Procurement Benchmarking: How To Use Procurement Intelligence Data To Improve Your Business Spend



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Today’s complex, lengthy, and data-driven supply chains make effective data management essential for procurement organizations that 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 ensure your organization is building value, meeting its goals, and securing an optimal return on investment (ROI) for every dollar spent.

What is Benchmarking?

Benchmarking is a method that allows businesses to compare their products, performance, and services to top competitors, high-performing companies, or industry standards.

It involves looking at current trends in data and projecting future trends depending on what you aim to achieve.

The goal of benchmarking is to establish an internal or external standard to measure against for the purposes of continual improvement.

What is Procurement Benchmarking?

Procurement benchmarking, a subset of benchmarking, involves comparing your company's procurement processes and performance metrics to those of industry leaders and best practices from other companies.

This can include KPIs like cost savings, supplier performance, and purchase order cycle time.

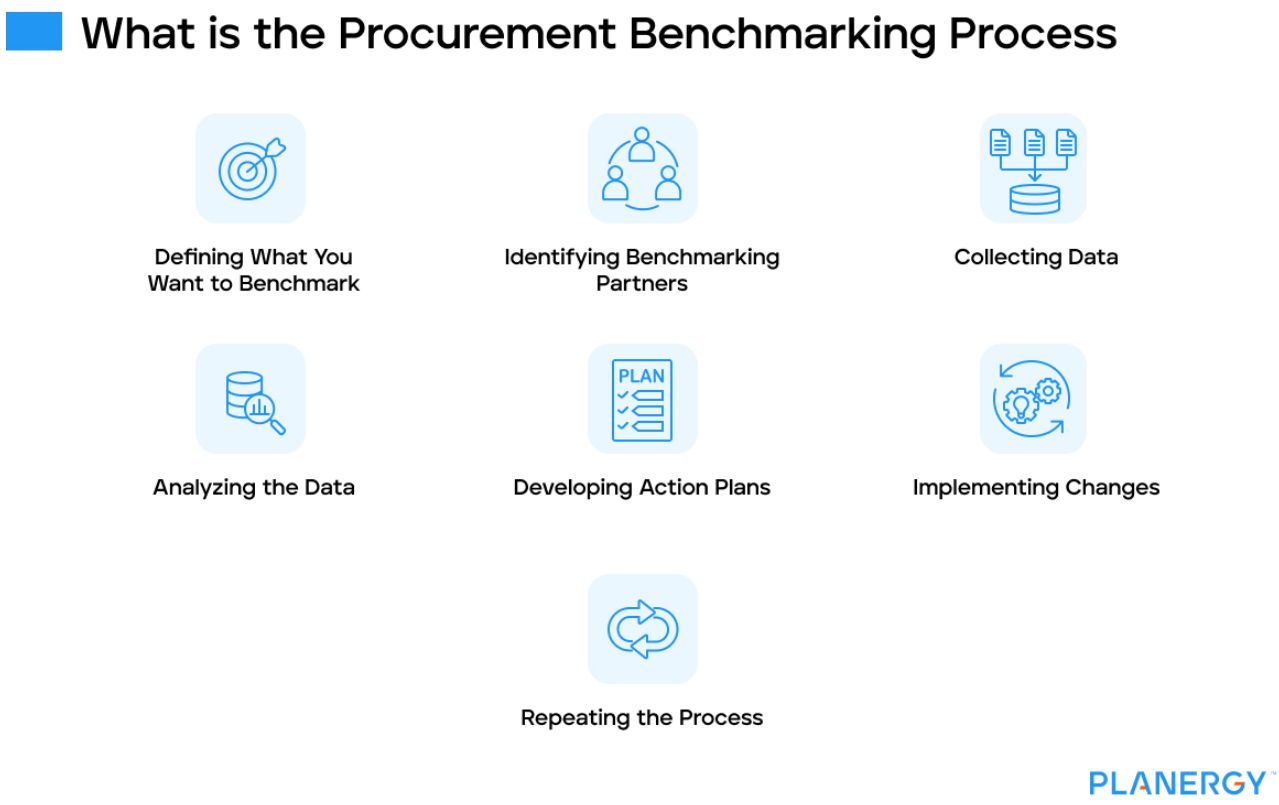
What is Price Benchmarking in Procurement?

