access to advanced data analytics, robotic process automation (RPA) and artificial intelligence, leaving outdated paradigms behind.

A comprehensive procurement solution simplifies procurement performance management and, by extension, organizational performance optimization, in several key ways:

- **Centralized data management** collects all your data in a single, cloud-based, mobile-friendly location. Both direct and indirect spend data is captured and seamlessly integrated. Transparency, accuracy, and completeness are greatly improved; real-time access and user-friendly analytics make it easy to monitor KPIs, identify trends, and spot potential problems and opportunities in a timely fashion.
- **Eliminating paper-based processes** provides immediate cost savings by eliminating paper materials, storage, and organization costs. It also reduces the need for on-premises hardware, software, and IT support. It also allows all spend data to be captured electronically, and automatically,

for analysis.

- **Process automation** eliminates human error and costly delays. Software robots can perform high-volume, time-consuming and tedious tasks at speeds far beyond human capabilities, with commensurate improvements to accuracy. Integration with data management and analytics mean you're getting clean, complete data for the best possible analysis and insights.
- **Data-driven process management** makes continuous improvement an integral part of all workflows. Not only is it easier to set, monitor, and adjust benchmarks, but the benchmarking process itself can be more effectively monitored and refined to maximize savings and minimize waste and inefficiency.
- **Scalability** of data management, process automation and optimization, and data analytics makes it much simpler to deploy and monitor benchmarks across your organization, incorporating new projects, departments, and business units as required while preserving a cohesive datasphere.
- **Centering procurement as a value leader** through the ability to develop and monitor a broad range of complex and sophisticated metrics. By connecting diverse data sources (both internal and external), procurement professionals can contextualize spend data to highlight strong sources of value (both hard and soft) while also revealing areas of potential risk, suboptimal efficiency, etc. Vast amounts of data are no longer overwhelming, but rather a rich source of insights that grows only richer over time.

Set, Meet, and Exceed Your Goals for Success with Procurement Benchmarking

Is your procurement team leveraging your data in the most effective way? Smart business decisions, strategic sourcing, and powerful growth and innovation begin

with effective use of business intelligence. Don't be afraid to take advantage of the insights you can harvest by implementing and monitoring the sourcing and procurement benchmarks that matter most to your company's growth, performance, and bottom line.

What's your goal today?

1. Use Planergy to manage purchasing and accounts payable

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