The 2016 ProcureCon Indirect East

Benchmarking Report

ProcureCon INDIRECT East   BidEnergy source to pay   SAP Ariba
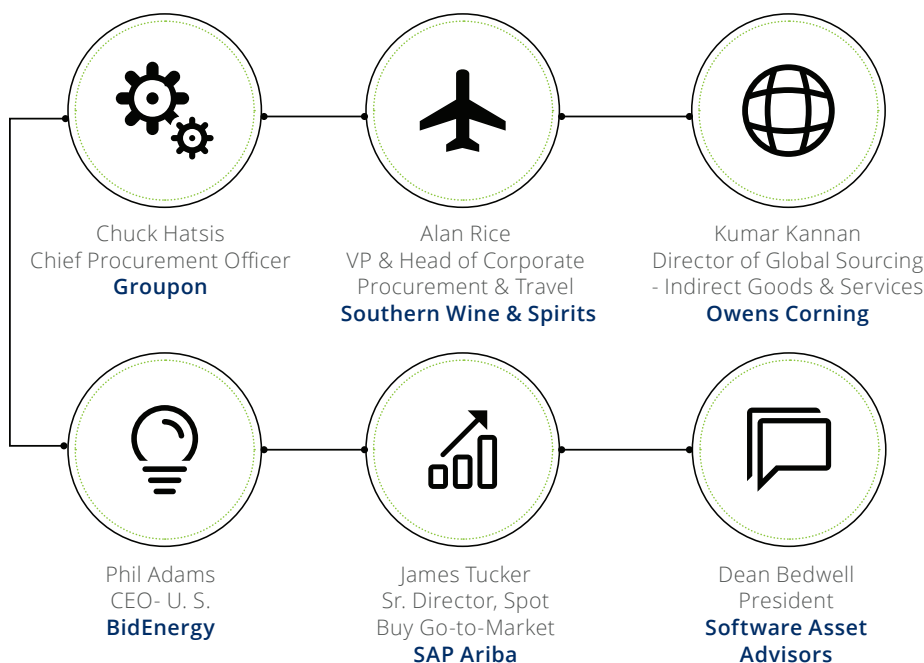
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Executive Summary

Procurement has come into the spotlight over the past several years as new additions to core strategic leadership within many businesses. The ability to recapture spending within indirect categories has gotten the attention of the C-suite, and allowed procurement to continue an expansion of influence that in some cases has come to account for upwards of 80% of the total addressable indirect spending of their organizations.

In advanced procurement environments, views of spending have been consolidated within centers of excellence, and indirect categories that due to complexity or their ad hoc nature remained outside of their direct influence are coming into focus. Examples include IT, energy, contingent staffing, and travel and meetings, as well as the rogue spending that still occurs when buyers go outside of established procedure due to frustration, time pressure, or the belief that they are only making a one time purchase.

As procurement solidifies its position in mature companies, they are creating a framework of excellence that others seek to replicate, setting the stage for an era where the CPO helms a consultative and highly influential business unit that has sway over macro business strategy. In 2016, the path is clear for procurement groups to continue their value creating missions and further develop a plan that can maximize the long-term efficiency of their organizations.

Additional Contributors

In addition to the benchmark data and analysis contained in this report, several executives and industry experts have contributed their insight via interviews. Selected quotations have been used to add context and color to the statistical information contained in this document. Interviews centered on benchmark findings as well as key trends identified by research.

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Key Findings

Within the most advanced procurement departments, the last vestiges of uncontrolled spending are coming into focus.

The role of the procurement department in an organization will typically expend over time as the value of the department is demonstrated and the dollar value of indirect spending increases within a growing business. In the most mature procurement operations, low-hanging fruit savings have been addressed, and now procurement turns its focus to more challenging categories to manage such as rogue spending, IT, energy, and travel and meetings.

Maverick buying behaviors are often a direct result of impatience with existing systems, or unplanned emergencies, and must be better accounted for.

Around two of every five unauthorized purchases made within a business are simply because of impatience on the part of purchasers who go around established protocols in frustration. Purchasing of this kind, called "tail spend", may be considered to be small enough to ignore or a one-off by the buying party, however can quickly add up as an aggregate, making this a challenging, but worthwhile area of spending to control.

Beyond better controlling spend that is already under management, procurement is influencing a broader range of specialty categories, such as energy.

With the increasing centralization of procurement influence, a more acute focus can be applied to categories that would otherwise have been left to local groups or category managers to control. An example of this development can be found in the energy category, which formerly would have been outside of the purview of procurement. While many procurement groups still don't play a direct role with energy, a growing number are being directed to apply value-creating strategies to the category, mirroring successes that procurement has had with other previously unaddressed indirect categories.

As procurement develops into a more strategically minded business unit, aspects of spend control such as risk avoidance become a bigger part of their core missions. In particular, supplier management with an eye towards compliance on both sides is a growing concern.

IT is a category of indirect spend where the vendor landscape is dominated by a group of key players. It's also a category that can make up a significant share of the total addressable spend within a business, making it a prime area of involvement for procurement. Along with negotiations comes the added consideration of avoiding fallout from vendor audits, making the negotiation of SLAs into just the first stage of an ongoing management process.
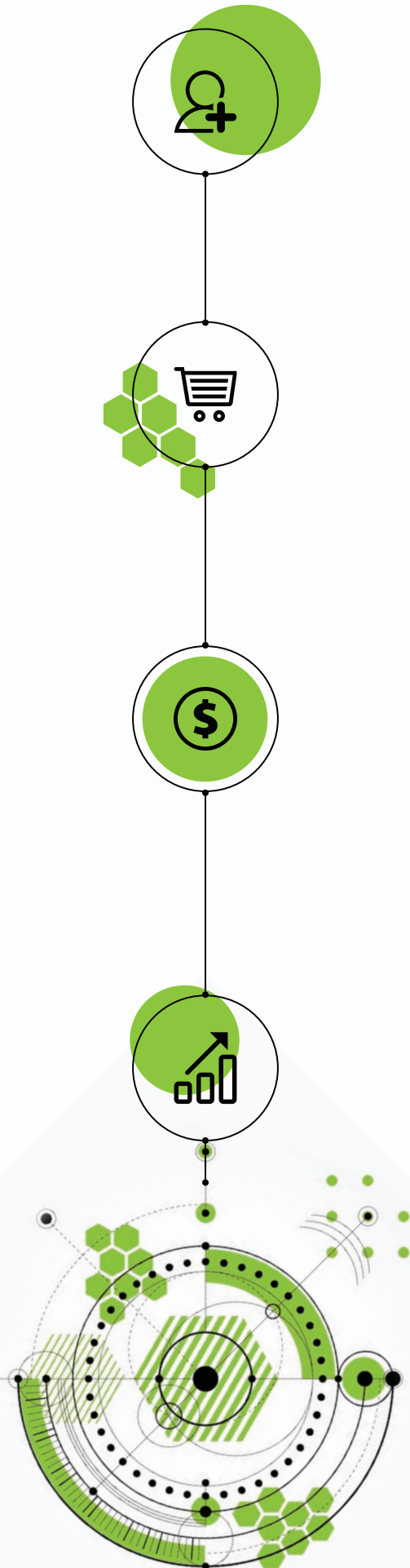
Research Analysis

Building actual and perceived value around the procurement department

The value placed on procurement by management is contingent not just on the savings metrics that the department is able to bring to the table, but their perception of value among key members of the C-suite.

On a scale of 1-5, how much value does management place on procurement?

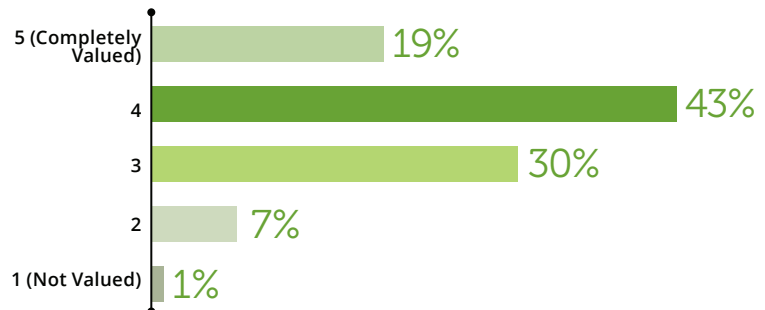| Rating	Percentage
5 (Completely Valued)	19%
4	43%
3	30%
2	7%
1 (Not Valued)	1%

The value placed on procurement by management is contingent not just on the savings metrics that the department is able to bring to the table, but their perception of value among key members of the C-suite. Procurement has been working hard to develop both the strategies and tactical processes that allow it to fulfill it's core responsibilities, as well as cultivate relationships with other departments, weaving its perspective into the overall direction of the business. The results of these efforts can be seen in the 43% of procurement groups that feel they are reasonably valued by their management, and the further 19% who report that they are fully valued. While 30% of teams report only a middling level of management appreciation, the concentration is clearly balanced towards the positive end of the spectrum.