Price benchmarking in procurement compares the prices of goods and services purchased by your company against those paid by other companies.

This helps ensure your company gets the best possible price and terms.

What is the Procurement Benchmarking Process?

The procurement benchmarking process involves several steps:



- ## Defining What You Want to Benchmark

  This could involve selecting a specific process, performance metric, or price that you want to measure against the industry's best practices or your competitors' performance.

  Choosing what to benchmark depends on your company's strategic objectives and areas of interest.

Identifying Benchmarking Partners

After defining what you want to benchmark, the next step is to identify your benchmarking partners. These could be your direct competitors, companies in a similar industry, or businesses known for their excellent procurement performance.

The selection of benchmarking partners should be based on their relevance to your benchmarking goals and willingness to participate.

- ## Collecting Data

  This involves gathering information about the partner's processes, performance metrics, or prices.

  The data collection process should be systematic and unbiased to ensure the accuracy and reliability of the benchmarking results.

- ## Analyzing the Data

  This involves comparing your company's performance against the benchmark and looking for gaps.

  The analysis should be thorough and objective, focusing on identifying areas where your company can improve its procurement processes.

- ## Developing Action Plans

  Now, develop action plans based on the insights gained from the data analysis. These strategies are designed to improve your company's procurement processes.

  The action plans should be realistic, achievable, and aligned with your company's overall strategic objectives.

- ## Implementing Changes

  This involves putting the action plan into effect and monitoring progress.

The implementation process should be carefully managed to ensure the changes are effectively integrated into your company's procurement processes.

- ### Repeating the Process

  Benchmarking is not a one-time event but an ongoing process of continuous improvement.

  This means that after implementing the changes, you should repeat the benchmarking process.

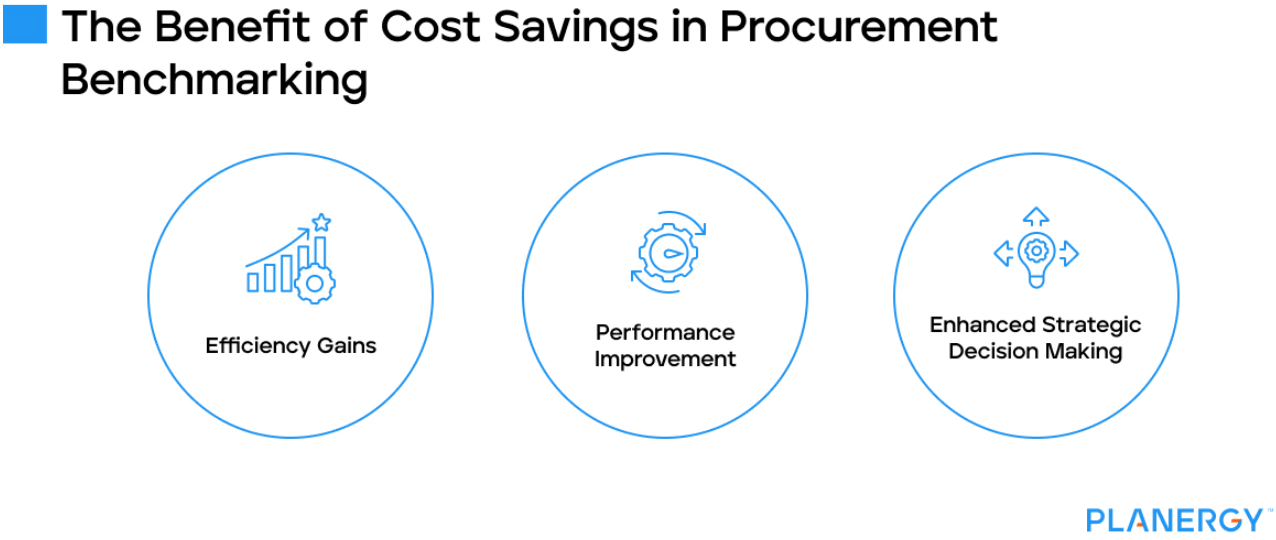
  This allows you to continuously monitor your company's performance, identify new areas for improvement, and ensure that your procurement processes remain at par with the industry's best practices.

