



Procurement Process Maturity:

An Actionable Guide to Advancing Your Purchasing and Procurement Departments

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Introduction

Smart companies are always trying to save money and become more efficient.

Most of them try to achieve this goal by reducing headcount and generally trying to lower operating expenses. While this approach can certainly help decrease cash outflows, there are other ways to lower expenses that many companies tend to overlook.

One of the major areas that organizations looking for cost savings tend to forget to consider is the procurement department, which is in charge of sourcing products and services cost-effectively. In fact, one report claims the average large enterprise loses [\\$14 million each year](#) due to inefficient procurement and purchasing processes.

Why is that?

Many organizations are simply stuck in their ways. Their procurement teams have done things a certain way for many years and aren't aware of just how

much money they stand to save—as well as the ability to operate faster and with more agility—by streamlining their approach to purchasing.

While many of the average organization's expenses are more or less set in stone—you have to cover rent, utilities, wages, insurance, taxes, and supply expenses, among other things—much of the money that companies pay out is spent on what are considered non-essential purchases. One study, for example, found that non-core spending can account for anywhere from [15 percent to 40 percent of the average organization's revenues](#).

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Companies that are still using an old-fashioned approach to procurement face a number of serious problems, including:



Fraud.

Paper-based purchasing systems make it much easier for employees to commit fraud. For example, an employee might pay for a business dinner in cash and pretend that he or she gave a much larger tip than he or she actually did so that reimbursement checks are higher.



Rogue spending.

More than half of employees (54 percent) admit they've "gone rogue" before—meaning they've bought something without getting proper approval. You can't lower your expenses if you don't know who's buying what.



High prices.

When you aren't proactively managing procurement, odds are that you're paying too much for supplies and other materials. Money's left on the table.



Slow requisition.

Companies that haven't updated their procurement processes in several years can't move as quickly as their competitors. They are unable to take advantage of spontaneous opportunities.





Decreased engagement.

Employees—and top talent in particular—like using the latest tools and technologies on the market. It makes their jobs easier and helps them develop new skills. When your company does things “the old way,” you won’t exactly inspire your employees to reach their full potential.



Cash flow problems.

When organizations can’t easily tell when payments are due and have a hard time figuring out which payment discounts are available to them, they’re likelier to miss out on cost savings and lose access to working capital.

The good news is that companies can overcome these challenges by developing a modern procurement process and working hard to advance it as much as they possibly can.



Inventory issues.

Relying on an old procurement system makes it that much harder to keep track of how many supplies are in stock. This could either lead to shortages or oversupply—both of which are bad for business.

In the pages that follow, we’ll explore the different levels of procurement maturity, how to figure out where your company stands, what you can do to take your program to the next level, and what kind of returns you should expect to see from these efforts.

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Procurement Maturity Level 0: Nonexistent

If your company doesn't have much of a procurement program to begin with—or you don't have one at all—your maturity level is nonexistent. Companies here typically spend less than \$200,000 each year on indirect spending and employ 20 or fewer people.

Generally speaking, the CEO or another executive oversees each and every purchase, and he or she doesn't consider a budget before making a decision. Instead, he or she buys things as needs materialize. Approvals are either nonexistent or occur on an ad hoc basis. When they are obtained, it usually happens after a transaction is already finalized.

Companies at this level don't capture purchase information before they manually enter it into their enterprise resource planning (ERP) system. Not only does this approach expose companies to human error, but it also decreases productivity and makes it nearly impossible to get the best pricing available.

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Procurement Maturity Level 1: Emerging

Companies that have invested some resources in developing and advancing their procurement process can be said to have an emerging level of maturity.

Here, there is some reduction in rogue or unapproved spending as more and more employees become familiar with formal approval processes. Typically, companies at this level still rely on a paper-based procurement system, though some may be using spreadsheets (e.g., via Excel) or their own homegrown system (e.g., via SharePoint).

At the emerging level, organizations lack visibility into their spend. For the most part, they simply do not adhere to budgetary constraints. Instead of using data to ensure they're getting the most competitive prices, purchasing managers operating at this level informally push spend to their preferred vendors—which may or may not be what's best for the company.

Typically, companies at this level employ anywhere between 20 and 50 people; indirect spending accounts for \$1 million to \$2 million each year.



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Procurement Maturity Level 2: Evolving

At this stage of maturity, companies have begun to see some of the positive ROI that comes from optimizing and streamlining procurement.

To benefit even further, they've invested in a modern e-procurement solution that enables them to use new and emerging technology to accelerate the requisition process through automation.