> "At OC, Sourcing strategy and people are closely aligned with business unit and functional strategy. Joint planning, goal setting and priority alignment are key. We do quarterly business reviews with key stakeholders to report progress and realign priorities. Underlying our effective engagement is a drive to ensure that Sourcing people have strong category knowledge of the areas they support and are business athletes. We believe more in earning a seat at the table through our expertise. Top down directives work only in the short run, but long term engagement can only be assured by delivering value and building strong relationships with stakeholders."- **Kumar Kannan, Owens Corning**

As the value assigned to procurement by management increases, so will the jurisdiction of the department, reflected in movement away from decentralized models and into centralized and center-led department structures.

Building actual and perceived value around the procurement department

Is your procurement operation
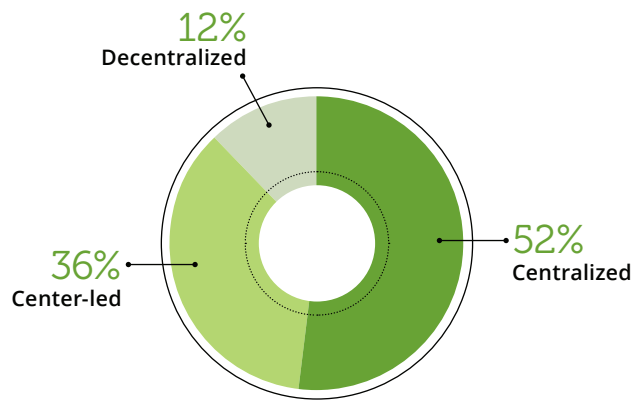
12%
Decentralized

36%
Center-led

52%
Centralized

As the value assigned to procurement by management increases, so will the jurisdiction of the department, reflected in movement away from decentralized models and into centralized and center-led department structures. Currently, 52% of procurement groups are operating within a centralized model, a growth of 3% over last year, while another 36% have adopted a center-led structure, which decreased by 3%. Just 12% are operating in a decentralized environment, the same percentage as in 2015. Procurement structures are also tied to the growth of businesses, and will often progress from decentralized, to centralized or center-led as the scale of the business increases, which is often the case within global or multi-national organizations. The level of centralization will have double dependency on the size and geographic distribution of a business, as well as the amount of resources that are allocated to the procurement department. In some cases, a strong centralized procurement group can still maintain control over a global business, although this is only feasible with the proper allocation of resources to the department.

> "My current organization is center led. It's structured around a category management structure, sourcing managers, and analysts. Centralized departments work well for certain types of businesses, but they also require a pretty significant investment.
>
> If you're talking about a large billion dollar plus type company, then you're talking about having dozens and dozens of people, if not hundreds, depending on the size, to be able to manage all aspects of a centralized procurement operation, whereas with a center led organization, we are leveraging business units, divisions, and other geographies to do a lot of the local tactical work."
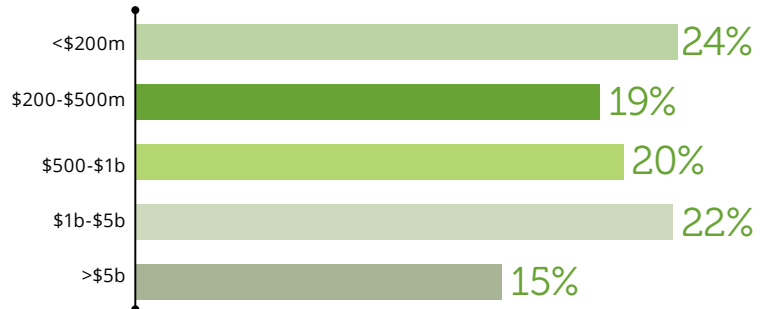>
> – **Alan Rice, Southern Wine & Spirits**

The distribution of procurement groups across spend levels is relatively even, which given the high concentration of departments that have moved away from a decentralized structure, is indicative of the fact that procurement's value is significant to businesses that pass a certain stage in their growth.

Building actual and perceived value around the procurement department

⦿ What is your annual procurement spend?

| Spend	%
<$200m	24%
$200-$500m	19%
$500-$1b	20%
$1b-$5b	22%
>$5b	15%

The distribution of procurement groups across spend levels is relatively even, which given the high concentration of departments that have moved away from a decentralized structure, is indicative of the fact that procurement's value is significant to businesses that pass a certain stage in their growth. The data indicates that procurement's jurisdiction grows along with its influence and the value that the department is able to convey to C-Suite leaders. Contrasted with the 36% of procurement groups who reported that their strategic transformations were behind schedule in 2014, it would seem that the pace of procurement adoption is increasing as businesses seek to copy the successes and best practices of procurement trailblazers.

> *"Groupon runs a centralized, global Procurement Department. I think both models can work, but have a bias toward centralized – particularly if establishing a new function from scratch. When trying to create a common agenda for an inherited, mature, de-centralized purchasing model, center-led is usually the only pragmatic answer."* **- Chuck Hatsis, Groupon**

Procurement's efforts to consolidate and control spend

⦿ What percentage of your company's spend is under management?
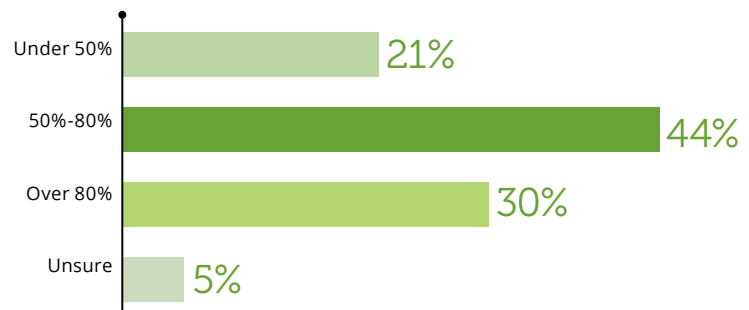
	%
Under 50%	21%
50%-80%	44%
Over 80%	30%
Unsure	5%

Standing in the way of these efforts are maverick buying behaviors, non-compliant purchases that can be difficult to track which are not able to be cost optimized as they occur without a chance for procurement to become involved.

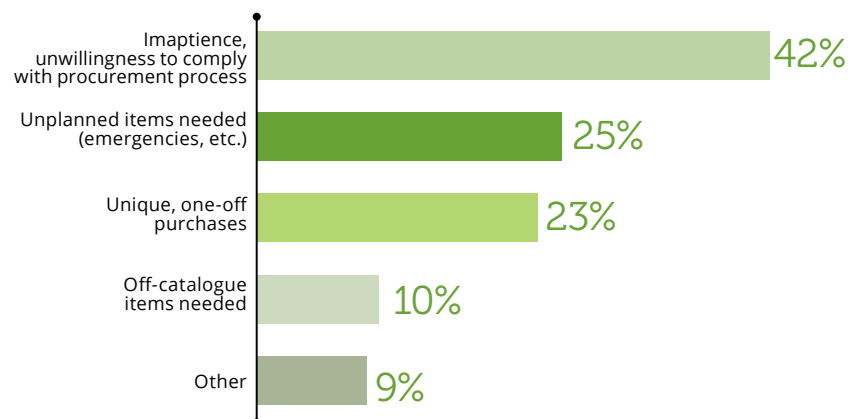## Procurement's efforts to consolidate and control spend

Procurement departments require visibility and influence in order to optimize their strategic approach to spend management. Currently, 44% of procurement groups have control over 50-80% of the total addressable spending within their organizations. Another 30% have taken a stake in managing over 80% of the indirect spend within their organizations. By contrast, less than a quarter (21%) are managing below 50% of their total indirect spend, highlighting the rapid growth of influence that procurement departments can be granted when they are able to demonstrate significant value to the organization.

> "The best way to control rogue spend is via executive support, which is earned through time with consistent results, demonstrated judgment, and a "company first" orientation. Once the business learns that Finance doesn't approve without Procurement endorsement, the business learns that working with Procurement is a "pay me now, pay me later" proposition. Additionally, putting Procurement in as a formal approval gate in the PO process or system reinforces Procurement involvement, as well." **- Chuck Hatsis, Groupon**

What is the biggest cause of maverick spending at your company?

Imaptience, unwillingness to comply with procurement process	42%
Unplanned items needed (emergencies, etc.)	25%
Unique, one-off purchases	23%
Off-catalogue items needed	10%
Other	9%

Standing in the way of these efforts are maverick buying behaviors; non-compliant purchases that can be difficult to track and which are not able to be cost optimized as they occur without a chance for procurement to become involved. The single most common reason for these types of purchases is buyer impatience with the procurement process, which has a hand in 42% of the non-compliant buying which occurs within organizations. A quarter of purchases that don't comply with procurement guidelines are made because of a pressing need, and thus are rushed past typical buying protocols. Similarly, 23% are unique buys that departments pursue without consulting procurement, rationalizing the one-time expenditure. The remaining 19% are roughly split between off-catalog items, and other unique scenarios.