The Benefit of Cost Savings in Procurement Benchmarking

One of the main advantages of procurement benchmarking is the opportunity for cost savings.

By comparing prices with those of other companies, you can identify areas where your spending may be higher than necessary.

This price comparison can reveal opportunities for negotiation or supplier changes that could result in significant cost reductions.



Efficiency Gains

Efficiency is another key benefit derived from procurement benchmarking. By comparing your company's procurement processes with others, you can uncover potential inefficiencies in your operations.

This could be anything from lengthy approval procedures to redundant tasks. Identifying these issues allows you to streamline your operations, reduce waste, and ultimately enhance productivity.

Performance Improvement

Procurement benchmarking can also lead to performance improvements. By comparing performance metrics such as delivery times, quality of goods, and supplier responsiveness, you can pinpoint areas where your company's procurement function could improve, such as more strategic sourcing or better supplier management.

This insight can then guide targeted efforts to boost performance and results.

Enhanced Strategic Decision Making

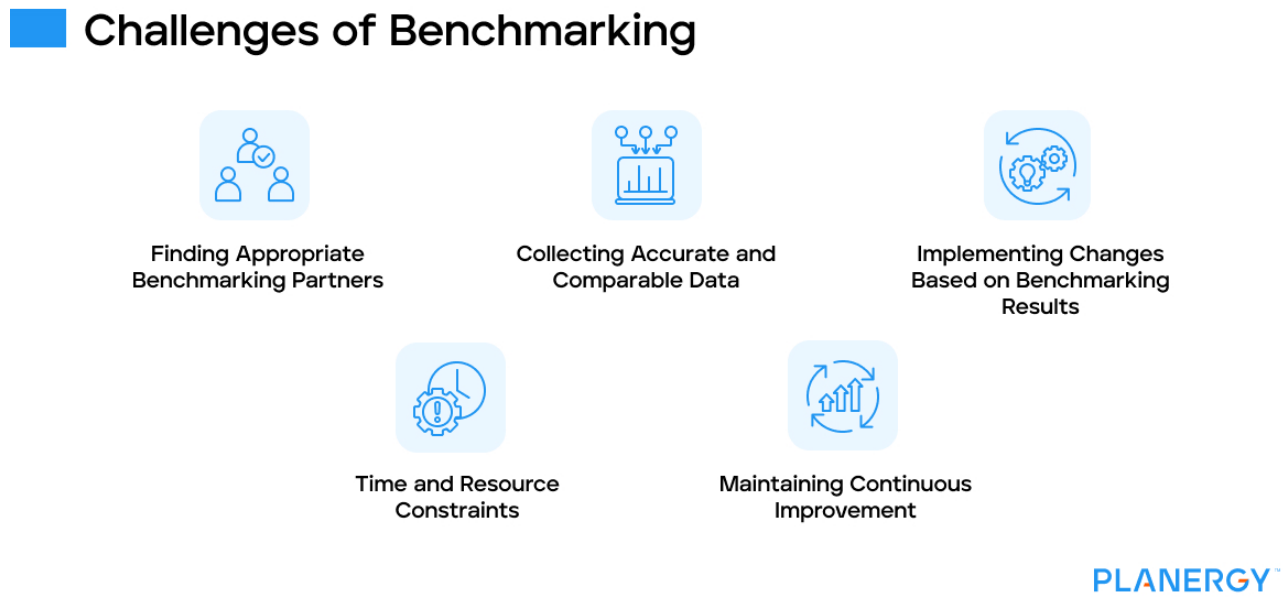
Procurement benchmarking can significantly inform strategic decision-

making.

The insights gained from comparing your procurement processes, prices, and performance metrics with those of industry leaders can shape decisions about supplier selection, contract negotiation, and overall procurement strategy.

