

The CPO's Agenda: A Measuring Stick

CPO Measurements

Based on our CPO-specific research from 2005 and 2006, we have identified the top ten key performance indicators (KPIs) used by Best in Class CPOs to manage the procurement function. In Q1 2007, we will publish a benchmark report which explores all of these in detail.

Fact: The role of the CPO continues to evolve in terms of strategic importance to the enterprise.

Research: Best in Class CPOs use multiple KPIs to manage their operations and correlate them to enterprise financial metrics. Their number one performance indicator is **cost savings**.

Recommendations:

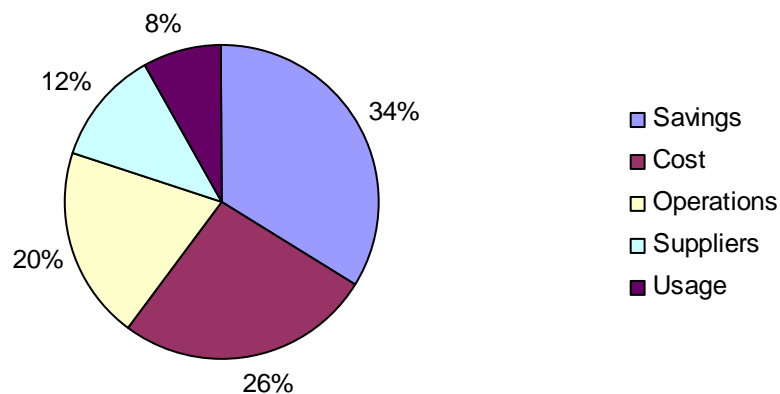
- Adopt the top five KPIs
- Benchmark your performance against the Best in Class after 6 months
- Correlate your performance to enterprise financial metrics

Research Preview

How Do You Stack Up?

The KPIs used by CPOs can be divided into five categories (Figure 1). Average CPOs look at KPIs across all five categories, but Best in Class CPOs look to the top four categories only.

Figure 1: KPI Categories for CPOs



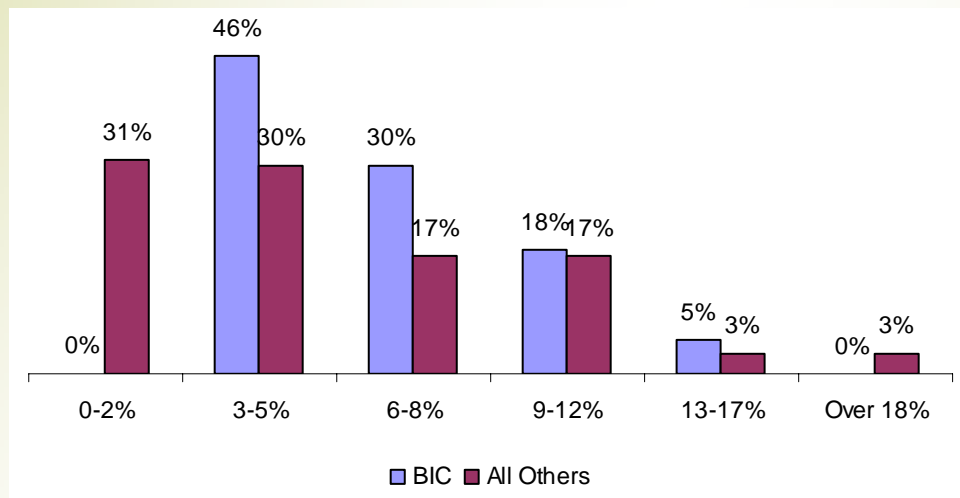
Source: AberdeenGroup, December 2006

Past research has identified many of these same KPIs, but the mix and prioritization has slowly shifted over time. For example, in our 2005 [CPO's Agenda: Strategies for Procurement Transformation](#) report spend under management was the number one KPI. In 2006 the number one KPI was cost savings.

Show Me the Money

Cost savings as the number one KPI isn't a huge surprise. After all, everyone wants to see the money procurement returns to the enterprise through effective supply management. Whether the savings are extracted with surgical precision or brute force doesn't seem to matter as long as CPOs "show the money." Best in Class CPOs are definitely more precise in their approach—over 75% of them consistently produce savings in the 3 to 8% range (Figure 2). Their lower performing peers, however, produce results that are much less predictable and scattered anywhere from 0 to 18%.

Figure 2: Actual Cost Savings in 2005 for BIC vs. All Others



Source: [AberdeenGroup](#), December 2006

Technology Feast or Famine?

