

The Strategic Sourcing KPIs You Should Be Tracking



Every business process benefits from review and refinement.

Companies of all sizes use metrics known as *key performance indicators* (KPIs) to set standards for performance (benchmarking), monitor processes over time, and then review the results before refining those processes to achieve greater efficiency, accuracy, speed, etc.

KPIs are especially important in the procurement department, as it touches every area of your business through spend—and optimal processes can translate to greater value, cost savings, and competitive performance.

Many critical procurement metrics are focused on optimizing strategic sourcing, as obtaining the best possible goods and services from the best possible suppliers at the best possible pricing and terms is crucial to business performance.

By monitoring the right strategic sourcing KPIs, you can gain insight into your processes and make improvements that will strengthen your supply chain and supplier relationships—along with your company’s potential for growth, profitability, and insight-driven decision-making.

Why Strategic Sourcing KPIs Matter

Like other performance metrics, strategic sourcing KPIs are used to optimize processes that support strategies—in this case, your strategic sourcing strategy.

KPIs are effective tools for process optimization because they establish clear parameters to measure and improve specific areas, and can (with the right tools) give management real-time visibility into what's working, what isn't, and which areas of the organization are in greatest need of immediate attention.

Given that it serves as the backbone of an enterprise, optimizing your supply chain is probably pretty high on your list of procurement priorities.

As procurement itself moves into a more strategic role within organizations, optimized strategic sourcing also hews more closely to, and directly supports, overall operational goals for profitability, growth, business continuity, and more.

Achieving this optimization requires careful, intelligent monitoring of procurement KPIs covering distinct but tightly interrelated areas, including purchasing, supply chain management, and vendor management.

Properly utilized, the benchmarks set by your procurement staff and the key performance indicators used to measure performance against those benchmarks can help you align your procurement strategy with your organizational goals while capturing better cost savings, building greater value, and lowering total cost of ownership (TCO) for all your purchases.

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Essential Strategic Sourcing KPIs

Every organization has its own goals and standards for success. Measuring and improving the performance of your procurement workflows; balancing cost avoidance against cost reductions; translating data from disparate sources into actionable insights; whatever your goals, you can reach them more quickly and

completely by using KPIs.

There's no single defining standard or a list of the "right" baseline KPIs when building your list.

Your procurement KPIs won't be universal, but they should, at a minimum, follow the "Three Rs" model: *realistic* in scope, *relevant* to the procurement processes monitored and expectations set by stakeholders, and *reliably* useful in optimizing workflows, performance, etc.

Procurement departments large and small can start off on the right foot by choosing from some of the most commonly used procurement metrics.

Purchasing KPIs

As every purchasing manager knows all too well, the purchasing department is one of the most important to a company's overall financial health and performance.

Tasked with not only obtaining the best possible goods and services at the best possible return on investment (ROI), but also building and maintaining strong supplier relationships, purchasing departments need clear and complete visibility into all aspects of every purchase in order to operate at optimal efficiency and efficacy.

Some of the purchasing KPIs you'll want to monitor include:

- **Purchase Order Cycle Time.** It's not just what you buy, but how efficiently and effectively you buy it that matters. Trim your PO cycle time to lower costs, free your team members to focus on more strategic concerns (including building those all-important supplier relationships), and more effectively support your organization's production, planning, and product development goals.
- **Number of Purchase Orders Processed Electronically.** Every paper invoice is a potential source of risk, error, and delays. Keeping this KPI as low as possible is essential in an increasingly paperless world.
- **Average Cost of Processing a Purchase Order.** This KPI measures the total cost associated with all of the tasks required to accurately and completely process a purchase order. The higher the accuracy and speed,

the lower the costs and the greater the efficiency of your procurement processes.

- **Total Cost of Ownership.** How much does each purchase *actually* cost your company over its lifetime? Comparing current and ongoing costs (including materials and operating costs) and performance rates to historical ones can reveal the areas most in need of refinement, sourcing options that can be upgraded or replaced with more cost-effective and sustainable options, etc.
- **Cost Avoidance Metrics.** These include sources of soft value, including process optimization, preventative maintenance, corporate social responsibility initiatives, sustainable sourcing activities, etc.
- **Total Procurement ROI.** This metric is commonly expressed as a ratio of dollars spent per \$1,000 of revenue earned. Setting a benchmark ROI of \$10 for every \$1 spent will put you on par with the average and ensure your company is competitively and financially strong enough to pursue its goals.

Supply Chain Management KPIs

One of today's biggest procurement challenges is finding ways to ensure your supply chain is not only efficient but resilient and agile.

Other concerns, such as sustainability and responsible sourcing, are also becoming increasingly relevant as companies come to terms with changing market conditions and consumer expectations, as well as potentially devastating supply chain disruptors such as the COVID-19 pandemic, international trade disputes, and natural disasters related to climate change.