Such informed decision-making can lead to more effective strategies and stronger business outcomes.

Challenges of Benchmarking



Finding Appropriate Benchmarking Partners

One of the main challenges with procurement benchmarking is identifying suitable benchmarking partners.

These are companies whose procurement processes, performance metrics, or prices you want to compare with your own.

The challenge lies in finding companies that are similar enough to provide meaningful comparisons but also leading the industry in their procurement practices.

Collecting Accurate and Comparable Data

It can be difficult to gather accurate and comparable data from different companies due to variations in how they track and report their procurement activities.

Some companies may be unwilling or unable to share certain data types due to confidentiality concerns.

Implementing Changes Based on Benchmarking Results

Once you have benchmarked your procurement processes and identified areas for improvement, the next challenge is implementing changes.

This complex process involves adjusting existing procedures, training staff, and potentially facing resistance to change within the organization.

Time and Resource Constraints

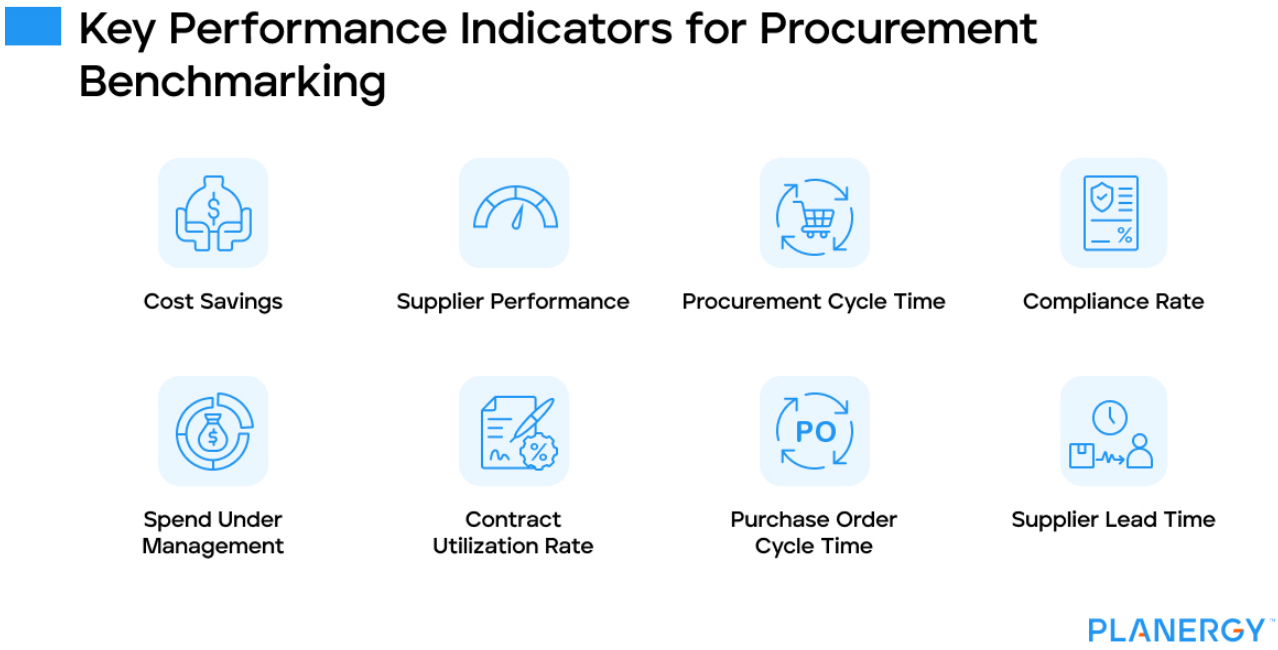
Companies must invest significant time identifying benchmarking partners, collecting and analyzing data, and implementing changes. This can be a challenge, especially for smaller companies with limited resources.

Maintaining Continuous Improvement

Benchmarking is not a one-time activity but an ongoing process of continuous improvement. Maintaining this continuous improvement can be challenging, especially as market conditions and industry best practices evolve over time.

