



Finance Executives Seek to Enlist Procurement in Battle for Bottom-line Results

Recent Survey of 214 Executives Links Procurement to Improved Business Performance

By Paul Tong

Finance teams have historically focused their attention on reporting, and through the latest automated processes, they can now quickly close books and generate numbers. However, just as man cannot live by bread alone, organizations cannot achieve bottom line results solely through automated reporting. Rather, finance executives must look beyond the books and truly begin to leverage cost savings in order to steer their companies into the future. When it comes to such strategic objectives, however, they face a persistent challenge: accessing timely and accurate information on where they are spending their money.

Companies rely on numerous vendors of goods and services to maintain daily operations, and the cost and availability of these outside resources has a clear and present impact on overall performance. In the battle to improve the bottom line, leading finance teams recognize that in order to succeed, they must enlist a new ally: procurement. According to the results of a recent survey conducted by CFO Research Services in collaboration with Ariba, Inc., a majority of finance executives consider procurement key to improving cost management, business unit decision making/planning, budgeting, and forecasting.

According to the study, most companies need to better utilize pieces already in place in order to achieve this vision. By integrating procurement with ERP systems, companies can better understand spending patterns as well as identify opportunities.

The research, which included 214 responses from senior executives from companies with wide-ranging revenues, focused on understanding how CFOs view procurement and its role in helping them achieve their goals. Questions the study sought to address included: where are companies performing well and where is there room for improvement? What role does technology play in procurement? What practices yield better performance, higher satisfaction, and lower risk? Among the key findings:

- Improving cost management and decision support capabilities are at the top of finance executives' agenda, while transaction processing, regulatory compliance and financial reporting capabilities are at the bottom.
- When it comes to controlling costs, executives see the greatest opportunity in managing amounts spent on direct materials and indirect goods and services, sourcing through preferred vendors, and improving supplier interactions. Labor, employee benefits, facilities, and similar categories, on the other hand, offer fewer savings opportunities.
- Most companies have difficulty obtaining timely and accurate information on purchasing activities and consequently have poor spending visibility. This lack of actionable intelligence hampers their ability to improve vendor relations and benefit fully from preferred suppliers.



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- While purchasing systems may not be a panacea for procurement ills, companies that have adopted technology are better able to gather/use procurement information, find savings opportunities, and benefit from preferred providers.

Supporting Business Objectives – a New Way of Thinking

Survey results indicate a paradigm shift when it comes to identifying cost savings opportunities. Finance teams plan to focus more on improving cost management and decision-support capabilities and less on internal activities. With wasteful discretionary spending and poorly performing employees already nixed, finance executives under pressure to increase profitability say they'll look to external spending on direct and indirect goods rather than labor and facilities for cost improvement. Vendor relationships are largely seen as the key to unlocking such prospects.

To accomplish this, respondents saw a need for greater integration of the procurement function with the rest of the company. Finance executives also cited deficiencies in vendor relations, including a lack of sourcing strategy, pricing difficulty, and an inability to take full advantage of volume discounts. Additionally, respondents referred to the need to improve communication between business functions and units as well as between the company and its customers.

Respondents predominantly described their procurement organization's effectiveness at sourcing through strategic suppliers as well as create/find contracts as "adequate." On the other hand, approximately one-third of respondents rated their performance as "poor" in gathering timely and accurate information from procurement as well as integrating procurement systems with IT infrastructure.

Taking Automation Beyond Internal Processes

While most respondents reported "highly automated" procurement processes at their companies, actual use of automation appears limited to internal transactional processes such as purchase orders and requisitions. Because companies continue to rely on paper to document relationships, the role of automation diminishes the further procurement reaches outside companies' walls to find, manage, and pay vendors.

What is driving reluctance to fully embrace automation in procurement? The cost and complexity of integrating diverse systems between vast arrays of vendors coupled with a preference for physically tangible documentation may prevent companies from investing in supplier relations automation technology. A staff focused on day-to-day activities may also be a roadblock to expansion.

However, despite these difficulties, highly repeatable, forms-driven processes are seen as optimal candidates for automation, and companies appear well on their way to paperless purchasing.

The survey showed striking differences in views on the effectiveness of procurement functions – and the quality of the information they generate – between those who have adopted technology and those who rely primarily on manual processes, illustrating a correlation between automation and higher performance.



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Furthermore, the survey uncovered a positive correlation between proficiency and the level of collaboration within the procurement function among teams responsible for order placement, vendor selection, and transaction execution.

Conclusion

With CFOs echoing that procurement can and should play a leadership role in driving cost savings and providing critical information for business planning, organizations now have a tremendous opportunity for improving bottom line results. The survey results provide powerful proof that elevating the procurement function is the key to strategic advantage.

Though meeting the challenges of managing spending and making procurement data actionable may seem overwhelming, a broad view of procurement can reveal numerous ways to enhance the organization's strategic contribution. Companies will benefit most by implementing solutions that merge technology, category expertise, and best practices to speak to the collaborative aspects of procurement that complement transactional processes and financial reporting.

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