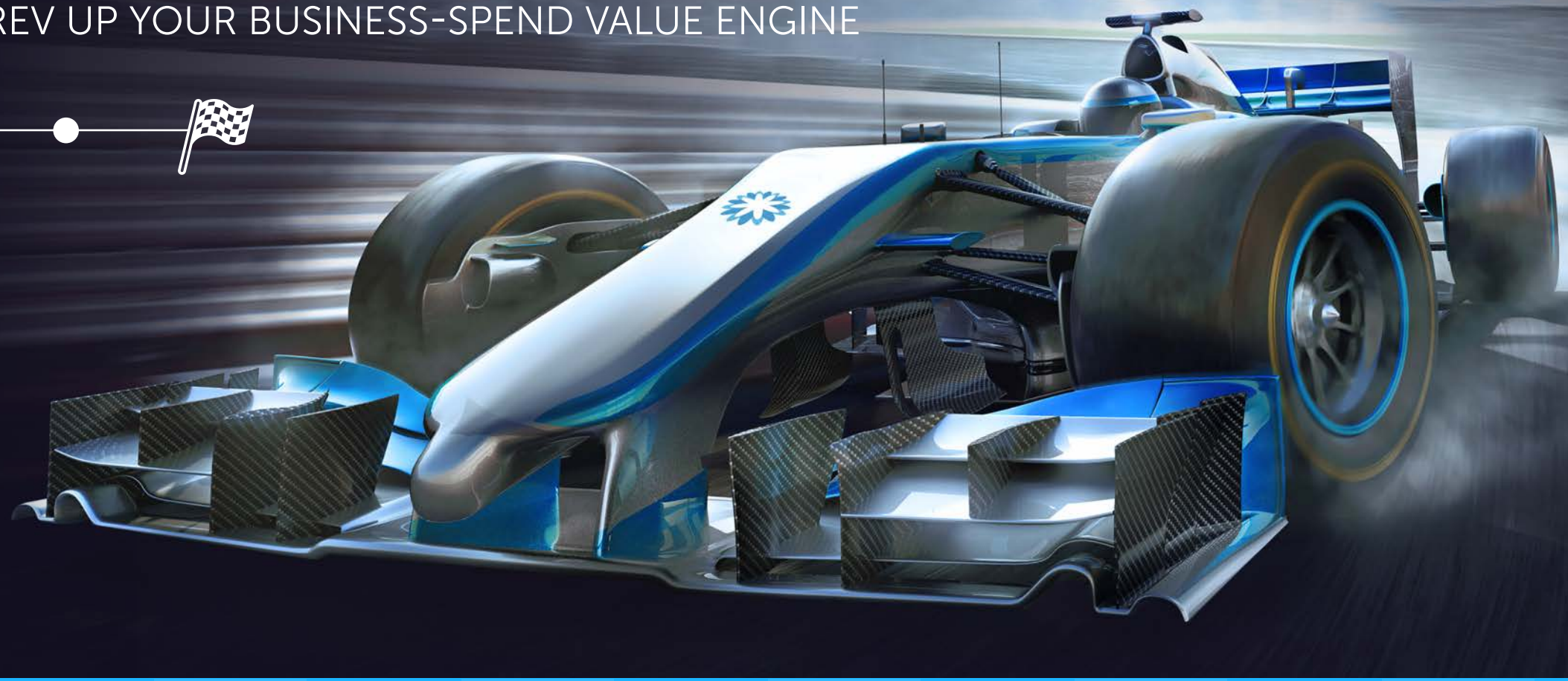
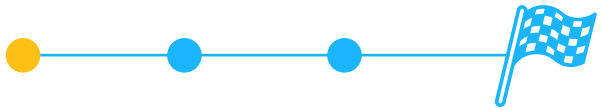
THE FOUR STAGES OF PROCUREMENT MATURITY