Procurement's efforts to consolidate and control spend

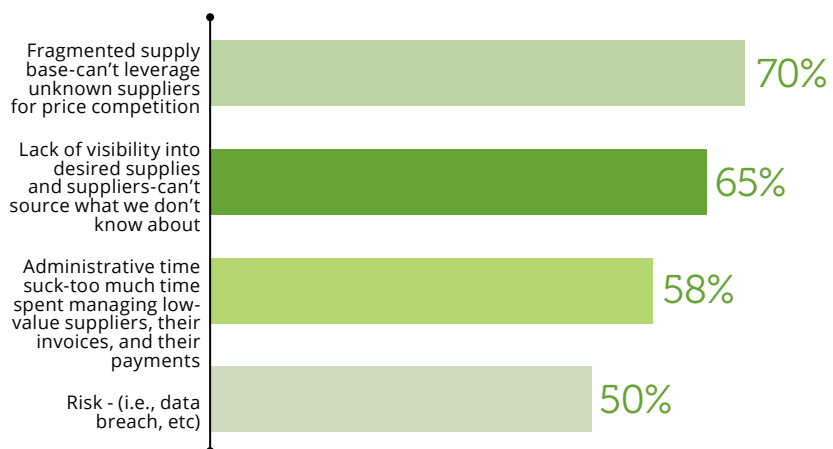The effects of maverick buying within the organization can manifest in several challenges for procurement.

> *"I think controlling rogue buying starts with what you put in front of a user as far as their ability to buy. In many cases, especially if the procurement organization is relatively new to the business, you find that the users would basically use any means possible to buy what they needed, and there was no structure around it. Managing rogue spend starts with putting in the policies and procedures that create control, but also allow a lot of flexibility for the individual to choose. Around tail-spend, where you're not going to be able to manage every dollar or every vendor, implementing P-cards is very helpful to procurement because you control the cards that you put out there. Providing technology solutions goes a long way for controlling that spend.*
> – **Alan Rice, Southern Wine & Spirits**

What are the costs of non-contracted or one-off tail spend purchases to your business—select all that apply

Category	Percentage
Fragmented supply base-can't leverage unknown suppliers for price competition	70%
Lack of visibility into desired supplies and suppliers-can't source what we don't know about	65%
Administrative time suck-too much time spent managing low-value suppliers, their invoices, and their payments	58%
Risk - (i.e., data breach, etc)	50%

The effects of maverick buying within the organization can manifest in several challenges for procurement. For 70% of procurement groups, the effects of decentralized buying behaviors make it difficult to apply pricing pressure through supplier competition, one of the key tactics used to win concessions from vendors. Another issue that arises for 65% of departments is that this behavior creates a lack of visibility that is directly reflected in outcomes, which do not benefit from the value creating techniques that a strong procurement department can apply. Getting a handle on spending that occurs outside of a procurement framework is its own challenge, and a time consuming one at that, which 58% of procurement groups feel creates time demands for them around low-value spending. Lastly, 50% of procurement groups see non-compliant buying as a source of organizational risk. Risk has become a hot topic within procurement circles as another area outside of savings where procurement creates value. When excluded from the sourcing process, procurement's abilities are wasted, with the addition of unnecessary tactical work that takes away from strategic planning.
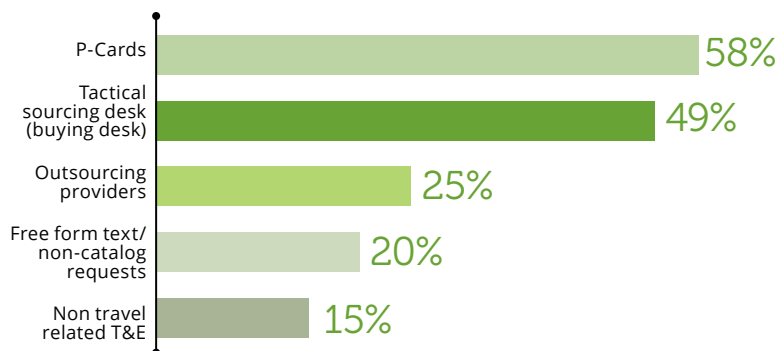
Procurement's efforts to consolidate and control spend

As companies are going global, oftentimes it is more difficult to find a supplier that can meet an organization's needs on a global basis.

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"As companies are going global, oftentimes it is more difficult to find a supplier that can meet an organization's needs on a global basis. Another force is Millennials, as they become a more significant part of our workforce, who have expectations based on real time access to content and convenience. This results in this proliferation of suppliers. And again, of the 200 companies that we've interviewed, virtually every one of them cited this long tail growth of one-off suppliers as a significant problem. There are estimates in the US that for every supplier you have to add to your vendor master file there's a rough cost of $100. By reducing these one-off suppliers, you're reducing a significant amount of cost for IT, for procurement, and for accounts payable teams. Oftentimes, procurement really has little or no visibility into what people are actually buying. With a Spot Buy system, these one-off ad hoc purchases are tracked and visible to procurement. As an example, when SAP said, "everyone, we want you to use Surface Pro 3 as your new laptop," and suddenly they saw dozens, maybe hundreds of us finding and buying docking stations on Spot Buy, it triggered the sourcing organization to go out and source these docking stations at a competitive price and quickly add them to the company catalog. It's an example of consolidation with control. You're going to have visibility into what employees are buying; today, there is none. You don't know what they're buying, so therefore you don't know what kind of opportunities there are for consolidated buying."- **James Tucker, SAP Ariba**

Per recent Hackett Group research, an average of 7% savings can be achieved by better managing tail-spend. How is your organization looking to address the non-contracted goods and one-off purchases (tail spend)? Choose all that apply

P-Cards	58%
Tactical sourcing desk (buying desk)	49%
Outsourcing providers	25%
Free form text/ non-catalog requests	20%
Non travel related T&E	15%

Given the ability to recoup significant value by controlling non-compliant spending, procurement is taking time to identify solutions that can bring these expenditures back within a centralized view.
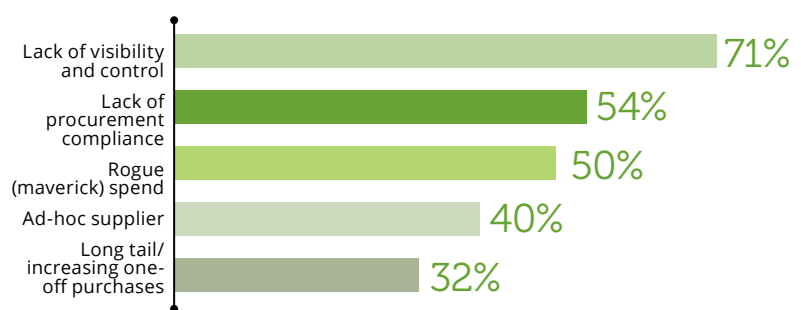
Procurement's efforts to consolidate and control spend

Given the opportunity to recoup significant value by controlling non-compliant spending, procurement is taking time to identify solutions that can bring these expenditures back within a centralized view. The most common solution being looked at is the issuing of p-cards (58%), which can help to consolidate buying from departments that may be operating with varying levels of autonomy. Another common tactic is the establishment of a tactical buying desk, which just under half (49%) of procurement groups are considering or have implemented to manage buying requests that might otherwise be executed without consulting procurement at all. A quarter are looking at outsourcing providers to help manage their non-contracted goods purchasing, utilizing external technology and expertise to control wasteful and hard to track expenditures.

"Let's say I'm going to be giving an important sales presentation tomorrow. We have a hundred people coming to our office, and the overhead projector is broken. I need a new projector right away, and putting a purchase request into the procurement organization is not going to work. Oftentimes these one-off purchases are such that the item probably costs less than the time it would cost the procurement organization to go search for and find that item on behalf of the employee, so it doesn't make good economic sense in many cases to have procurement or sourcing get involved. How can spending for this area be brought back under the procurement umbrella? For this problem it's all about content and convenience. That user that may have gone away from the tool in the past is now going to come find what they need and come back the next time they need an item. And so this content and convenience will accelerate user adoption to the e-procurement tool and that should also help increase user satisfaction. Procurement is going to realize greater customer satisfaction, greater value, and add strategic value to the overall organization." - **James Tucker, SAP Ariba**

What challenges are your procurement organization having with the non-contracted/non-sourced spend category? Choose all that apply

Challenge	Percentage
Lack of visibility and control	71%
Lack of procurement compliance	54%
Rogue (maverick) spend	50%
Ad-hoc supplier	40%
Long tail/increasing one-off purchases	32%

Procurement's efforts to consolidate and control spend

Managing non-sourced spending occurs without any visibility or control on the part of procurement in 71% of business environments, and is non compliant with established rules within 54%. Half of procurement groups are challenged by rogue buying behavior, while another 40% experience difficulties managing ad-hoc supplier selections. Lastly, 32% are challenged by long-tail purchasing, where buying items that are considered to be single purchases becomes a routine occurrence.
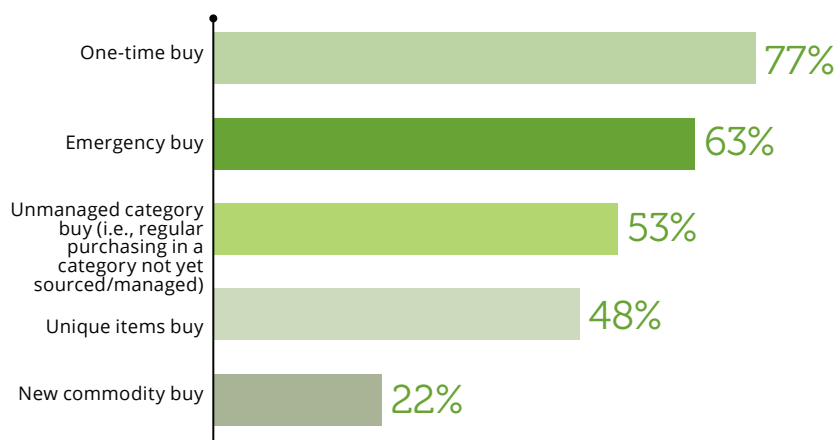
Managing non-sourced spending occurs without any visibility or control on the part of procurement in 71% of business environments, and is non compliant with established rules within 54%.

