Assessment of Excellence in Procurement (AEP)

Top takeaways for 2020
Kearney’s AEP is the most globally recognized approach for procurement organizations to compare and improve their capabilities

Depth of insights

More than 2,500 companies have participated in our AEP series—many multiple times.

The leaders emerged stronger from the pandemic

The COVID-19 pandemic has tested every organization. The leaders were able to capitalize on their advantages—using the crisis to engage more deeply with stakeholders, challenge their requirements, protect the weak links in their supply chains, and maintain the productivity and comradery of their teams.

They quickly shifted from defense to offense and are doubling down on their strategic goals.

Scope of the research

Our 2020 study encompasses more than 260 companies across a range of geographies and industries.

Benchmark participants by region

Benchmark participants by industry group

Source: Kearney Assessment of Excellence in Procurement Study
In the wake of the pandemic, procurement has a key role to play to support strategic objectives

**Fragile supply chains**

Context:
- Shifting tariff policies, political climate, pandemic-driven shortages, supplier solvency

Implications for procurement:
- Focus on resiliency, alternative supply sources, managing tension between cost and risk

**Shift toward “purpose”**

Context:
- As in prior crisis, consumers (and employees) expected to become even more purpose-driven

Implications for procurement:
- Heightened focus on sustainability and diversity and inclusion

**Shifting balance of power**

Context:
- Growing reliance on mega-suppliers with fewer alternatives
- Consolidation across value chain due to M&A

Implications for procurement:
- Supply base aligned with strategic ambitions
- SRM growing driver of enterprise value (total cost, risk, CSR, growth)

**A scramble to accelerate value**

Context:
- Recovery and growth top of mind
- High investment needs on top of high debt levels requiring focus on cash

Implications for procurement:
- Source of fuel to grow by accelerating benefits
- Re-examination of portfolio, teardowns, platforming, complexity reduction

**Cultural change**

Context:
- Mixed cross-business unit collaboration challenging speed of innovation
- Work-from-home/virtual environment requiring new way of working

Implications for procurement:
- Nimble, cross-functional teams
- Digital acceleration
- Culture shift toward a more collaborative, agile, strategic business partner
The leaders are making a full range of contributions to both the top and bottom line of their companies.

Is procurement a key driver of your business strategies?

“We’re learning we have single points of failure three to four levels down and must go deeper to understand risk better.”

– VP of a global tech company

“Our focus is sustaining the energy behind D&I efforts beyond these past few weeks. Addressing racial inequality is a marathon, not a sprint, and it requires time and widespread input to develop and implement.”

– CPO of a global health company

Note: D&I is diversity and inclusion.
Source: Kearney Assessment of Excellence in Procurement Study
If your procurement organization is up to par, you’re leaving a wealth of value on the table—resources you could use to fuel a recovery.

Externally procured spending is the biggest portion of the value chain.

*Manufacturing (average) 50%*

*Services (average) 30%*

Top-quartile procurement organizations generate a 2–3X higher Return on Supply Management Assets (ROSMA).*

“Our priorities were threefold: stay in front of supply continuity and accelerate qualification times in areas where we were single-sourced; protect productivity and improve on it, going to suppliers with a win–win proposal as we consolidate our supply base a bit; and rethink our global category strategies in terms of risk competitiveness.”

– CPO of a major chemicals company

“Hard” savings and benefits on investment in procurement:

- Top quartile: 10+
- Middle 50%: 4–5x
- Bottom 25%: At or below 1

Source: Kearney Assessment of Excellence in Procurement Study
Procurement organizations that qualify as leaders in delivering real value are a rare breed—less than 10% of our sample.

How does your procurement organization compare with our global sample?

Procurement competency continuum 2020 benchmark data

- **Leaders** (7%): Exhibit clear and sustained excellence in team, category, and supplier management, true business partner to the stakeholders and driving value in cost and beyond
- **Aspirants** (8%): Solid results and making significant strides toward becoming leaders
- **The Pack** (50%): Adding value but not transforming fast enough
- **Strugglers** (35%): Primarily transactional focus, often barely covering their costs or fail to do so in a sustainable manner

Note: Leaders average score in team, category, and supplier capabilities compared with the average scores of Strugglers, The Pack, and Aspirants.

Source: Kearney Assessment of Excellence in Procurement Study
These few leaders focus much more of their efforts on strategic activities.

Have you challenged procurement to be more strategic?

**Balance of workload in procurement**

<table>
<thead>
<tr>
<th>Workload</th>
<th>Leaders (%)</th>
<th>All others (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>(60–70%)</td>
<td></td>
</tr>
<tr>
<td>Enabling</td>
<td>(10–15%)</td>
<td></td>
</tr>
<tr>
<td>Transactional</td>
<td>(20–35%)</td>
<td>(35–45%)</td>
</tr>
</tbody>
</table>

**Strategic procurement.**

Procurement strategy development, stakeholder management, Strategic sourcing, category strategy and category management, demand management, complexity management, value engineering, supplier segmentation and relationship management and development, supply risk management, annual budgeting.

