

An aerial photograph of a speedboat moving across the ocean, leaving a long, white wake behind it. The boat is positioned in the upper right quadrant of the frame. The water is a deep blue-grey color. Two vertical yellow bars are positioned on either side of the main title text.

White paper

Building the CPO's Business Case for Speed

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Speed: Critically Important, Difficult to Achieve

Several factors make speed a top priority among chief procurement officers (CPOs).

First, a strong economy encourages business partners to push more buys through procurement, stressing resources. Second, a “winner-takes-all” mentality drives business partners to demand new and more complex purchases to get to market faster. Third, business and risk assurance partners exert more control over sourcing to slow down buys to meet their needs.

Combined, these factors make buying faster, without losing too much value, increasingly challenging. It is critical that CPOs address the issue of speed as failure to do so can have significant consequences, both economic for the company, and reputational for the function.

In all, most CPOs (58%) believe they must reduce procurement’s execution drag within the next year and, on average, rate the urgency and impact of the speed issue an 8 on a scale of 1 to 10.

Root-Causing Procurement Drag

CPOs prioritize cost reduction, risk management and innovation/new product development to achieve business growth. However, these three priorities create tension with the business's desire for speed.

Unrealistic deadlines articulated by the business push procurement to routinely forego cost savings in the name of speed.

Similarly, procurement regularly compromises its ability to mitigate risk when pressured for time.

Trading off a good price, better supplier performance and minimal risk becomes even more likely in innovation and new product development projects where procurement experiences intense pressure to not delay the business from capturing a new growth opportunity.

Sources of Procurement Drag

CPOs consistently cite the same sources of procurement drag:

- Unclear business problem definition
- Complicated contracting and negotiation of terms and conditions
- Cumbersome technology systems and new risk assurance steps

Problem 1: Business problem definition

Historically, delays in gathering business requirements occur because business partners do not know what they need. Therefore, either procurement must take time to identify the appropriate requirements, or business partners provide procurement with improper requirements, which category or sourcing managers must then spend time reworking. Even worse, business partners often change requirements midbuy, effectively throwing away days, weeks or months of work.

This frustration with business partners' inability to identify, let alone settle on, buy requirements is widespread and is symptomatic of poor coordination between the different stakeholders involved in a buy.

Problem 2: Contracting and negotiation

Contracting frequently causes delays while procurement works to reconcile the terms and conditions. If the supplier is able and willing to accept procurement's contract on the company's standard terms and conditions, then contracting is a fairly straightforward process. However, once negotiation on terms and conditions begins the buy is at risk of significant delays. One CPO told us redlining the contract could double the buy time. With an estimated 25% of suppliers rejecting the company's standard contract, it is a significant bottleneck for the function.

Problem 3: Technology and risk assurance

Drag caused by unclear business problem definition and complicated contracting and negotiation is worsened by cumbersome technology and new risk assurance steps.

Procurement technology cannot provide the spend data, supplier information, and contract visibility staff need. Consequently, staff exert more manual effort than necessary to prepare for cost analysis, supplier evaluations and negotiations.

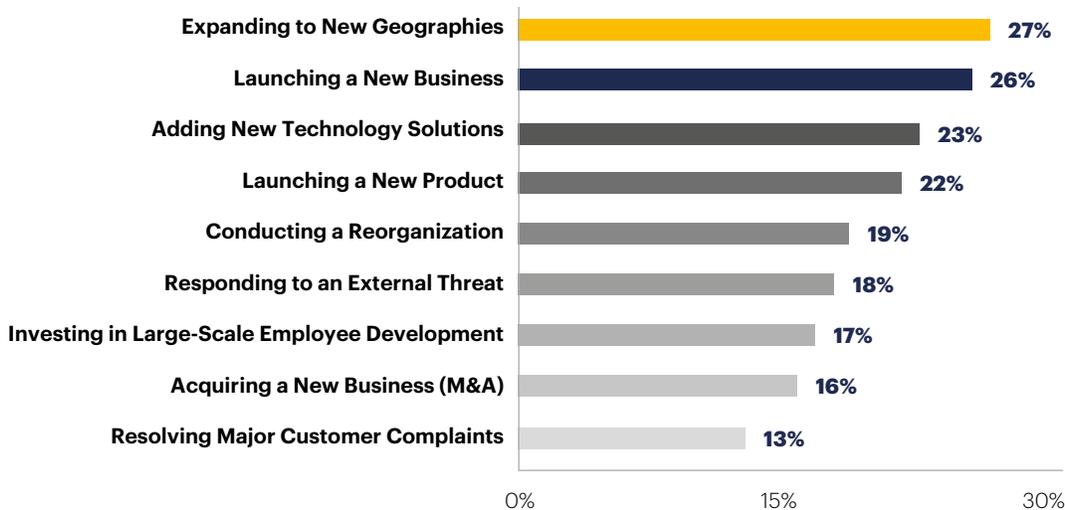
Furthermore, today's new risk assurance terms and conditions make a complex negotiation process even more challenging. For example, one financial services company requires suppliers with access to certain client data to fill out a 250-question information security questionnaire.

The Costs of Procurement Drag

CPOs estimate the potential lost savings of procurement drag at 1% to 2% of total spend. But the economic costs reach well beyond procurement's functional domain. Procurement drag prevents the function from enabling the business in critical revenue generation activities like expansion into new geographies and new business and product launches. It also impacts critical enterprise operations such as adding new technology solutions and responding to external threats (see Figure 1). Such drag could cause up to \$3.1 million in delayed or foregone revenue when launching a new product.

Figure 1: Procurement Drag on Large Firm Investments

Speed of procurement support, by initiative type
Percentage of respondents reporting task execution takes more time than appropriate



n = 1,002 staff
Source: Gartner

What's more, by negatively impacting initiatives critical to business growth, procurement drag damages the function's status as a trusted partner to the business. One financial services CPO went so far as characterizing procurement's speed challenge as a matter of survival. He argued that if drag continues the business will find alternative methods of purchasing. Consistent bypassing of procurement could relegate the function to a more transactional role, which could in turn be replaced by automation.

In short, the economic and reputational costs are significant enough to threaten procurement's status as a valuable corporate function.

About Gartner

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