> *"We've interviewed over 200 companies in the last two years, and every customer that I've had the opportunity to speak with says they have a long tail spend problem, and are looking for ways to add more value to their organization. What we're finding is that the need for accessories is driving a lot of one-off buying, even in otherwise controlled categories like IT. We've worked with IT organizations to understand and identify those types of accessories so that with our Spot Buy solutions, they can still have control over the items that they don't want their employees to buy outside of the company catalog. I think primary research shows that about 15 percent of indirect spend are these one-off ad hoc purchases of goods that can't be found or are not included in the company catalog. It's a sizeable problem and a tremendous opportunity for procurement organizations to add value back to the organization."* - **James Tucker, SAP Ariba**

Which of the following non-contracted (tail spend) purchases does your company experience? Choose all that apply
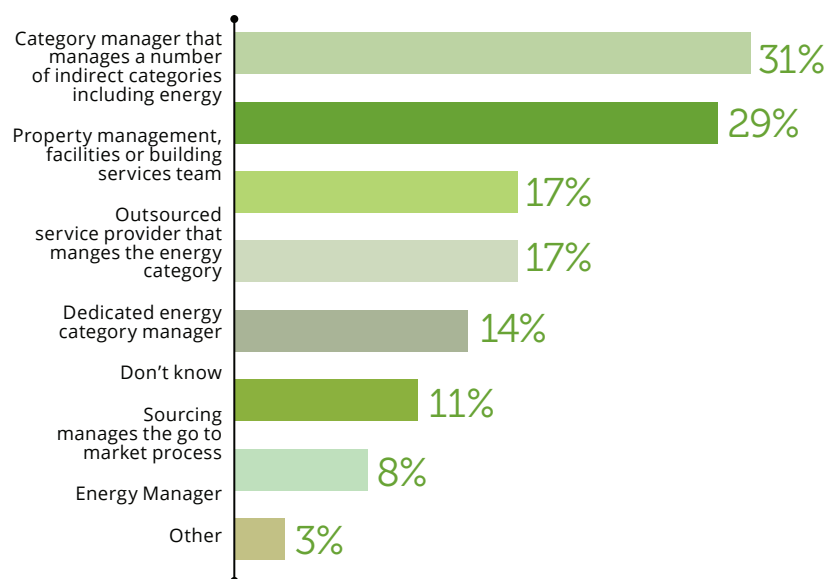
Category	%
One-time buy	77%
Emergency buy	63%
Unmanaged category buy (i.e., regular purchasing in a category not yet sourced/managed)	53%
Unique items buy	48%
New commodity buy	22%

Procurement's efforts to consolidate and control spend

The most common type of non-contracted spend is the one-time buy, which 77% of procurement groups have had occur without their involvement, and potentially even without their knowledge. Similarly, 63% are emergency purchases that by definition are rushed, making it typical that procurement processes can be scrapped in an effort to beat the clock. Just over half (53%) of procurement groups have spending occurring in other departments where they lack the jurisdiction to manage spend, while just under half (48%) have experienced unique item purchasing that does not conform with procurement compliance rules. In order to better control these behaviors, procurement needs solutions that are quick, source a wide range of goods, and are intuitive to use for maximum compliance rates.

Managing a broadening range of specialty categories

Who manages the energy category for your organization? (Check all that apply)

Category	Percentage
Category manager that manages a number of indirect categories including energy	31%
Property management, facilities or building services team	29%
Outsourced service provider that manges the energy category	17%
Dedicated energy category manager	17%
Don't know	14%
Sourcing manages the go to market process	11%
Energy Manager	8%
Other	3%

Within more advanced procurement environments, influence over sourcing can extend to include specialty categories. Some common examples include IT, travel and meetings, and increasingly, energy. In 31% of businesses, energy buying is now controlled by a category manager who may also be involved in the management of several other indirect categories. For 29%, a property manager or a facilities team has energy fall under their jurisdiction. Given the specialist knowledge needed to effectively support an energy procurement program, 17% have moved to outsource the category to a specialist service provider, while another 17% have a dedicated category manager for energy. The gradual transition of the category into the jurisdiction of procurement can be seen reflected in the 14% of procurement executives who are unaware of what department owns responsibility for energy procurement within their organizations.

Managing a broadening range of specialty categories

The number of sites under management ranges from one to one hundred in the majority of businesses (64%).

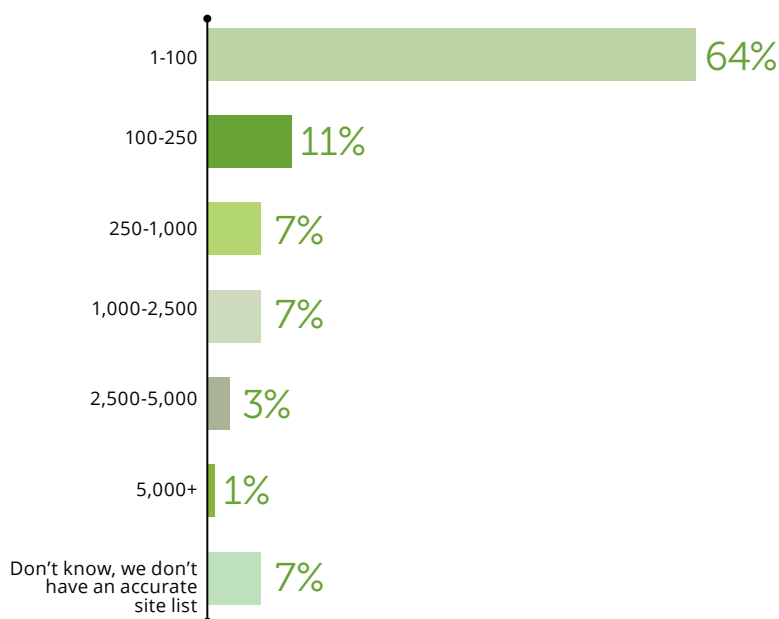*"Sourcing owns energy procurement at Owens Corning and we partner with a global energy services consultant to support sourcing, understanding of market structures and regulations, market supply and demand fundamentals, and both demand side and supply side value creation opportunities. Challenges are to build & maintain a platform for spend & inflation reporting and to maintain a current knowledge base of renewable energy developments & incentive opportunities."* **- Kumar Kannan, Owens Corning**

How many sites are in your portfolio?

Category	Percentage
1-100	64%
100-250	11%
250-1,000	7%
1,000-2,500	7%
2,500-5,000	3%
5,000+	1%
Don't know, we don't have an accurate site list	7%