Some of the most important supply chain management KPIs to track include:

- **Spend Under Contract.** Total spend visibility is crucial, and so is knowing how much of your spend is made with approved suppliers following the terms and pricing established in signed agreements. The goal for this metric (also known as spend under management) is 100%; this KPI benefits directly from high-quality P2P software, as vendor integration, guided spend, and the elimination of rogue spend and invoice fraud make it much easier to minimize the risk of random (and invisible) credit card purchases from fly-by-night suppliers.

- **Spend by Category.** Effective category management provides a detailed and nuanced view of your spend. Understanding where your spend goes and how it supports your company's activities and goals can help your procurement team uncover ways to trim fat and boost ROI without compromising resilience.
- **Inventory Turnover.** Expressed as the Cost of Goods Sold (COGS) divided by the Average Inventory value, this metric measures how many times your company's inventory cycles each year. Higher is better, as low inventory turnover can indicate persistent and widespread inefficiencies in your supply chain and workflows.
- **Total Supply Chain Costs.** Expressed as a percentage of sales, this macro-scale metric can provide quick insight into how much you're spending to produce revenue. It's generally calculated by dividing the total costs generated by your supply chain by the total sales in a given accounting period and then multiplying the quotient by 100.
- **Responsible and Sustainable Supply Chain Activities.** Metrics in this category are relatively new but provide value for organizations who want to optimize their return on investment when incorporating sustainable materials or modifying their practices to ensure both they and their suppliers are practicing ethical procurement. Sample metrics might include the number of suppliers who have implemented sustainability systems within their own supply chains, or the number of customers switching to "green" versions of existing products as compared to the original (as well as the difference in price paid, the margins for each option, etc.).

Vendor Management KPIs

Your supply chain isn't just a conveyor belt of materials, goods, and services. Doing business in a complex global economy means considering not only the quality of vendor performance and service, but the impact their practices will have on your own operations, business continuity, and reputation.

In addition, today's supplier could be, with the right incentives, tomorrow's partner. It pays to keep close tabs on your supply base to ensure you're getting the best possible return on your dollar, minimize risk, and maximize the potential for shared success through innovation.

The vendor management KPIs you'll want on your vendor management scorecard include:

- **Number of Suppliers.** You need enough suppliers to ensure business continuity, including strategic redundancies as part of your plan to minimize or avoid crippling disruptions. But you also want to keep the bloat to a minimum to keep costs low and interorganizational relationships strong with your key suppliers. An important sub-metric to consider is the number of sole-source suppliers, especially for business-critical materials, goods, and services, as failure to put contingencies in place can leave you high and dry when disaster strikes.
- **Quality Performance Rating.** Are your suppliers delivering what was promised? How often does each supplier provide inferior or incorrect materials?
- **On Time Delivery.** Are shipments on time? Which vendors have the capacity to scale supplies to meet emergency demand? How often does each supplier lose orders or deliver damaged goods?
- **Supplier Lead Time.** A sibling to the delivery metric, this KPI measures the amount of time between an order being placed and its arrival at your dock or door. Lower is usually better, especially if you're operating on a just-in-time model for inventory management.
- **Compliance and Risk Assessment.** Does the vendor comply with all industry standards and legal requirements as well as their contractual obligations? Do they practice ethical procurement? Are they, or any of their suppliers, engaged in activities or practices that could damage your company's reputation, credit, or competitive performance?

Get More from Your Procurement Metrics with P2P Software

While choosing the right procurement KPIs is absolutely critical to achieving truly strategic sourcing, it's also important to remember that KPIs draw their utility from transparency, timeliness, and accuracy.

Choosing a cloud-based, comprehensive procure-to-pay (P2P) solution like PLANERGY ensures you've got clean, complete, and centralized data on demand.

With end-to-end visibility and a bevy of tools designed to bring procurement into the digital era (and support digital transformation while doing so), tracking KPIs and making process improvements is much easier.

Look for a P2P solution that offers:

- Full integration support for a wide range of applications.
- Platform-agnostic, mobile-friendly data collection, management, and analysis.
- Removal of data silos and data redundancies/conflicts.
- Dedicated modules for vendor performance management, inventory management, category management, eCommerce, supply chain management, supplier relationship management, and AP integration.
- Automation tools designed to eliminate common procurement problems that can compromise data integrity or delay access to crucial information, including:
 - Rogue spend.
 - Invoice fraud.
 - Human error and inefficiencies.
 - Process bottlenecks.
- Real-time spend analysis tools, customizable dashboards, and advanced reporting and forecasting models to rapidly transform actionable insights into more strategic sourcing decisions.
- Customizable, automated workflows incorporating machine learning and iterative improvement to improve efficiency, accuracy, speed, and procurement ROI over time.

Measure and Optimize Procurement Performance with Strategic Sourcing KPIs

Your procurement function has the potential to drive massive improvements throughout your entire business—provided it's properly optimized.

Select and monitor the right blend of purchasing, supply chain, and vendor management KPIs to fit your needs, and get the best possible return on spend while strengthening your company's performance, profitability, and competitive advantage.

What's your goal today?

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