

Making it Stick

How our top CPOs are driving value all the way to the bottom line



Executive summary: The money drain

More than 50%, or \$138.5 million^[1] of contracted savings are not making their way to the bottom line of Australia's leading organisations due to an absence of shared targets and a lack of understanding at the coal-face on the need to use company-selected suppliers.

Procurement teams are expert at negotiating great savings and other value, but without support from the whole organisation, projected benefits cannot be successfully realised and companies are unable to "Make it Stick". Strategically-vital supplier relationships also suffer, as maverick spend and other non-compliance damages vendors' margins and restricts the purchasing organisation's ability to negotiate future contracts in good faith.

According to Tania Seary, Founding Chairman of The Faculty Management Consultants, making it stick requires no less than an organisation-wide change management program to drive the right behaviours. "Improving compliance and cross-functional collaboration has been a long-term challenge. It involves a significant but ultimately lucrative investment that must be driven from the C-level if organisations intend to fully realise the benefits of their supplier relationships".

At the CPO level, developing a benefits realisation framework that includes a concise list of agreed-upon **definitions**, measurements and validation processes is imperative. Without agreement over definitions, other parts of the organisation will dispute or dismiss as irrelevant the savings and other value that Procurement has worked hard to put in place.

This research, commissioned by **The Faculty Roundtable**, is a **call to action** for CEOs and CFOs to address the fundamental shortfalls that are costing organisations hundreds of millions in unrealised savings.

^[1] Based on an average annual spend of \$3.6 billion across 16 organisations and an average saving target of 7.7%.



*"Procurement teams are adept at finding the money, but it takes a whole organisation to **keep** the money. Given the current business climate facing organisations internationally, driving savings and other value to the bottom line is an absolute priority facing the C-level today."*

Tania Seary, Founding Chairman, The Faculty

FIVE HURDLES TO MAKING IT STICK

Why do organisations allow hundreds of millions of dollars in negotiated savings and other benefits to disappear down the money drain? CEOs and CFOs must address the following shortfalls across the whole organisation in order to drive meaningful change and Make it Stick:

1 a lack of **enterprise-wide ownership** and alignment with Procurement's targets

2 silo-style environment rather than **cross-functional collaboration**

3 maverick spend and other **non-compliance** that undermines Procurement's gains and damages supplier relationships

4 unclear benefits **definitions, measurements and validation** processes that have not been agreed upon across the organisation

5 an immature **cost-conscious culture** that hampers CPO-level efforts to expand the value Procurement contributes to the organisation



Executive summary: The money drain

Context: Are things coming unstuck? >

Key findings >

Top six ways to Make it Stick >

Digital checklist >

Case studies >

Benefits definitions and measurements >

About The Faculty >



Context: Are things coming unstuck?

Over the past year, organisations have experienced increasing volatility in the commodity market with the Australian dollar tumbling and interest rates falling lower still, Chinese growth at its slowest since 2009 and the Greek financial crisis – all leading to pressure on profits and increasing risk profiles in global markets.

CEOs and CFOs are responding to the squeeze by reigning in their operations in an increasingly risk-averse environment. Plans for big spends and aggressive growth are being shelved while Procurement teams look to the detail of their current operations – not the least of which is benefits realisation. An overwhelming 92% of interviewees have reported that wider business interest in making savings stick increases during a downturn, providing CPOs with the “burning platform” often required to make meaningful changes.

After the shock findings of Aberdeen Worldwide CPO survey (2011) revealed that an average of only 8% of monetary savings were actually hitting the bottom line across 130 organisations, The Faculty’s 2015 research into Australian organisations paints a more positive picture, with an estimated 50% of savings realised across the participating organisations. This means, however, that a lot of money is still being left on the table, without considering the host of non-monetary benefits also not being realised.

This paper contains the following tools to help organisations Make it Stick:

- [Key findings](#) from The Faculty’s literature review, surveys and interviews with CPOs, Procurement teams and key stakeholders from 16 of Australia’s leading organisations.
- [Top six ways to Make it Stick](#)
- The Faculty’s [Digital Checklist](#)
- [Case studies](#) demonstrating leading-practice ways to Make it Stick
- [Benefits definition and measurement](#) examples from participating organisations .