The number of sites a business has under management ranges from one to one hundred in the majority of cases (64%). From there, there is a relatively even spread of groups across response segments, including those who don't know how many sites are encompassed within their operations.
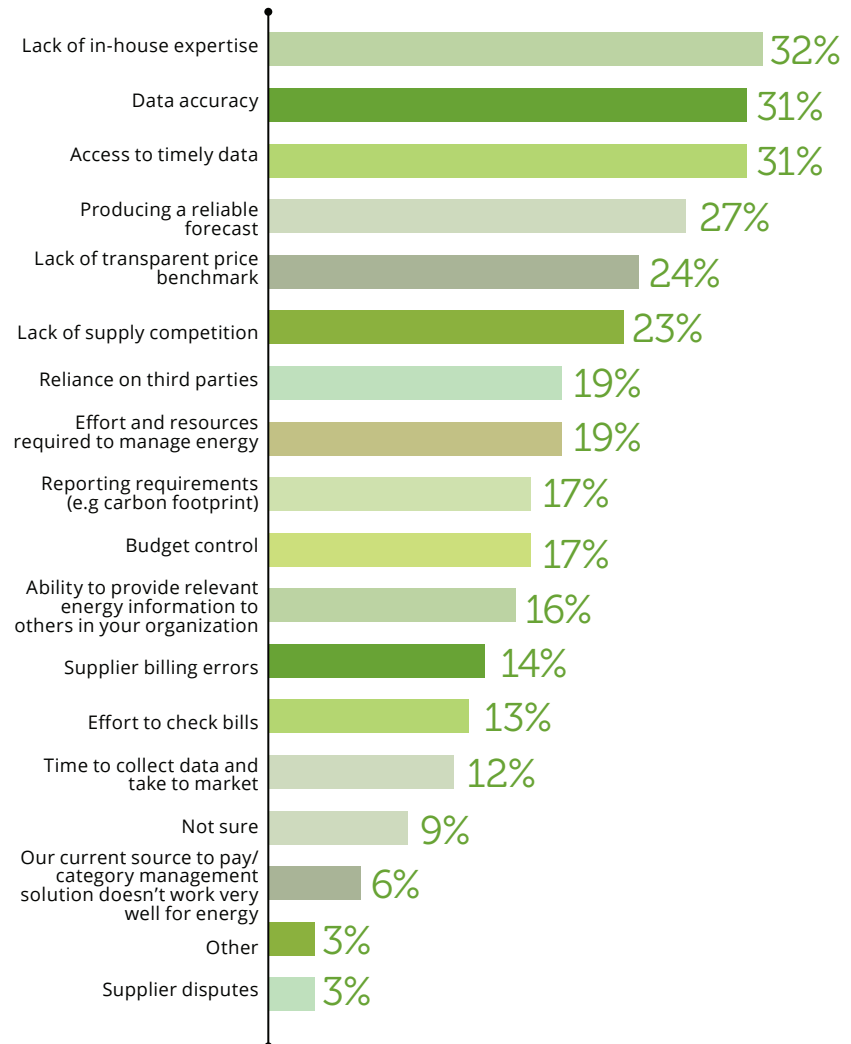
"We do some energy management. The challenge is always in not knowing what we don't know. This is where external expertise may create a strong value proposition." **- Chuck Hatsis, Groupon**

The main challenges associated with the management of the category are led by the lack of in-house expertise (32%), and followed closely by data accuracy issues and accessing data in a timely manner, each cited by 31% of procurement groups.

Managing a broadening range of specialty categories

What are your main pain points in managing the energy category? (Check all that apply)

Category	%
Lack of in-house expertise	32%
Data accuracy	31%
Access to timely data	31%
Producing a reliable forecast	27%
Lack of transparent price benchmark	24%
Lack of supply competition	23%
Reliance on third parties	19%
Effort and resources required to manage energy	19%
Reporting requirements (e.g carbon footprint)	17%
Budget control	17%
Ability to provide relevant energy information to others in your organization	16%
Supplier billing errors	14%
Effort to check bills	13%
Time to collect data and take to market	12%
Not sure	9%
Our current source to pay/ category management solution doesn't work very well for energy	6%
Other	3%
Supplier disputes	3%

The main challenges associated with the management of the category are led by the lack of in-house expertise (32%), and followed closely by data accuracy issues and accessing data in a timely manner, each cited by 31% of procurement groups. For 27%, data and expertise issues make it difficult to produce a reliable forecast that could be integrated into an energy purchasing strategy. For 24% a lack of transparent price benchmark information hampers their ability to identify and negotiate value, while 23% state that a lack of competition on the supply side weakens their negotiating position, adding even greater challenge when compounded with other issues. Reliance on third parties to manage the category, and the effort required to actively manage it in house are roadblocks to 19% of procurement groups, respectively. Aside from gaining the knowledge to make informed decisions around energy, visibility issues keep many teams from taking a more hands on approach with the category.
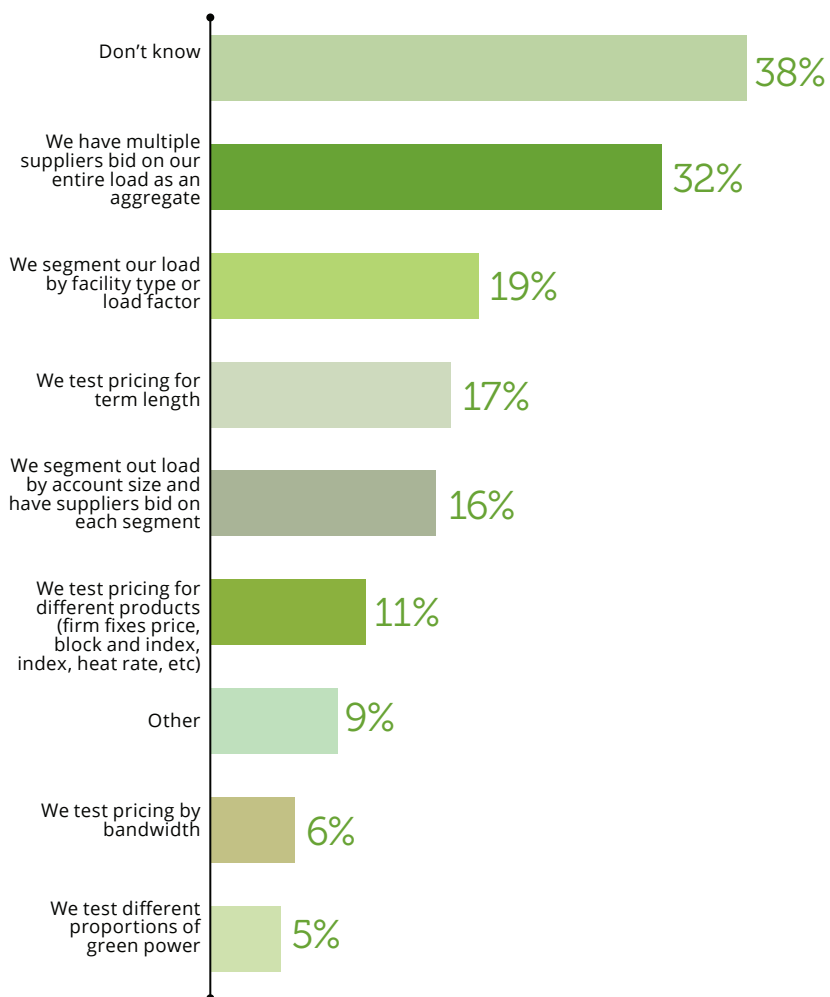
Managing a broadening range of specialty categories

> "One challenge specific to energy procurement is the requirement of having a good set of data before you can buy with confidence. In order to put out an RFP, or to run an auction, you want to let the suppliers know what you are likely to use in the coming year, and sometimes that data is hard to come by if you're not tracking your bills. You can request it from the utility provider, but it's a process that is unlike most other procurement processes for goods and services. The availability of data is a big challenge outside of a lack of expertise, because without data you can't produce reliable forecasts." **- Phil Adams, BidEnergy**

One challenge specific to energy procurement is the requirement of having a good set of data before you can buy with confidence.

What pricing tactics do you typically employ? (Check all that apply)

Tactic	%
Don't know	38%
We have multiple suppliers bid on our entire load as an aggregate	32%
We segment our load by facility type or load factor	19%
We test pricing for term length	17%
We segment out load by account size and have suppliers bid on each segment	16%
We test pricing for different products (firm fixes price, block and index, index, heat rate, etc)	11%
Other	9%
We test pricing by bandwidth	6%
We test different proportions of green power	5%

The knowledge gap around energy procurement is even more clearly reflected by the 38% of procurement leaders who are unaware of the pricing tactics that are typically employed towards the control of energy spend.

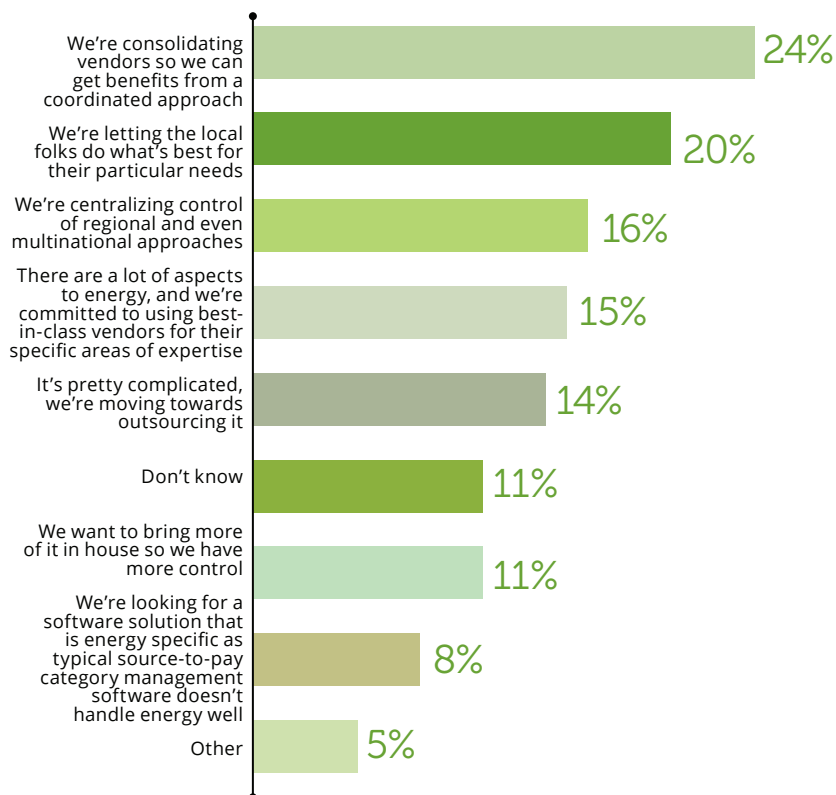## Managing a broadening range of specialty categories

The knowledge gap around energy procurement is even more clearly reflected by the 38% of procurement leaders who are unaware of the pricing tactics that are typically employed towards the control of energy spend. For 32%, bundling their aggregate spend and then having suppliers bid on it is a preferred tactic, which, while it may save time and effort by having a single auction take place, may not be optimal in terms of creating savings on the energy that is ultimately purchased. Segmentation of energy loads by facility type or load factor is a strategy in use among 19% of procurement groups with a hand in energy sourcing. Some other strategies that can complement a more segmented energy bidding approach include testing pricing for term length, or testing for different products to gain a more defined picture of what is on offer.