HOW TO REV UP YOUR BUSINESS-SPEND VALUE ENGINE





Introduction

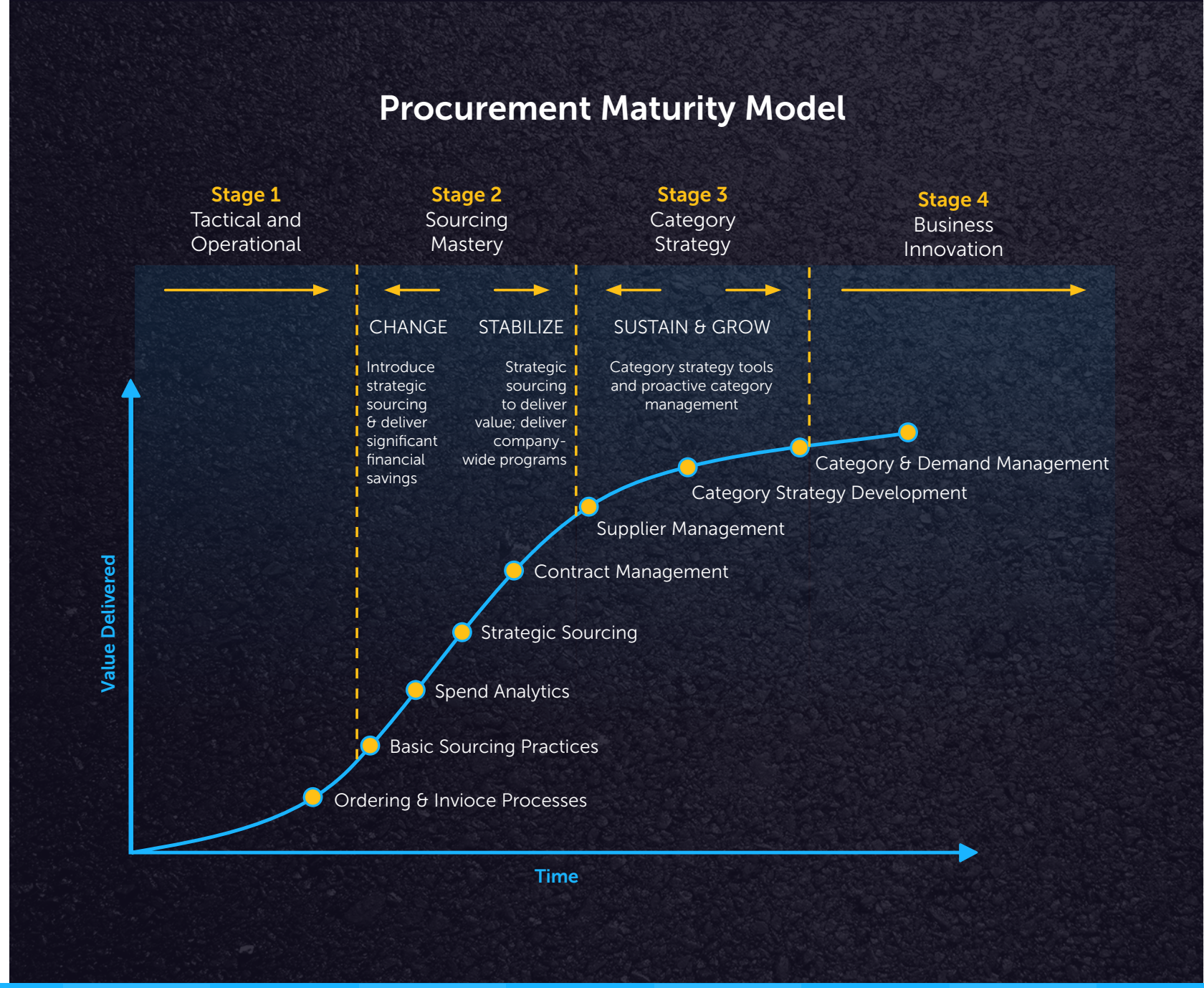
Every business must purchase goods and services to operate, and each purchase a business makes provides an opportunity to add value. As an organization grows and matures, the race to increase value through balancing the organization's people, processes, and technologies requires deft maneuvering and skillful navigation.

