

# 10 Essential Procurement KPIs For Any Organization to Track



## KEY TAKEAWAYS

- Procurement KPIs are metrics that track the speed, quality, performance, and value that your procurement team generates.
- The top 10 procurement KPIs are split into three categories: Order processing, Supplier performance, and general procurement value.
- Measuring procurement KPIs can help improve your cost-effectiveness, competitiveness, and cost management.
- Procurement software can help improve all of your KPIs and create a better return on investment for your procurement function.

Companies are constantly looking for ways to optimize their operations.

Key performance indicators (KPIs) are vital to measuring performance, optimization, and value in business processes objectively.

Procurement is a critical area of business to streamline, as it defines the cost of doing business.

In this article, we'll help you understand what procurement KPIs to track, how to

effectively measure them, and what you can do to improve KPI performance.

## What Are KPIs in Procurement?

Procurement key performance indicators (KPI) are measurable metrics that your organization can continually track and evaluate. They can help you understand your procurement function's efficiency, effectiveness, and performance.

### > What Are Procurement KPIs?



These KPIs will expose strengths and weaknesses, find opportunities for improvement, and help you set more realistic goals.

Procurement KPIs cover every aspect of the procurement cycle, from sourcing to supplier performance to purchase order processing times.

They cover various metrics related to cost, time, and efficiency. They can either be quantitative (e.g. lead time) or qualitative (e.g. contract compliance).

Procurement KPIs are important because they can help your organization establish a baseline for success, then monitor and tweak what matters most to achieve better outcomes.

They help teams focus on streamlining processes for greater spend management, productivity, and profitability.

## > Why Procurement KPIs Matter



Performance Visibility



Competitive Advantage



Process Optimization



Improved ROI



Cost Control

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When it comes to both cost avoidance and cost reduction, knowing what to measure and how often is crucial to a successful procurement strategy.

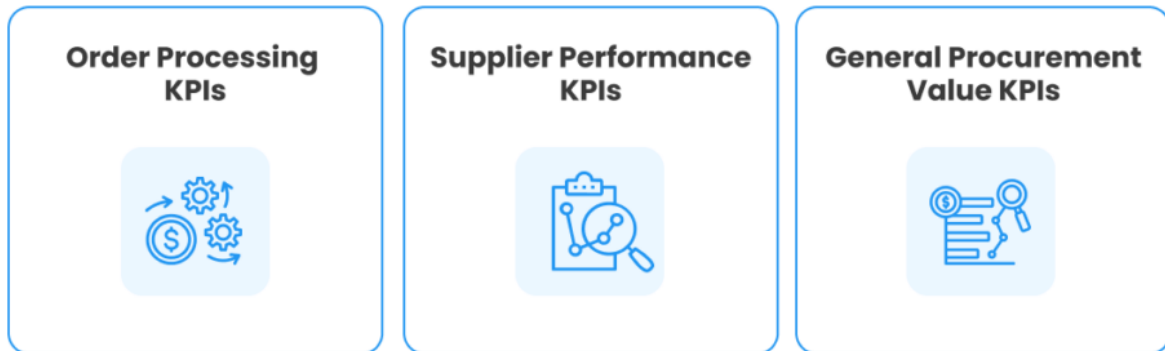
The procurement KPIs you track will touch on everything throughout your procure-to-pay cycle, all to support higher procurement ROI.

## **What KPIs are important in procurement? 10 KPIs you should start tracking today**

The most important KPIs for procurement teams to track fall under three general categories: order processing, supplier performance, and general procurement costs and performance.

To keep it simple, we'll sort all of the most important procurement metrics within these three categories.

## > Procurement KPI Categories



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Your specific KPIs may vary based on your internal processes and goals, but these are generally the 10 most important procurement KPIs:

### Order Processing KPIs

1. Average Purchase Order Cycle Time
2. Average Purchase Order Processing Cost
3. Average Purchase Order Lead Time
4. Percent of POs processed with automation

### Supplier KPIs

5. Number of Suppliers
6. Supplier Availability
7. Supplier Defect and Compliance Rates

### General Procurement KPIs

8. Procurement Cost Avoidance and Reduction
9. Employee Performance, Training, and Certification
10. Total Procurement ROI

To help you understand how to effectively measure and improve these KPIs, we'll go into the specifics of each one below.