“Unless CPOs measure and report on benefits realisation in a sustainable, systemic and auditable way that is understandable by the business, Procurement will not reach the level of influence and credibility it seeks.”

Robert Pease, Commercial Director, The Faculty



Executive summary: >
The money drain

Context: Are things coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Context *continued...*

SECTORS REPRESENTED

The following seven sectors were represented across the participating members of The Faculty Roundtable.



METHODOLOGY



Executive summary: >
The money drain

Context: Are things coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

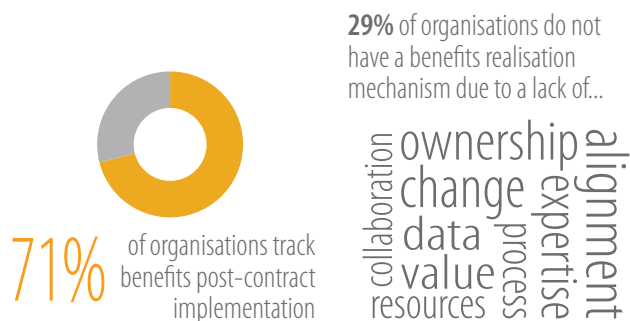
Benefits definitions >
and measurements

About The Faculty >



Key findings

Through surveys, data analysis and interviews with CPOs, sourcing specialists, end-users and suppliers to 16 of Australia's leading organisations, The Faculty has found:



Without benefits tracking there can be little visibility, control and validation of the savings and other value identified by Procurement. The 29% of respondents without overarching tracking mechanisms could focus on developing a concise framework that spells out:

- how identified benefits must align to business values and targets
- resources and capability requirements for effective benefits realisation
- roles and ownership of Procurement, business stakeholders and suppliers to realise benefits
- benefits definitions and compliance tracking methodologies
- the benefits validation process, and
- how the benefits are utilised (i.e. removed from budget).

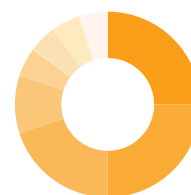


A cultural shift is required to move Procurement's focus from front-end projected benefits to realised (or validated) benefits, and incentivising the right behaviours is a key part of this process. Tying KPIs and other incentives to realised benefits will refocus the team's attention on tracking and managing benefits after contract execution.



Over half of the interviewees were unable to estimate the total percentage of benefits realised across the Procurement function. This is concerning, given that total benefits realised ("actual" savings) should be a key data point that CPOs have at their fingertips to promote their function's effectiveness in driving savings and other benefits to the bottom line.

Consequences of ineffective realisation of benefits



- 25% ■ Reduced profitability
- 25% ■ No perceived value
- 20% ■ Efficiencies not realised
- 10% ■ Impaired stakeholder relationship
- 5% ■ Reduced competitive advantage
- 5% ■ Opportunity cost
- 5% ■ Loss of credibility
- 5% ■ Supply chain stagnation

Benefits realisation is inseparable from the credibility of the Procurement function. To quote one of The Faculty Roundtable member's Standard Operating Procedure:

"Too often, the benefits figures presented by Procurement are simply not believed by senior management. Procurement continues to claim benefits that the business and senior management regard as indicative at best and irrelevant at worst, and the function continues to be perceived as a cost centre and overhead rather than a source of real value."