Companies here have begun formally adopting best practices for purchasing and procurement. They've developed multiple approval paths based on purchase size, the role it plays in the organization, and budgetary considerations. Routine purchases—like printer ink or computer paper—have been optimized and no longer require the signoff of several individuals.


At this level, the main focus is on control (e.g., eliminating rogue spending and fraud) and increasing efficiency (e.g., turning around orders faster).

While this is certainly an improvement, companies that have evolving

procurement programs could automate purchasing even further. They could also benefit from optimizing spend even more and trying to get the best prices from each supplier.

But they can't do either of these until they advance their procurement program once again.

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Procurement Maturity Level 3: Maturing

After investing adequate resources into their procurement optimization efforts, companies at this level have finally started to realize some serious benefits. They're utilizing automation and have begun to optimize spend management. Their work is not done quite yet. But they're better off than many of their competitors.

Organizations with mature procurement programs enjoy the automatic pushing and pulling of information from their ERP systems. Not only does this reduce the likelihood that an employee enters the wrong data, while eliminating the possibility that there are duplicative entries, but it also frees up more time that can then be invested in other mission-critical areas of operations.

Here, budgets, inventory control, and invoice automation are beginning to take hold. Spend is automatically assigned to projects and departments, so analysts have an easier time studying the effectiveness of their company's procurement investments.

Companies with mature procurement programs may integrate product catalogs and punchout vendors. While they haven't fully optimized pricing, they are beginning to adhere to contract terms and prenegotiated prices to make sure they are getting the best deals and taking advantage of payment discounts.

Thanks to automation and efficiency, companies here are able to reduce or reallocate headcount, because technology makes the entire process move faster. This enables organizations to rapidly scale operations as they become more agile and more competitive.

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Procurement Maturity Level 4: Optimizing

After spending a lot of time getting their procurement house in order and optimizing the purchasing process as much as they can, organizations reach the final level of procurement maturity: optimizing.

Instead of being focused on one or two aspects of procurement, they can invest all of their energies on optimizing their spending. For example, companies at this level are extremely focused on making sure every provision in a contract is enforced and that they are paying exactly what they agreed to pay—not a penny more.

Companies with mature procurement programs use spend analytics that provide insight into spend by category, department, vendor, and more, which enables them to track the key performance indicators necessary to optimize purchasing even more. This enables them to make informed contract decisions and see, very clearly, which areas or categories need some extra attention, as well as which ones are most efficient.

From a buyer's perspective, shopping for services, materials, and supplies provides an “Amazon-like” shopping experience; it's very easy to see which items are available, who's selling them, and who has the best prices. Buyers are also able to take advantage of a supplier portal to facilitate e-invoicing transactions and can easily identify opportunities for prepayment discounts. Altogether, these functionalities enable teams to thoroughly optimize working capital decisions, freeing up cash flow necessary to sustain growth.

Not every business needs to reach Level 4 maturity, and in some cases, it wouldn't be helpful to do so. Organizations getting the maximum benefit from Level 4 maturity programs are typically very mature. They tend to employ at least 2,000 people and spend upward of \$50 million on purchasing each year.

How Mature Is Your Company's Procurement Program?

Now that you're familiar with what each level of procurement maturity looks like, it's time to figure out where your company stands.

To do that, you'll need to:

Gauge the level of maverick spending.

By one estimate, [maverick spending](#) accounts for 2 percent of your organization's total indirect spend. That doesn't sound too bad on the surface. But what happens when you are spending \$500 million or \$1 billion each year? The more insight you have into rogue spending, the more mature your program is. Visibility is important because a [5 percent to 10 percent reduction in maverick spending](#) can translate into millions of dollars in savings.

Examine procurement processes to see if they're fluid.

Does each department approach procurement the same way? Or do some ad hoc processes drive your purchasing? The more fluid your processes are, the more optimized your purchasing department will be.



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See how much fraud is occurring.

Nearly [41 percent of purchasing managers](#) believe that fraud is a major problem at their organizations. If you're not able to figure out if your company is affected by fraudulent purchases, you need to improve your procurement program. It's that simple.

Analyze all of your vendor relationships.

Are you getting the best deals possible? Are you taking advantage of every purchase discount available to you? Do you give suppliers enough business to encourage them to offer you competitive prices? Or are you spreading your money around to so many vendors that you don't have leverage over any particular vendors? The answers to these questions should help you determine how advanced your procurement program is.

Measure how quickly your requisition process is.

According to one study, the strongest organizations are able to complete the purchasing process in [five hours](#)—just a little more than half of a business day. On the other side of the coin, the slowest-moving organizations require nearly two business days to submit purchase orders. Grade your company along that metric to determine your program's maturity.

Quiz your employees to see how educated they are.