There are a host of technology-oriented solutions available for business managers to measure their performance. However, few, if any, are focused on CPO-specific needs. The offerings range from specialty information systems (e.g., Aravo for SRM, Informance for manufacturing), to

"One of the ways we get more indirect spend under management is by enabling the right suppliers in different geographies. We track key supplier information management metrics using the Aravo system."

– CPO, Global High-Tech Firm

corporate performance management (CPM) and business intelligence generalists (e.g., Cognos, Business Objects), to the large enterprise application providers (e.g., Oracle, SAP) and the procurement/SRM solution providers (e.g., Ariba, Procuri, Perfect Commerce).

Recommendations

Best in Class CPOs are not standing still. They maintain a core set of KPIs over time, but shift others based on performance objectives and changes in their industry. Once they have mastered the first set of supporting KPIs they move on to the next set. They benchmark themselves against general performance data such as that provided by Aberdeen as well as industry specific data, cross-industry data, and even their competition. Regardless of current performance levels, the following three recommendations are simple and relevant.

- **Adopt the top five KPIs** – These KPIs are listed in [The CPO's Strategic Agenda: Managing People, Managing Spend](#) report. Adopting them in place of or in addition to your current KPIs will allow you to see your performance from a new perspective. Our upcoming report will define these KPIs in detail. All of these need to be supported by adequate technology such that summary performance information is readily accessible and thresholds are easily defined with alerts and drill-down access.
- **Benchmark your performance** against the Best in Class after 6-12 months – As part of our upcoming research you will see performance statistics in addition to the KPIs themselves. This will allow you to benchmark yourself to find out where you sit with regard to our competitive framework (i.e., Best in Class, Industry Average or Laggard). Specific steps for improvement will also be provided as part of the research.
- **Correlate your performance to enterprise financial metrics** – It is not enough to merely track the five or ten top KPIs. In order to have the highest level of visibility to senior management, the enterprise as a whole and even external audiences, you must correlate your performance to enterprise financial metrics (e.g., earnings per share).

Solution Providers

As indicated previously, there are a number of options to choose from when deploying a solution for procurement and supply management performance. The right choice will depend on many variables, including time, budget, existing solutions and desired outcomes.

- **Specialty information systems** like Aravo and Informance focus on niche industries or business processes. Aravo, for example, specializes in supplier information management.
- **Corporate performance management** (CPM) and business intelligence generalists like SAS, Clarity Systems, Cognos, Microstrategy, Kalido, OutlookSoft, Business Objects, Longview Solutions, Cartesis, Applix, Board International., CorVu, and Actuate have robust offerings which provide an excellent foundation upon which to build CPO-specific measurements. Unfortunately, very few of these provide procurement KPIs out of the box.
- **Enterprise applications** like Oracle, SAP, Infor, Lawson, Epicor, SSA Global, and Best/Sage have CPM modules, some of which are even tailored to parts of their application (e.g., Oracle CRM, SAP Financials).
- **Financial services and technology** providers like American Express, Bottomline Technologies, GE Corporate Payment Services, Mastercard, Visa, Xign, JP Morgan Chase, US Bank, OB10, Prime Revenue, Orbian, and HSBC provide finance-oriented KPIs that can correlate to CPO metrics at a high level for total spend, even if they aren't initially a direct hit for detailed procurement activities.

- **Procurement, sourcing and related specialists** like Ariba, Ketera, Procuri, Perfect Commerce, Global eProcure, Verticalnet, Elcom, ePlus, PurchasingNet, SciQuest, Upside, I-Many, Selectica, Nextance, Emptoris, and Puridium are obviously most focused on CPO initiatives and in many cases have CPO dashboards and portals. In a few instances, however, they lack the breadth of an enterprise application and the functional depth of a CPM solution.
- **Service providers** like AT Kearney Procurement Solutions, Archstone Consulting, Connell Purchasing, IBM, ADP, TPI, Prosero, Answerthink, and Genpact are excellent sources for additional tailoring of KPIs to fit your specific industry. They are also well-positioned to help correlate KPIs to enterprise financial metrics.
- **Academic institutions, professional associations and trade press** like Arizona State University, Michigan State University, the Institute for Supply Management (ISM), CAPS Research, Chartered Institute of Purchasing and Supply (CIPS), International Federation of Purchasing & Supply Management (IFPSM), Corporate Executive Board (CEB), and Purchasing Magazine all have various repositories of KPIs and benchmarks, yet lack the tools to effectively implement or manage them.

Related Research

[*The CPO's Strategic Agenda: Managing People, Managing Spend*](#); November 2006

[*Source-to-Settle: Compliance Clues for the CFO*](#); October 2006

[*CPO's Summit: \\$1.46 Trillion on Tap*](#); November 2006

[*Global Supply Management Research Agenda*](#)

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