Companies must be committed to regular benchmarking and willing to adapt their procurement processes as needed.

Key Performance Indicators for Procurement Benchmarking



Cost Savings

One of the most common KPIs for procurement benchmarking is cost savings. This could be measured as a percentage reduction in the cost of goods or services procured or the amount of money saved through negotiation or supplier changes.

Supplier Performance

Supplier performance is another crucial KPI. This could be evaluated based on factors such as delivery times, quality of goods or services, and responsiveness to inquiries or issues.

Procurement Cycle Time

The time it takes to complete the procurement process, from identifying a need to receiving the goods or services, is another important KPI.

Shorter procurement cycle times generally indicate more efficient processes.

Compliance Rate

Compliance rate with procurement policies and procedures is another KPI that can be used for benchmarking.

This could be measured as the percentage of procurement activities that comply with established policies and procedures.

Spend Under Management

Spend under management refers to the percentage of total procurement spend managed according to the company's procurement strategy.

Higher percentages are generally better, indicating that a larger proportion of spending is strategically managed.

Contract Utilization Rate

The contract utilization rate measures the percentage of actively managed and utilized contracts.

This KPI is especially important in organizations with complex contracts with multiple suppliers. A higher contract utilization rate indicates better contract management.

Purchase Order Cycle Time

This KPI measures the average time from when a purchase order is issued until the order is fulfilled. Shorter times typically indicate more efficient procurement processes.

Supplier Lead Time

Supplier lead time measures the time between placing an order with a supplier and receiving the goods or services.

Shorter lead times usually imply better supplier performance and more efficient supply chains.

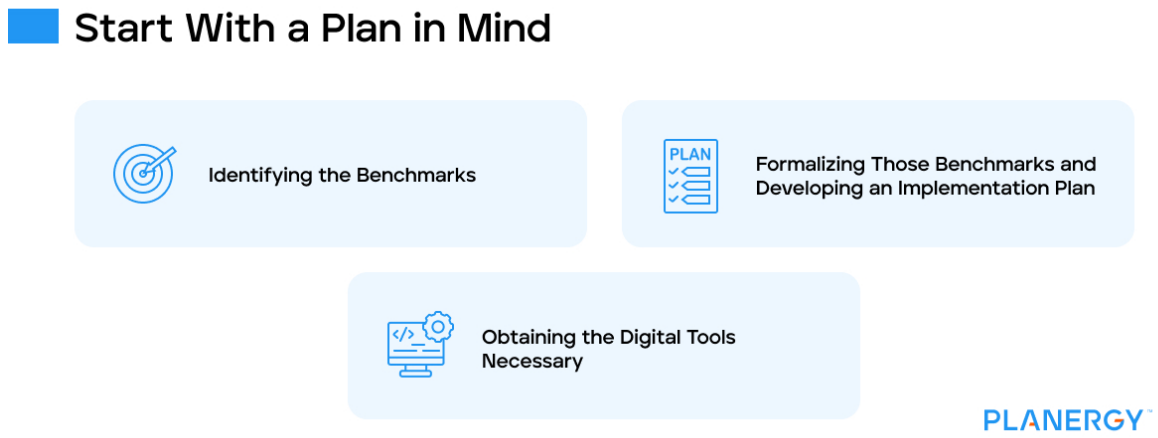
Procurement Benchmarking: Best Practices

It would be more than a little disingenuous to claim any particular set of sourcing and procurement benchmarks is universal in utility and value.

However, following best practices can help nearly every organization identify its unique business needs and develop a benchmarking process to meet them.

Start with a Plan in Mind

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?