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

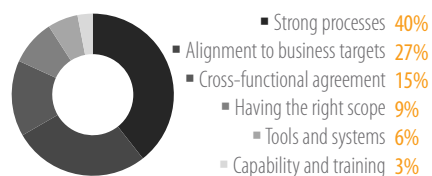
Benefits definitions >
and measurements

About The Faculty >

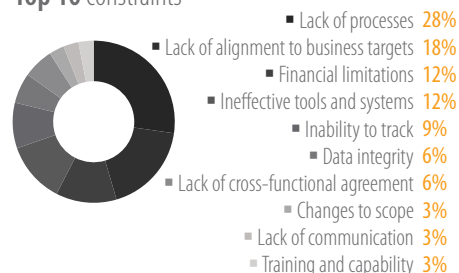


Key findings *continued...*

Top 6 practices to drive successful benefits realisation



Top 10 constraints



- Aligning identified benefits to wider organisational goals and targets is fundamental to successful realisation. Attendees at The Faculty's 8th Asia Pacific CPO Forum (Melbourne, 2015) were introduced to world-class practice in this area by Eva Wimmers (formerly of Deutsche Telecom). Wimmers explained that business owners and Procurement at her organisation have joint benefits realisation targets, agreed up-front and managed together through what she described as the "tandem principle".
- In essence, co-ownership of targets means it isn't only Procurement that is measured on benefits realisation, but the whole business.
- Full cross-functional engagement involves close collaboration with finance, end-users and other stakeholders to ensure mutual trust, collective input and cultural buy-in to Procurement's efforts. Gain traction by speaking the language of the business, quantifying what identified benefits mean to the organisation in dollar terms.
- Respondents also identified having an organisation-wide process or framework as the most important practice to ensuring benefits realisation.

70%

of respondents track contract compliance

Top three actions taken where there is non-compliance amongst end-users:

1. Escalation
2. Cross-functional discussion
3. Training



Interviews with The Faculty Roundtable CPOs and sourcing specialists revealed that too many Procurement functions still rely on their suppliers to alert them to maverick spend and other contract leakage. This shows a lack of data and is ultimately damaging to important supplier relationships. Procurement can improve its tracking and management of compliance with:

- an online catalogue or ERP that minimises opportunities for maverick spend
- compliance levels forming part of the CPO dashboard
- an exceptions management process
- stronger communication around using identified benefits to end-users
- clearly communicated consequences for non-compliance such as escalation and retraining.

92% report wider business interest in benefits realisation **increases in a downturn**

Discussion at The Faculty Roundtable National CPO Meeting in May 2015 centred around finding Procurement's role in a downturn. Key points raised were:

- reducing costs through benefits including improved efficiencies, integration and scale
- balancing cost reduction with sustainability and ensuring that the organisation isn't crippled in the longer term
- taking advantage of Procurement's higher profile during a downturn
- making hard decisions when you are unable to retain more than one supplier
- recognising the cyclical nature of downturns and having a plan for when business improves
- understanding that continually squeezing suppliers on cost is unsustainable and harmful to quality.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

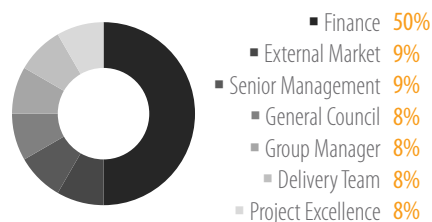
Benefits definitions >
and measurements

About The Faculty >



Key findings *continued...*

Benefits realisation results are reported to:



Collaborative reporting between Procurement and Finance is vital to ensuring benefits are validated outside of the function.

The roles held by the report beneficiaries typically influence the importance placed upon the different benefit types identified by Procurement, for example:

- finance places value on monetary benefits
- external audiences (customers) value social benefits
- senior management (board level) value risk mitigation
- project excellence teams value operational improvements.

When reporting, it is important that each identified benefit is linked to wider business goals and targets. A “value matrix” such as that pictured here can help clarify exactly what the benefit brings to the business in relation to cost, risk, service and innovation targets.

Growing the top line	Service	Innovation
	Cost	Risk
Protecting the bottom line		

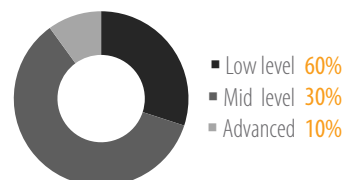
IT systems used to track benefits realisation



SAP and Ariba dominate the ERP systems used by respondents. An effective ERP:

- is supported by an organisational culture that values data integrity
- creates one way of working across the business
- minimises or eliminates opportunities for maverick spend and contract leakage
- feeds into scorecards and benefits realisation dashboards.