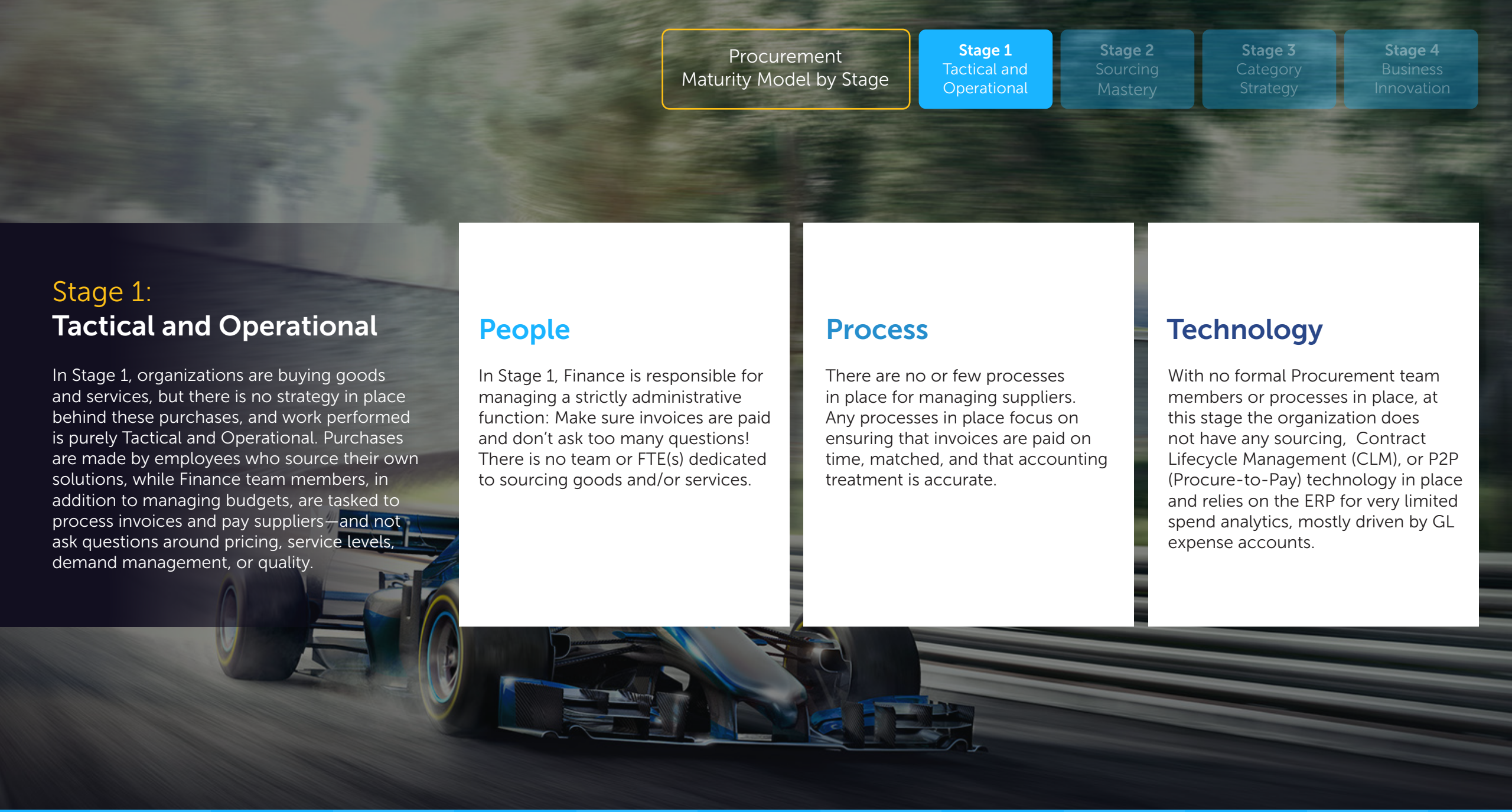
This report details a Procurement Organization Maturity Model to help you understand where your organization stands today, how to measure value at that stage, and when to plan for moving to higher stages towards best-in-class—to spend smarter by tapping into the power of advanced negotiation and "community intelligence" to drive business innovation.