> "In energy sourcing, you have a challenge to the principle of volume purchasing. In energy, that's not necessarily applicable because you get access to more suppliers when you're tapping into regional suppliers, and that makes a big difference in the competitiveness of your event. With access to good data, you can do things like segment all the different usage profiles within your sites. By disaggregating and putting your usage out in varying packages, you can really optimize." - Phil Adams, BidEnergy

What best describes the trajectory of your approach with energy management? (Check all that apply)

Response	%
We're consolidating vendors so we can get benefits from a coordinated approach	24%
We're letting the local folks do what's best for their particular needs	20%
We're centralizing control of regional and even multinational approaches	16%
There are a lot of aspects to energy, and we're committed to using best-in-class vendors for their specific areas of expertise	15%
It's pretty complicated, we're moving towards outsourcing it	14%
Don't know	11%
We want to bring more of it in house so we have more control	11%
We're looking for a software solution that is energy specific as typical source-to-pay category management software doesn't handle energy well	8%
Other	5%

The trajectory of energy category management within procurement environments will be somewhat contingent on the procurement structures already in place.

Managing a broadening range of specialty categories

The trajectory of energy category management within procurement environments will be somewhat contingent on the procurement structures already in place. For instance, while 20% are allowing local procurement or site managers to cover the energy category, which is typical of a decentralized or center-led environment, 16% are centralizing their control over regions, and even across multi-national areas of operation, behavior that is more typical of a strong centralized procurement function, or a center-led function employing category experts in the energy category to advise on global strategy. Almost a quarter (24%) of procurement groups are working to consolidate their energy vendors, seeking to simplify their reporting and win concessions through bundling.

A combined 29% feel that the energy category is complicated in nature, prompting them to either engage with vendors who they trust as best in class, or move towards beginning engagement with vendors. Depending on the competencies present within a procurement team and the bandwidth of the department, there can be either more or less framework for bringing energy under the direct management of the procurement organization and thus it is something that has to be weighed carefully before investing in either option. Another 11% of procurement executives are completely unaware of the trajectory of the energy management practices within their organizations, reflecting the fact that within some businesses, another department or site management group may still retain control of energy expenditures.
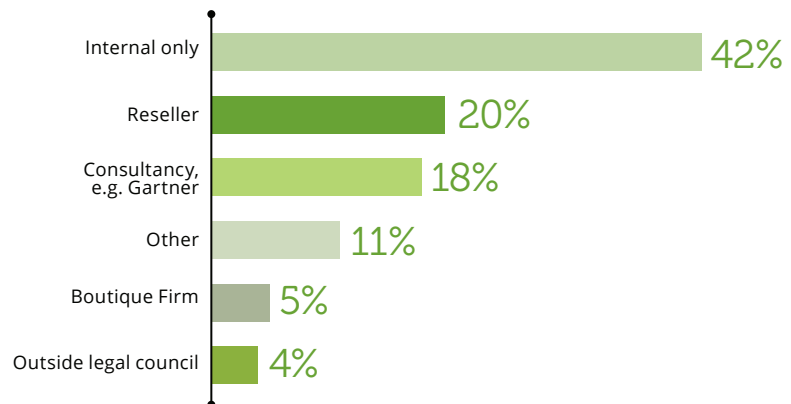
> *"Around energy, you can see that organizations are doing things differently. Some are exploring letting the local folks handle their local needs, some are trying to centralized it, some are looking for best of breed vendors, some are trying to consolidate it with one vendor so that they can get synergies across services. The big trends are that procurement is getting increasingly interested in the energy category, particularly as they get other categories under control. As they minimize costs in the traditional direct and indirect areas, energy remains as one of the larger categories that many companies are not handling with a traditional category management approach, and people are increasingly looking for platforms to do that. The platforms that combine services while allowing for a broader selection of bidding options, in my opinion, will be the ones that get increasing traction in the market."* **- Phil Adams, BidEnergy**

Risk management and contract due diligence in the IT category

Despite the complicated nature of IT procurement, during enterprise software renewal agreements, 42% of procurement groups handle the process on an entirely internal basis.

Who do you engage with for enterprise renewal agreements?

Category	Percentage
Internal only	42%
Reseller	20%
Consultancy, e.g. Gartner	18%
Other	11%
Boutique Firm	5%
Outside legal council	4%

Despite the complicated nature of IT procurement, during enterprise software renewal agreements, 42% of procurement groups handle the process on an entirely internal basis. Another 20% engage with a reseller, and 18% will hire a consultancy to help them navigate their agreements to ensure that the business gets what it needs to function without incurring penalties or overpaying for unnecessary features. At this point, just 5% will hire a boutique firm to handle their renewals, and 4% engage with legal counsel.

> "There are many ways to have procurement work with IT, previous to audits, in many cases to either eliminate the potential of an audit or at least mitigate its impact. Normally, I will engage with a category manager who has experience in software licensing, SaaS-subscription models, those types of things. Typically we're preparing at least a quarter, sometimes two quarters out for the renewal because they can tend to be quite difficult and quite costly, depending on how long the contract has been in place. There may have been changes with the vendor or changes with your own company, so we have to gauge the complexity of the renewal." **- Alan Rice, Southern Wine & Spirits**

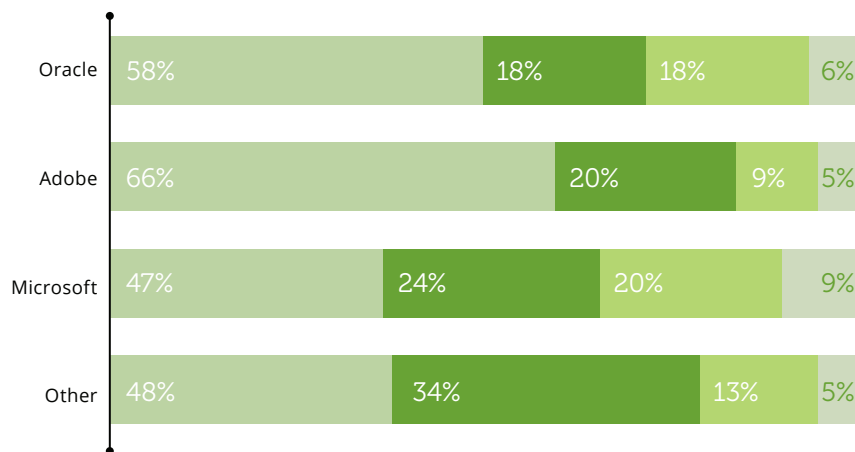# Risk management and contract due diligence in the IT category

Within many businesses, IT has grown in spending profile to become one of, if not the single largest indirect spending categories within the organization necessitating the involvement of procurement in the management of the category.

Have you been audited or had a Software Asset Management engagement with:

■ No ■ Within 1 year ■ Between 1 and 2 years ago ■ Over 2 years ago

	No	Within 1 year	Between 1 and 2 years ago	Over 2 years ago
Oracle	58%	18%	18%	6%
Adobe	66%	20%	9%	5%
Microsoft	47%	24%	20%	9%
Other	48%	34%	13%	5%

Within many businesses, IT has grown in spending profile to become one of, if not the single largest indirect spending categories being managed, necessitating the involvement of procurement. Procurement will typically work closely with IT in a consultative capacity, helping secure the technology parameters that IT requires while controlling contract terms and managing negotiations. IT is another area where procurement plays a role in risk management, with the prevalence of audits by major technology providers creating a real incentive to stay on top of contract terms and be proactive around service levels during renewals. Adobe, Oracle, and Microsoft are all major vendors that will audit software usage with their clients, which is standard practice for large technology companies. If a business is found to be non-compliant with usage terms, major expenditure can be incurred. Relative to other represented technology categories, Microsoft users were the most likely to have experienced an audit.