# Order Processing KPIs

These KPIs help you track your procurement team's speed, performance, and overall efficiency.

## > Order Processing KPIs

### Average PO Cycle Time



Time from PO creation to payment

### Average PO Processing Cost



Cost to process a single purchase order

### Average PO Lead Time



Time from order request to fulfilment

### Percent Of POs Automated



Share of POs processed without manual effort

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## 1. Average PO Cycle Time

Fast and accurate purchase order processing brings several benefits. Payments can be made faster which leads to better supplier relationships and the ability to capture early payment discounts.

This means less time and money spent chasing exceptions. With automated PO processing, human errors and labor time are greatly reduced.

The PO cycle time KPI measures the time from PO creation to payment. It

includes the time to issue, approve, process, and pay purchase orders to each of the vendors in your supply chain. This time is a good yardstick for your procurement organization's overall efficiency.

PO cycle times benefit immensely from automation. In some cases, costs can be reduced by as much as 75% while the average PO cycle time drops from days or weeks to hours.

## **2. Average PO Processing cost**

There are a lot of small costs associated with PO processing, which can add up to hundreds or even thousands for longer purchasing cycles.

In 2022, the average cost of processing a PO was \$527, but these costs vary greatly by company and industry. Getting this cost down can make a big impact on the bottom line.

The average PO processing cost uses all of the costs associated with the time required to process each purchase order. Costs are itemized by each task performed and how many staff are required to complete the task.

The average can be calculated over a month, quarter, or year, in order to best track progress over time.

This metric uses full-time equivalent (FTE) employee spend to measure labor hours. FTE can be used to combine and convert the work of multiple employees into the hours worked by a full-time employee.

Procurement software can automate the majority of PO processing, freeing your staff to deal with more profitable tasks. With staff hours spent on PO processing, you'll have greater efficiency and lower overhead.

## **3. Average PO Lead Time**

PO lead time combines administrative lead time (the time to request, approve, and process the order) and production lead time (the time to fulfill the).

Note that this is distinct from average PO cycle time, which ends when payment is made rather than when the order is fulfilled.

The portion of PO lead time you control can be optimized on your end with procurement software, but the vendor portion cannot.

The key to PO lead time is finding the sweet spot between speed and quality. While you want the vendor to deliver quickly, vendors who deliver quality goods or services every time are going to benefit your company more.

Procurement software can help you track vendor performance, availability, and compliance. This allows you to compare each supplier's ability to meet your needs in the least amount of time and for the lowest cost.

You can also track quality, which may ultimately be more important to you. Regardless of what's most important, this metric should always be tracked.

## **4. Percent of POs Processed with Automation**

Especially when switching to a new procurement system, it's important to track how many POs you process using manual systems like paper or Excel vs your automated procurement system. Most likely your goal is to get away from paper pushing and using disparate systems like Excel, as they cause greater delays, risks, and errors.

Automating your PO lifecycle will help with all other PO-related KPIs related to time and cost, so it's a good idea to actively measure this.

You can have a company-wide goal for PO automation as you implement the new system or try to get more people to adopt new and better ways of doing things.

## **Supplier KPIs**

Supply chain management KPIs help you measure supplier performance, reduce supply risks, and decide which suppliers you should be giving your business to.

## > Supplier Performance KPIs

### Number Of Suppliers



Total active suppliers per category

### Supplier Availability



Reliability of on-time and complete delivery

### Supplier Defect And Compliance Rates



Frequency of quality or compliance issues

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## 1. Number of Suppliers

There are two factors to consider with the number of suppliers: running lean and bloat. Running lean means that you depend on a few suppliers with the lowest prices, which is ideal for cost cutting.

Bloat is when you have too many suppliers that you frequently switch between, which can confuse your process.

Every situation must be managed delicately. You may feel comfortable with just one supplier for one product and many for another.

Having a goal for each line of business for number of suppliers and tracking it over time can help you ensure that you aren't too close to bloat or running overly lean.