Advancing Your Procurement Maturity

Success in developing the Procurement organization is achieved by refining three key elements: the people, the processes they use, and the technology that supports them. Moving to the higher stages of the Maturity Model lets the Procurement organization manage more spend and optimize the way that the company purchases goods and services, delivering results straight to the bottom line.

While some organizations are ready to move to higher levels of maturity, moving from Stage 1 to Stage 2 may be the right objective for a smaller organization with limited spend. A company gains significant value over time by moving the Procurement organization toward best-in-class (Stage 4.)





Stage 1:
Tactical and Operational

In Stage 1, organizations are buying goods and services, but there is no strategy in place behind these purchases, and work performed is purely Tactical and Operational. Purchases are made by employees who source their own solutions, while Finance team members, in addition to managing budgets, are tasked to process invoices and pay suppliers—and not ask questions around pricing, service levels, demand management, or quality.

People

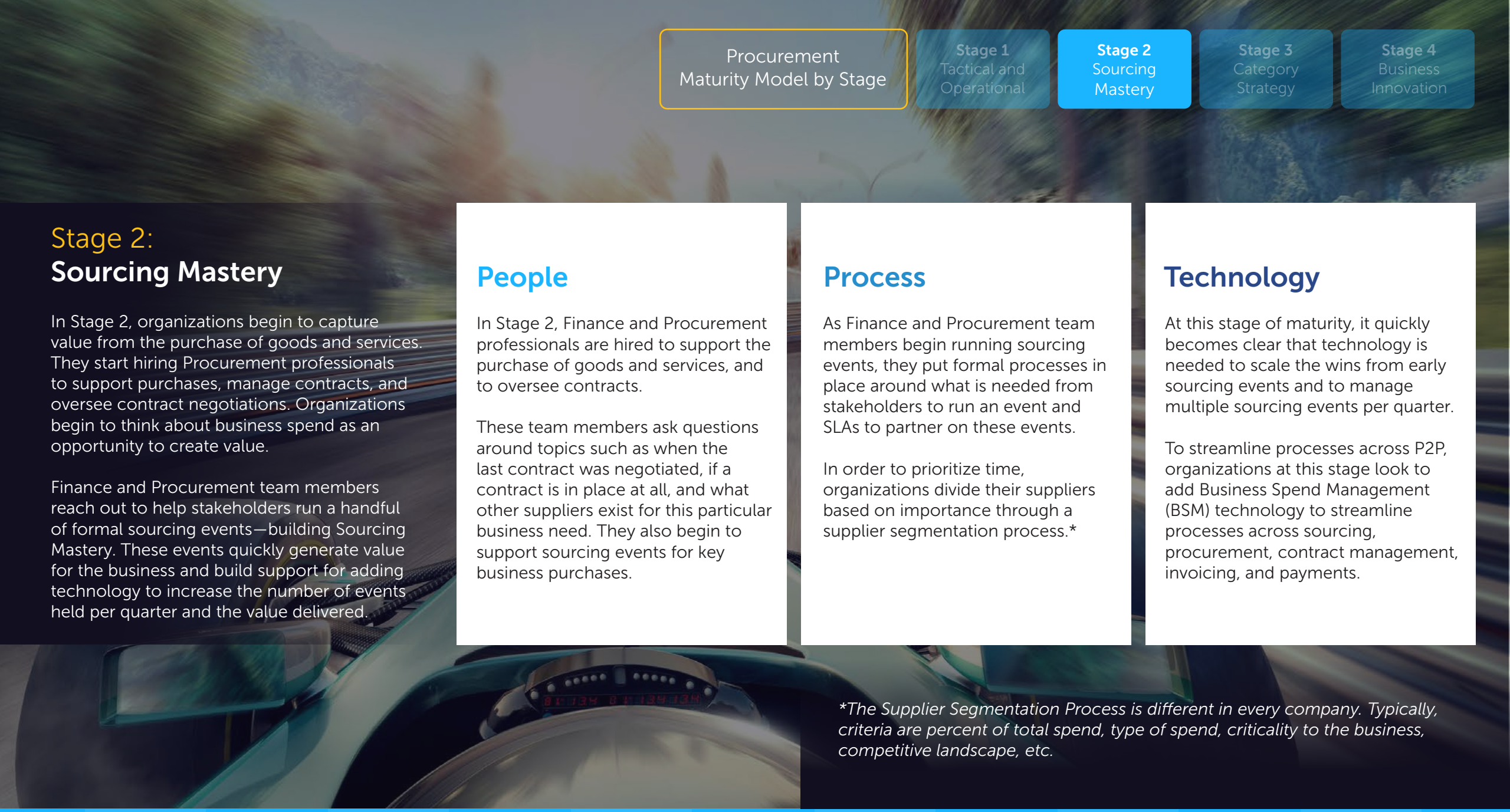
In Stage 1, Finance is responsible for managing a strictly administrative function: Make sure invoices are paid and don't ask too many questions! There is no team or FTE(s) dedicated to sourcing goods and/or services.