"I think most major vendors are ramping up auditing. Oracle has been doing this for a number of years, as well as Adobe. For Microsoft, they are auditing people a little bit more fast and furious right now, because, first of all, they generate revenue from it. Secondly, they don't want people who go to the Cloud to have issues with licensing. And what they really don't want is a customer to be paying a certain amount and then go to the Cloud, and all of a sudden see a 40 percent increase because of noncompliance, which could happen if you're not in the Cloud. It doesn't surprise me that Microsoft is auditing a little bit more, because they were seeing a big uplift in the Cloud, and they don't want people to perceive the Cloud as the problem." **- Dean Bedwell, Software Asset Advisors**

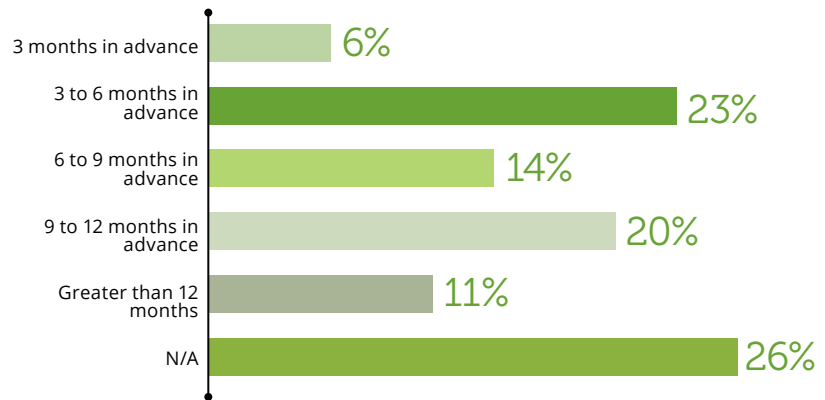# Risk management and contract due diligence in the IT category

Looking more closely at how procurement groups prepare for Microsoft renewals, the majority will fall within a range of three to six months (23%), or nine to twelve (20%).

If you have a Microsoft Enterprise Agreement how early do you prepare for the renewal:

Category	Percentage
3 months in advance	6%
3 to 6 months in advance	23%
6 to 9 months in advance	14%
9 to 12 months in advance	20%
Greater than 12 months	11%
N/A	26%

Looking more closely at how procurement groups prepare for Microsoft renewals, the majority will fall within a range of three to six months (23%), or nine to twelve (20%). While 14% will prepare between six to nine months in advance, and 11% will give themselves over a year, the large majority of procurement groups that engage with Microsoft will fall within one of these two poles, suggesting a gap in perceptions of what level of due diligence is needed for a renewal, potentially due to differing business requirements or levels of category knowledge within teams.

> "The customers that get the best deals from Microsoft go in prepared, and they go in knowing accounts, knowing their future requirements, and generally have an idea of what's important to them. When you're going in with less than three months of preparation, you're just getting whatever Microsoft tells you, and you're not getting a great deal, because you haven't had time to prepare, especially if you're a larger organization. The ideal time to engage is between six and twelve months. For larger companies, it's 12 months, because there are many related processes they go through. In a mid-sized company, six months is probably sufficient, but when you start cutting it down to less than a couple of months all you're doing is being reactionary, and you do things that may get you some discounts, but you're not getting the best deal. Also, Microsoft changes their product use rates on a regular basis. And so if you're only doing three months to prepare, you might be missing some major changes in product use rates. It could have a dramatic effect on you around how you license in the future and potential noncompliance in an audit."
>
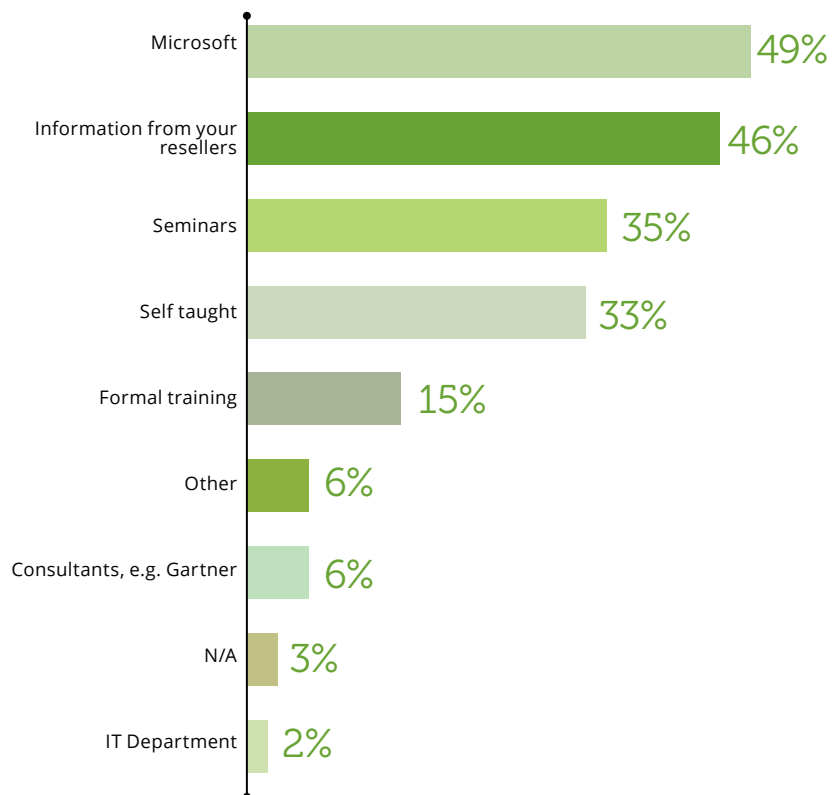> **- Dean Bedwell, Software Asset Advisors**

There will usually be more than one source that procurement consults around a licensing renewal in order to create a more complete picture before contract negotiation.

Risk management and contract due diligence in the IT category

● **How do you stay current on Microsoft licensing: (select all that apply)**

| Source	Percentage
Microsoft	49%
Information from your resellers	46%
Seminars	35%
Self taught	33%
Formal training	15%
Other	6%
Consultants, e.g. Gartner	6%
N/A	3%
IT Department	2%

There will usually be more than one source that procurement consults around a licensing renewal in order to create a more complete picture before contract negotiation. Currently, the most commonly consulted source around Microsoft licensing is Microsoft itself, with just shy of half of all groups (49%) going directly to them for information on their most up to date licensing protocols. An almost equal share (46%) will consult their licensed resellers. Going directly to the vendor for information on their renewal process is an important step in getting a full picture that procurement groups will supplement in various ways. For 35%, this means attending digital or physical seminars where they can hear how their peers have addressed the challenges they are taking on, while another 33% have accrued personal knowledge of the process through participating in past renewals and research. Interestingly, only 15% of procurement executives report that they have received formal training in Microsoft contract renewals, a little under half the number that have handled the process on their own. Even more expository, a mere 2% of procurement groups will consult with their IT departments to stay current on licensing, suggesting that in most cases IT no longer plays a role in the purchase of the actual license apart from defining operational requirements.

Risk management and contract due diligence in the IT category

How satisfied are you with your Microsoft Enterprise Agreement, on a scale of 1-5 (1 being poor, 5 being fully satisfied)?
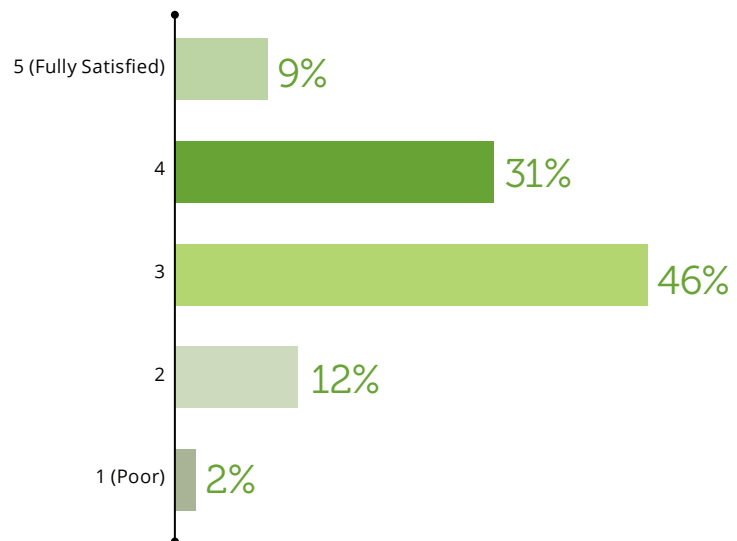
Rating	Percentage
5 (Fully Satisfied)	9%
4	31%
3	46%
2	12%
1 (Poor)	2%

In terms of the satisfaction that procurement has with their Microsoft agreements after licensing renewals, 46% of procurement groups are only somewhat satisfied with their final outcomes.

In terms of the satisfaction that procurement has with their Microsoft agreements after licensing renewals, 46% of procurement groups are only somewhat satisfied with their final outcomes. While they may have gotten what they required out of the negotiation process, it is possible that they have procured more than their organization requires, or opted for a license that will create savings, but eliminate features that they would have liked to have. Close to a third (31%) are satisfied with the outcomes of their renewals, but feel that there is still room for improvement before they can claim full satisfaction. While around one procurement group in ten has achieved total satisfaction, slightly over that number (12%) are dissatisfied, and a further 2% rate their experience as poor. When the primary source of information in many cases is the vendor or reseller, it's not surprising that procurement may not be able to consistently arrive at the ideal outcome during the negotiation phase.