Procurement software can help you maintain the right number of suppliers for your business. You can track supplier performance and reliability and simplify your supply chain management.

You can also manage which suppliers are approved or not, which limits maverick spending and keep using only the suppliers you want to use.

## **2. Supplier Availability**

In times of crisis, you need to be able to rely on your suppliers for emergency purchases. That's why it's important to track their availability over time.

This KPI tracks how well suppliers meet their delivery time, quality, and quantity expectations. Tracking this can reveal whether or not each supplier is able to meet your evolving needs.

Procurement software enables you to track the metrics required to set a supplier availability percentage or score.

Essentially, you can track the percentage of times they delivered on time, with the proper quality and quantities. Then, you can set a benchmark for an acceptable score, such as 85%, 90%, or 95%.

You can then organize your supply chain by supplier availability score and route important orders to your most trusted suppliers.

## **3. Supplier Defect and Compliance Rates**

By measuring the percentage of non-compliant shipments received from a vendor, these KPIs help you track your suppliers' quality and compliance performance.

You shouldn't give your business to those who deliver faulty products, poor services, or don't comply with your own policies and government regulations.

Procurement must track this KPI in order to make sure they only do business with respectable and high-quality suppliers.

Procurement software can give you a granular view of all quality and compliance issues by type, vendor, costs, and impact on your own production. This expands

your insight into this KPI and makes it easy to sort vendors by performance.

Suppliers who can be relied upon to provide high quality goods and full compliance can be preferred vendors or strategic partners.

## General Procurement KPIs

Instead of measuring speed and efficiency alone, these KPIs take a look at the value your procurement function (and overall company) is generating.

### > General Procurement Value KPIs

#### Procurement Cost Avoidance And Reduction



Savings from prevented  
and reduced spend

#### Employee Performance And Training



Skill level and capability  
of procurement staff

#### Total Procurement ROI



Value generated versus  
procurement investment

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## 1. Procurement Cost Avoidance and Reduction

Cost avoidance and reduction both track cost savings on purchases you didn't make, but in slightly different ways. Both work to reduce the total cost of

ownership (TCO) all company spending, both direct and indirect.

**Cost avoidance** tracks cost-avoiding efforts such as preventative maintenance, process optimization, and contract renegotiations. This is an intangible savings on future costs, since it only appears on the balance sheet if it doesn't occur.

While it is a bit tricky to track, it can generate great value for your organization to make sure cost avoidance KPIs are in place.

**Cost reduction** is a concrete measurement of cost-cutting efforts like staff cuts and buying cheaper products or services. These tangible savings are recorded on your financial statements and have a direct, measurable impact on your bottom line.

Procurement software helps you track both of these KPIs with reporting and analytics on all company transactions.

For cost avoidance, you can measure the impact of your initiatives before and after they take place. For cost reduction, you can see the immediate impact that cutting your operating costs makes.

## **2. Employee Performance, Training, and Certification**

It's important to make sure your procurement team is well-trained and fully equipped to generate the most possible value. Tracking this as a KPI for trainings and certifications can help ensure they are performing at a higher level.

Under this KPI, you can track the cost of training your team on using procurement software, certification fees for procurement staff, and seminars that help your team improve their process.

Measuring this can help you identify which team members are the most qualified, opening up opportunities to further reduce costs through internal training or consolidating responsibilities.

## **3. Total Procurement ROI**

While it's built on a simple formula, this KPI can have a profound effect on your

company's sustainability. Total procurement ROI measures the overall value that your procurement function creates.

Most companies aim to have their annual procurement investments yield somewhere around a 10:1 return.

To calculate your procurement ROI, use the following equation:

$$\frac{(\text{Annual Investment Gain} - \text{Annual Investment Cost})}{\text{Annual Investment Cost}} = \text{Procurement ROI}$$

This KPI provides a "mile high" view of your procurement department's performance and impact on the company's profitability.

However, no single metric can provide the nuanced and precise picture required to chart a successful procurement strategy over a long period of time.