Process

There are no or few processes in place for managing suppliers. Any processes in place focus on ensuring that invoices are paid on time, matched, and that accounting treatment is accurate.

Technology

With no formal Procurement team members or processes in place, at this stage the organization does not have any sourcing, Contract Lifecycle Management (CLM), or P2P (Procure-to-Pay) technology in place and relies on the ERP for very limited spend analytics, mostly driven by GL expense accounts.



Procurement Maturity Model by Stage

Stage 1 Tactical and Operational | **Stage 2 Sourcing Mastery** | Stage 3 Category Strategy | Stage 4 Business Innovation

Stage 2:
Sourcing Mastery

In Stage 2, organizations begin to capture value from the purchase of goods and services. They start hiring Procurement professionals to support purchases, manage contracts, and oversee contract negotiations. Organizations begin to think about business spend as an opportunity to create value.

Finance and Procurement team members reach out to help stakeholders run a handful of formal sourcing events—building Sourcing Mastery. These events quickly generate value for the business and build support for adding technology to increase the number of events held per quarter and the value delivered.

People

In Stage 2, Finance and Procurement professionals are hired to support the purchase of goods and services, and to oversee contracts.

These team members ask questions around topics such as when the last contract was negotiated, if a contract is in place at all, and what other suppliers exist for this particular business need. They also begin to support sourcing events for key business purchases.

Process

As Finance and Procurement team members begin running sourcing events, they put formal processes in place around what is needed from stakeholders to run an event and SLAs to partner on these events.

In order to prioritize time, organizations divide their suppliers based on importance through a supplier segmentation process.*

Technology

At this stage of maturity, it quickly becomes clear that technology is needed to scale the wins from early sourcing events and to manage multiple sourcing events per quarter.

To streamline processes across P2P, organizations at this stage look to add Business Spend Management (BSM) technology to streamline processes across sourcing, procurement, contract management, invoicing, and payments.

**The Supplier Segmentation Process is different in every company. Typically, criteria are percent of total spend, type of spend, criticality to the business, competitive landscape, etc.*

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Stage 3: Category Strategy

In Stage 3, with more advanced resources and capabilities for procurement and sourcing processes, organizations can add additional value by focusing on Category Strategy.

The value that category managers provide at this stage can be limited by the technology available to support scaling. Lack of or limited technology can impede not only the number of events run, but also the scenarios that can be modeled to achieve the best results for the business, as well as the analytical capabilities to provide multiple award scenarios to the business based on facts and data.