**Enabling procurement.**

Benefits pipeline management, performance management, spend and sourcing analytics, data science, contract management, supplier performance management, business intelligence, procurement technology management, recruiting, talent development.

**Transactional procurement.**

Spot buying, requisition to order, order to pay, catalogue management, internal compliance management, master data management.

---

Note: Based on AEP average data ranges from AEP 2019 and 2020 data sets
Source: Kearney Assessment of Excellence in Procurement Study
Top performers combine team, category, and supplier excellence across the E2E value chain to optimize what we call third-party economics.

### Excellence in third-party economics

<table>
<thead>
<tr>
<th>Category</th>
<th>How leaders stack up vs. all others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Team excellence</strong></td>
<td>2x more likely to have full CFO support</td>
</tr>
<tr>
<td></td>
<td>3x more likely to have clear talent strategy</td>
</tr>
<tr>
<td></td>
<td>2x more likely to have digital road map</td>
</tr>
<tr>
<td></td>
<td>3x more likely to have P2P in a shared service center</td>
</tr>
<tr>
<td><strong>Category excellence</strong></td>
<td>2.5x more likely to have long-term category strategies</td>
</tr>
<tr>
<td></td>
<td>2x as many strategic levers pulled</td>
</tr>
<tr>
<td><strong>Supplier excellence</strong></td>
<td>2x more levers pulled to seek joint advantage with key strategic suppliers</td>
</tr>
<tr>
<td></td>
<td>4x more likely to have formal SRM program with key strategic suppliers</td>
</tr>
<tr>
<td></td>
<td>7x more likely to have cross-functional SRM governance</td>
</tr>
</tbody>
</table>

Does your procurement organization clearly exhibit all of these strengths?

---

Note: E2E is end-to-end; SRM is supplier relationship management; CFO is chief financial officer; P2P is procure to pay.
Source: Kearney Assessment of Excellence in Procurement Study
# Being great begins with key shifts in your company’s procurement culture

<table>
<thead>
<tr>
<th>Focus</th>
<th>Yesterday</th>
<th>Tomorrow</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td>Buyer</td>
<td>Total third-party economics value generators</td>
</tr>
<tr>
<td><strong>Category coverage</strong></td>
<td>Category experts</td>
<td>Cross-category solution developers</td>
</tr>
<tr>
<td><strong>Analytics</strong></td>
<td>Analysts with ad-hoc or reactive skills</td>
<td>Strategists driving predictive insights</td>
</tr>
<tr>
<td><strong>Vendor interaction</strong></td>
<td>Supplier managers</td>
<td>Cross-value chain orchestrators</td>
</tr>
<tr>
<td><strong>Targets</strong></td>
<td>Driven by savings goals and continuity of supply</td>
<td>Managing balanced scorecards</td>
</tr>
<tr>
<td><strong>Stakeholder interaction</strong></td>
<td>Transactional relationships</td>
<td>Collaborative partnerships</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Corporate office</td>
<td>Anywhere</td>
</tr>
</tbody>
</table>

Is your procurement vision anticipating these shifts?

Source: Kearney Assessment of Excellence in Procurement Study
An assessment of your return on investment of your procurement assets, which communicates the financial value delivered by your procurement organization in a CFO-friendly manner.

A customized benchmark report showing how your organization’s capabilities compare with other companies around the world across three pillars of excellence in supply management – team, category management and supplier management.

A summary of leading practices in procurement. The pandemic has tested procurement, and we see a widening gap between top performers and all others across all three pillars of excellence - team, category and supplier management.

The Assessment of Excellence in Procurement (AEP) is the most globally recognized approach for companies with revenues of more than $2 billion to benchmark and improve their procurement capabilities.

By investing 45 minutes of your time, you will receive the following tailored insights:

Your individual responses and results will be confidential.

Interested in participating?
Contact the AEP team at AEPStudy@kearney.com.
Thank you

Mike Hales
Partner, Chicago
mike.hales@kearney.com

Yves Thill
Partner, Atlanta
yves.thill@kearney.com

John Fiorentino
Partner, New York
john.fiorentino@kearney.com

Sonali Agarwal
Director, New York
sonali.agarwal@kearney.com

This document is exclusively intended for selected client employees. Distribution, quotations and duplications – even in the form of extracts – for third parties is only permitted upon prior written consent of Kearney.

Kearney used the text and charts compiled in this report in a presentation; they do not represent a complete documentation of the presentation.