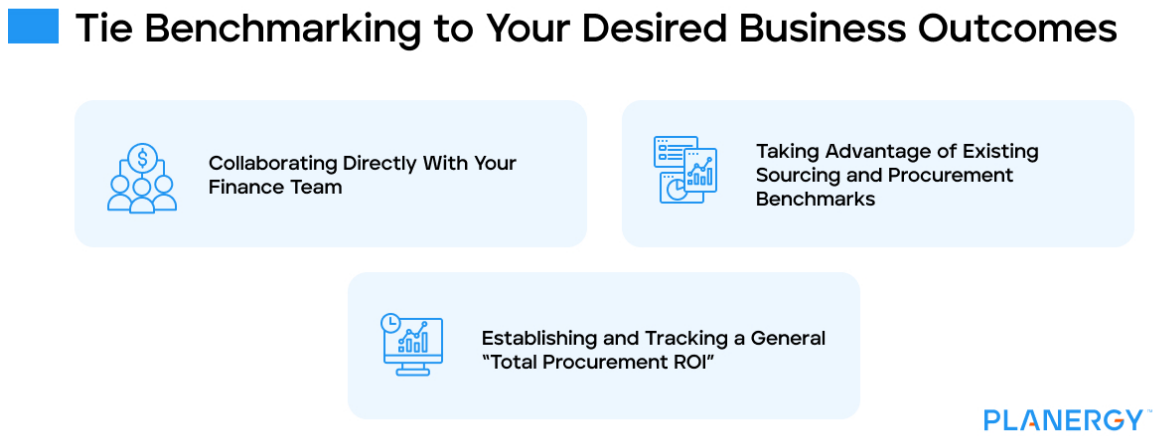
By answering these questions, you'll have a much firmer grasp on what you want to measure, how you want to measure results, and the approach you want to use in effectively managing both process optimization and the evaluation process itself.

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 and 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

Invest in Procurement Technology

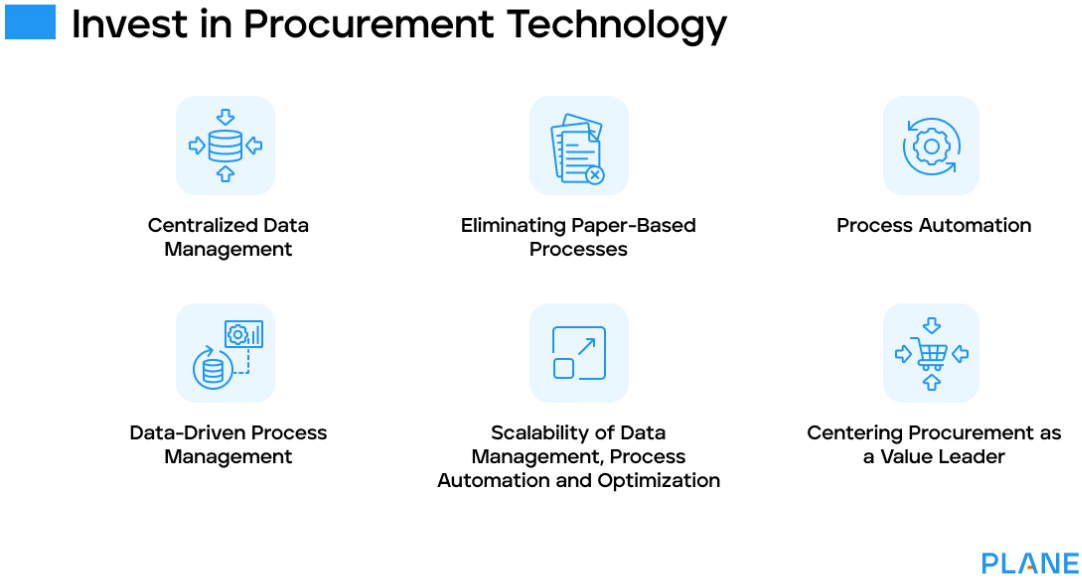
Having a plan and knowing what you want to measure for optimal performance is just the beginning.

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 (RBA) 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 quickly.

- 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.

Use Procurement Benchmarking for a Competitive Advantage

Benchmarking, particularly in the field of procurement, is a powerful tool for businesses looking to improve their operations, reduce costs, and stay competitive.

By comparing your company's procurement processes, prices, and performance metrics to those of industry leaders, you can identify areas for improvement and

develop strategies to achieve your business goals.

What’s your goal today?

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