If your employees aren't keenly aware of what's expected of them, your procurement program has a long way to go. The more educated your employees are, the easier it will be to optimize spend.

Ask your employees to grade their procurement managers.

Do the workers in your procurement department believe their bosses are working hard to optimize spend? Or are they saying one thing and doing another? If your employees collectively agree that a purchasing manager isn't holding up his or her end of the bargain, it may be time to intervene.



Solicit other ideas and feedback.

Your employees are your company's strongest assets. Reach out to them to see if they have any additional ideas on how to improve your purchasing process. Chances are, there will be at least a few good ideas that materialize—which will indicate your program can still be advanced at least a bit.

After you've assessed the maturity of your procurement program and discovered that you're not quite as advanced as you initially believed, it's time to make some moves to strengthen your company's approach to purchasing—thereby increasing your organization's effectiveness and competitive advantage.

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How to Advance Your Procurement Program

From investing in technology to developing new procurement processes to having the right people on the team, there are a number of ways you can improve and advance your procurement department:

Hire the right people.

Optimizing your procurement department starts with having the right human capital in place. But your job doesn't stop once you've assembled a team. You need to thoroughly train these people so that they know precisely what's expected of them. You also need to make sure they understand all relevant policies and know how to use the tools they need to do their jobs well.

Invest in a modern e-procurement solution.

Your company will simply not be able to keep up with competitors if you are still relying on an outdated procurement system (e.g., one that's paper-based). By investing in a modern e-procurement solution, you can streamline your approach to purchasing considerably. Not only does such technology give you much more visibility into your spend, but it also enables you to accelerate the requisition process and use automation to reclaim time.

Automate as much as you can.

Speaking of automation, you should look to automate as many purchase-related processes as you can. For example, companies that rely on paper-based procurement systems can spend up to \$60 to process a single invoice. Organizations that automate invoice processing, on the other hand, can do the same for as little as \$3. Multiply that savings across the organization and you can quickly see how beneficial automation can be.



Streamline approvals where possible.

If, for example, your company requires three managers to sign off on every purchase—even the routine ones—you’re being wasteful. Look to streamline approvals whenever you can. Big-ticket items likely need some oversight. But your run-of-the-mill purchases don’t need to be signed off on by several people.

Communicate early and often.

You won’t reach your goals if you are unable to get your team to buy into what you’re trying to do. To this end, it is essential that you clearly articulate goals, update processes and policies, and make any other changes to requisition. This way, your employees will know what’s expected—which sure beats being left in the dark.

Now that you understand the importance of having a mature procurement program and what you can do to advance your company’s purchasing efforts, let’s look at what benefits, specifically, you can expect to enjoy when all is said and done.



The ROI You'll Enjoy From a Mature Procurement Program

What can you expect to see from having a mature procurement program in place?



Better contract compliance.

Before a mature procurement program is in place, companies can expect 50 percent contract compliance. Once a purchasing program is mature, that number jumps up to 70 percent to 90 percent.



Reduced AP headcount.

With a mature program in place, your company moves from manually approving invoices to having 70 percent to 90 percent of the process automated. This enables you to reallocate employees to other areas of your business that need more resources.



More effective spend.

Prior to having a mature procurement approach, 60 percent of a company's overall spend would be within budget. Once a mature program is in place, 80 percent to 95 percent of a company's spend is within budget.



More payment discounts.

A mature procurement program also enables you to double or even triple the payment discounts you're able to take advantage of, moving from 0.5 percent to a range of 1 percent to 1.75 percent. Depending on the size of your organization, those numbers can add up quickly.



Improve requisitioner productivity.

Watch your negative net promoter score become positive. You should be able to achieve an NPS in the 0-to-30 range.



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More working capital.

With an advanced procurement program in place, you are able to save a ton of money. Not only can you reduce or even eliminate maverick spend and fraudulent purchases, but you can also get more control over inventory levels. Nonexistent procurement programs can result in millions of dollars tied up in unnecessary inventory. On the other end of the spectrum, a mature program can lead to an 80 percent reduction in inventory.



A faster company.

The more advanced your procurement program is, the quicker your company can adapt to changes in the marketplace. This enables you to pivot faster while driving competitive advantage and accelerating innovation.





The benefits of advancing your company's procurement program speak for themselves.

Now it's time to make the business case and sell your CFO or controller on the importance of optimizing your procurement department—as well as how critical it is to invest in the modern tools necessary to make that happen.

With the right policies, people, and e-procurement tools in place, your company can move that much closer to developing a fully mature purchasing program.

Once you've finally arrived, you'll become a much more nimble company that's positioned to deliver even more value to your customers.

And the best part? Your competition won't be able to keep pace.

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