People

In Stage 3, Professionals are are hired to focus on specific spend categories. This enables the Sourcing organization to be a true partner to the business by delivering value beyond savings and supporting a focus on value, total cost of ownership, spec rationalization, should-cost modeling, and fact-based decision making. This drives incremental value and allows Procurement to secure a seat at the executive table. Procurement is seen as a strategic asset across the organization.

Process

Sourcing processes are defined with a clear ownership model (Responsible, Accountable, Consulted, Informed—also known as RACI). Many organizations use a 5- or 7-step model (see next page), which enables them to achieve maximum value from category management. As true partners to the business, Sourcing leaders run quarterly business reviews to measure supplier performance and identify opportunities for continued value creation.

Technology

Strategic sourcing technology should be considered at this stage to help category managers quickly increase the value of the Procurement organization to the business, and provide transparency and optionality when it comes to award scenarios, using various constraints. At this stage, Procurement is equipped with advanced sourcing capabilities, allowing for multi-factor award scenarios, expressive bidding, and business constraints.

At this stage, it is important to invest in BSM technology, managing all spend in one platform to understand that spend and determine where to focus—for example, where there is leakage and what contracts are up for renewal. "community intelligence" data available in best-in-class BSM technology is highly valuable at this stage, enabling Procurement and Sourcing leaders to identify opportunities and areas of risk at scale.

Stage 4:
Business Innovation

In Stage 4, organizations have captured the maximum amount of value from each category. Procurement and Sourcing leaders are working closely as partners within the organization, helping stakeholders not only get the most value out of their purchases and ongoing supplier relationships, but also identify opportunities to drive business innovation in partnership with suppliers.

People

In Stage 4, the Sourcing organization includes category managers who understand the pain points of their business partners, as well as best practices for their categories. The strongest Sourcing professionals at this stage define and manage the sophisticated planning processes required to support business innovation. They identify possible supply chain constraints and innovation opportunities while supporting mid- and long-term goals.

Process

Sourcing leaders partner with stakeholders to review three to five year strategic plans and research ways to support business goals with existing and new supplier relationships. Quarterly QBRs may include a review of a supplier's roadmap and negotiation to obtain early (and possibly exclusive) access to new products, features, and/or services, to help the business get a competitive advantage, attract new business, and/or explore new markets.