"Many procurement leaders who go through the renewal process on their own don't feel they've gotten a great deal. It's not uncommon based on the fact that an average customer might go through the renewal process between only three to six times in their lifetime, while we do this hundreds of times a year. That's where the difference is. They don't know what they don't know, and so they don't know if they've got a good deal or not. They haven't benchmarked it against other companies. They don't know what to ask for, because they've only done it six times and probably only in one industry, not across industries, therefore that doubt will remain."
- Dean Bedwell, Software Asset Advisors

Key Recommendations

As procurement consolidates indirect spending, the dual concerns of creating a strategic buying environment and identifying spend that goes outside of it become larger concerns. Prioritize control over maverick buying behaviors within the spending areas that your organization already manages.

When a buyer is operating with time pressures or contemplating a one-time purchase, the likelihood that they will go outside of existing procurement systems increases, which in turn diminishes the ability of procurement to accurately and effectively report on the spending within their jurisdictions. As procurement seeks to influence spending in an ever wider range of categories, they must also build a framework for capturing spend up front that would otherwise need to be flagged and brought back into a centralized view.

Procurement groups in the process of expanding their jurisdictions should be attentive to indirect areas that they can bring under their purview. In the case of energy, this means either onboarding personnel with category knowledge, or adopting solutions that can simplify the energy sourcing process and provide missing visibility.

A key challenge present in the energy sourcing process is gaining reliable data and putting it together into a picture that creates the visibility procurement needs to make strategic choices. While many procurement groups still treat their energy spending as something that can be consolidated, the ability to segment needs and gain bids from local competitors is something that holds promise for further increasing the dollar amount recouped from essential energy purchasing, and with the right solutions in place, can add another feather into the cap of the CPO.

IT is another category that requires active monitoring as well as category knowledge in order to create positive outcomes. In an environment where major solution providers hold a lot of leverage and reserve the right to audit technology use, identifying the right approach to renewals can help avoid major fallout down the road.

While the majority of procurement teams feel that they have a ways to go toward achieving total satisfaction with their enterprise software renewals, the sources that they consult and the amount of time they spend before negotiations are often still insufficient for them to achieve more favorable outcomes. Identifying the right SLA, gaining the features needed for effectiveness, and avoiding being locked in or sold bundled features are all extremely challenging without knowing which levers to pull.
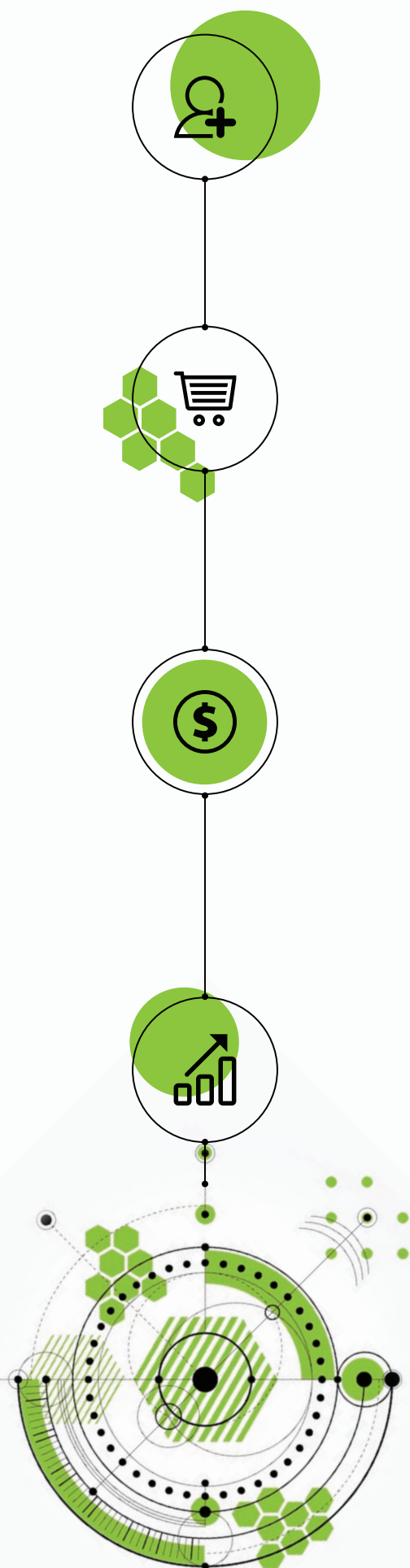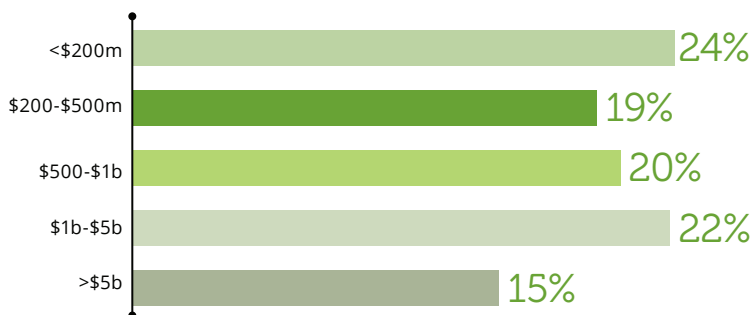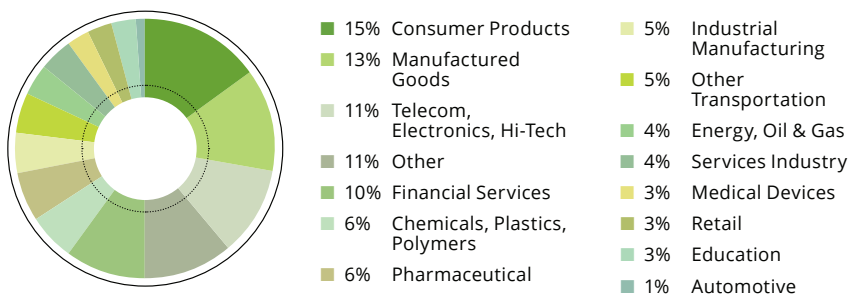
Appendices

Appendix A: Methodology

The results analyzed in this report were gathered from responses to an on-site benchmarking survey delivered at ProcureCon Indirect East 2016 and prepared by ProcureCon Report Author Andrew Greissman. 114 executives responded to the survey. Interviews with sources were conducted after survey data was compiled, and centered on discussion of benchmark results.
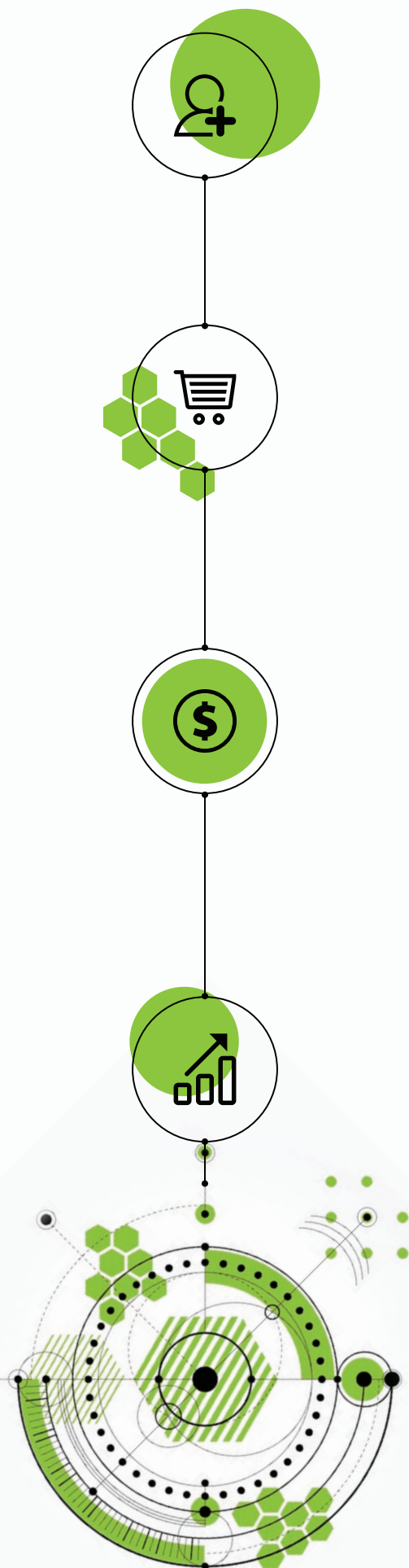
Appendix B: Demographic Information

What is your annual procurement spend?

Spend	Percent
<$200m	24%
$200-$500m	19%
$500-$1b	20%
$1b-$5b	22%
>$5b	15%

What industry does your company represent?

%	Industry
15%	Consumer Products
13%	Manufactured Goods
11%	Telecom, Electronics, Hi-Tech
11%	Other
10%	Financial Services
6%	Chemicals, Plastics, Polymers
6%	Pharmaceutical
5%	Industrial Manufacturing
5%	Other Transportation
4%	Energy, Oil & Gas
4%	Services Industry
3%	Medical Devices
3%	Retail
3%	Education
1%	Automotive

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