## **How can you improve your KPIs in procurement?**

To truly improve your procurement KPIs, you need data, insights, and a way to improve your processes. That's why making process improvements and utilizing automation is key.

The right procurement software can improve every single procurement KPI you track. It connects all your stakeholders, streamlines every step of the P2P process, and centralizes your strategy.

## > How Procurement Software Improves KPIs



Automated Procurement Workflows



Reduced Manual Errors



Real-Time Spend Visibility



Data-Driven Decision-Making



Accurate KPI Reporting

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Measuring KPIs is easier when you have a software for all procurement activities that tracks every transaction and vendor and gives you the ability to create reports based on real-time insights. This lets you track KPIs so that you can improve them.

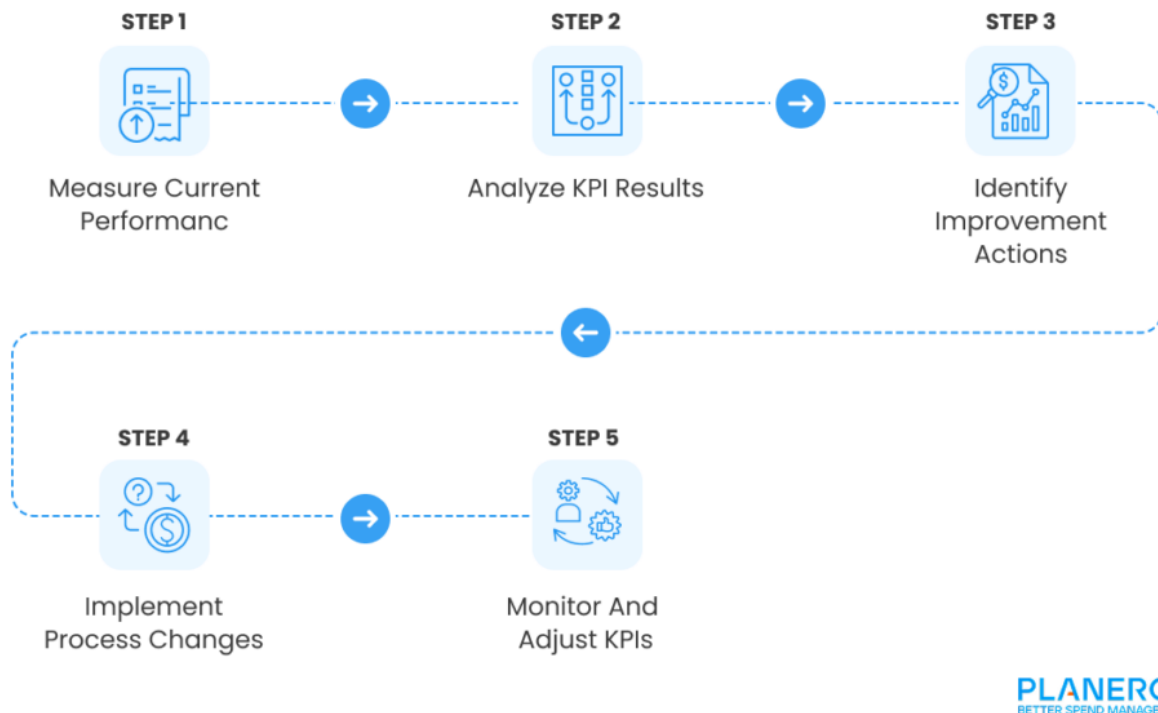
Switching from manual procurement to automation reduces human error, improves data management, and can help cut spend, fraud, risk, and frustration.

You'll create meaningful benchmarks and measure against them to push your costs down and your productivity up.

## Measure, Monitor, and Modify KPIs for Procurement Success

Procurement sits at the heart of your business and is involved in everything you create. Your procurement department needs to be as efficient, effective, and evolved as possible.

## > Measuring And Improving Procurement KPIs



It needs to focus on cutting costs, boosting productivity, and building value to support your company's goals and build a stronger bottom line.

By focusing on improving the right procurement KPIs and taking advantage of a modern procurement software solution, you can optimize every aspect of your procurement function.

These efforts will help create a healthy, agile, and profitable business for the long haul.

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