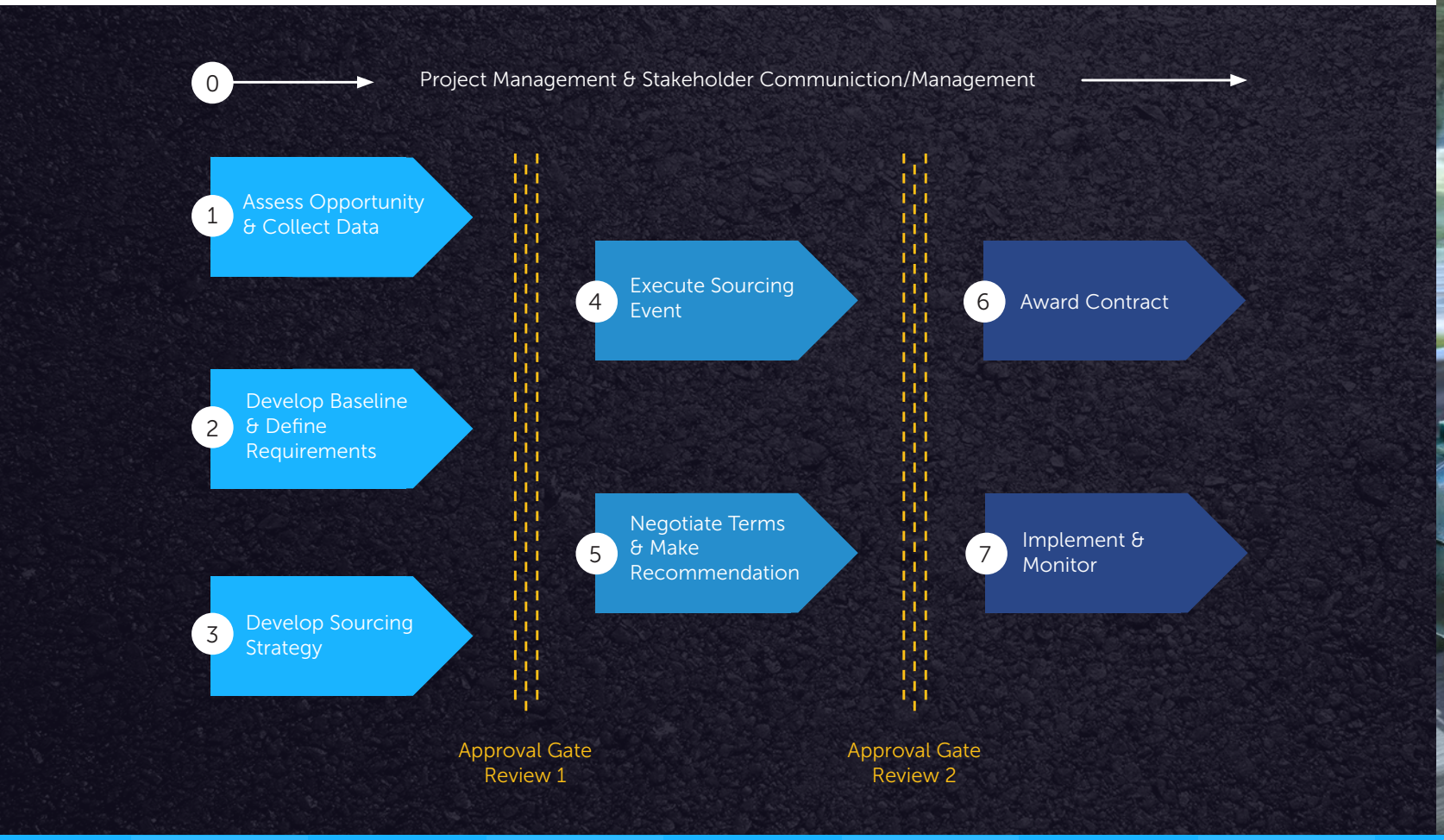
Technology

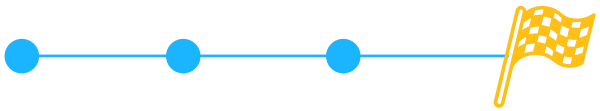
Best-in-class Procurement organizations have all of their spend flowing through one BSM platform that manages all spend and spend processes—including sourcing, procurement, invoicing, contracts, risk management, payments, and expenses—in one place. It also taps into the power of "community intelligence" data, enabling organizations to spend smarter, benchmark performance, access supplier insights, and optimize all aspects of spend.

Best-in-class Procurement organizations are not only selecting the best goods and services for their businesses while mitigating risk; they have also developed a true partnership with business stakeholders, understand their strategic objectives, and are key in driving business innovation.

7-Step Strategic Sourcing Process to Maximize Value

At Stage 3 maturity and higher, organizations implement the full 7-stage strategic sourcing process. Those in Stage 2 can focus on formalizing this process around steps 3 through 5 to add value to their organization.





Achieve Procurement Victory at Every Stage

The three elements of Procurement–people, process, and technology–are all essential to pursuing advanced Procurement maturity. And they are interdependent.

Moving the organization to the second stage of maturity and beyond requires a solid technology base to support the organization's people and processes. Managing change both within the Procurement team and across the organization can be challenging. But the investment is well worth it. See our Sourcing Value Report to determine the potential value of strategic sourcing technology.

With a solid technology base, people can spend more time on higher value aspects of strategic sourcing, manage more spend, and optimize the way the company purchases goods and services–maximizing value and driving innovation across the organization.

Learn more about how to drive value with strategic sourcing in our report:

Sourcing in the Fast Lane:
Driving Value with Strategic Sourcing

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