Current maturity of contract handover process



The CPOs' self-assessment of the current maturity of their contract handover processes indicates the majority of the group has identified improvements to address in this area. Best-practice contract handovers are clear, concise and use the terminology employed by their recipients, leading to:

- better communication between Procurement and stakeholders
- earlier involvement of stakeholders
- clarity of scope and deliverables
- increased consistency internationally
- clearer understanding of roles and responsibilities
- clarity of milestones for each contract to ensure benefits are tracked and realised
- improved risk mitigation to arrest contract leakage in a timely manner
- better knowledge of contracted benefits for end-users.

Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Key findings *continued...*

Top three reasons why end-users fail to comply with contracted benefits

- 1 Complex or manual process
- 2 Lack of input
- 3 Ignorance of benefit

Top three motivators for end-users to comply with contracted benefits

- 1 Reduced cost over time
- 2 Aids decision-making
- 3 Helps achieve KPIs

A strong communication piece focused on “what’s in it for me” is integral to creating buy-in among end-users. End-users have also indicated that they value having input into the contract, along with easy-to-use processes that aid decision-making. End-users should be consulted on:

- what they want
- what is important to them
- how it will be delivered, and
- what does success and failure look like.

Top three most important benefit types for CPOs

- 1 Savings
- 2 Cost mitigation
- 3 Risk mitigation



Top three most important benefits types for sourcing specialists

- 1 Savings
- 2 Value to end-customer
- 3 Enhanced service



Results show that cost savings are still the primary benefit valued by Procurement and its stakeholders, demonstrating that the function’s core role is to ultimately control the commercial purse strings of the organisation. An organisation-wide cost-conscious culture must be in place, supported by strong processes and compliance, before CPOs can broaden their function’s value offering with additional benefit types beyond the transactional.

Top three most important benefit types for suppliers

- 1 Margin enhancement
- 2 Contract compliance
- 3 Innovation



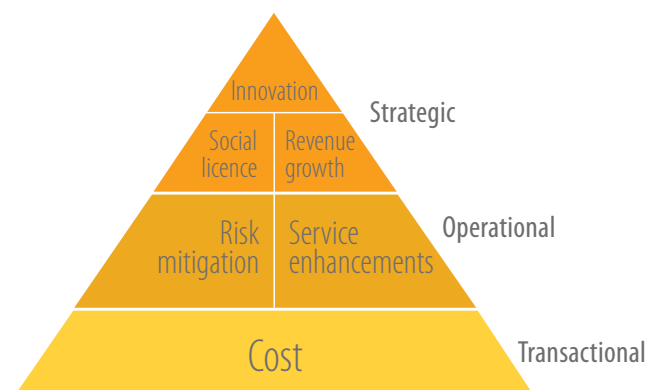
Top three most important benefits types for end-users

- 1 Quality
- 2 Enhanced service
- 3 Risk mitigation



Expanding the focus to deliver operational and strategic benefits requires a shift in team culture from transactional to strategic thinking. Agreement on KPIs with the business on non-savings related targets is important. A good-practice scorecard might include:

- hard financial metrics – savings and cash flow impact
- stakeholder metrics – customer satisfaction and supplier performance
- process and efficiency metrics – activity and compliance
- people and knowledge metrics – retention, training and competencies.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Literature Review: five global findings

The results of a global literature review have been distilled to the following five findings, demonstrating that the challenges involved in Making it Stick are in no way limited by geography or sector:

1 Globally, benefits realisation levels are poor and remain an enduring challenge for organisations.

"[In] both public and private sector organisations ... only 10% to 25% of potential benefits are usually achieved from investment in change. This shortfall, or waste, is estimated to cost the UK over £50bn p.a."

Bradley, Gerald. "Why more CEOs are turning to Benefit Realisation Management", *CEO Magazine*, August 2006.

The industry average (middle 50% of aggregate performance scorers) surveyed by Aberdeen in 2011 had an average of only 8% realised contract savings. Best-in-class (top 20%) had an average of 17%, while "laggards" (bottom 30%) realised only 4% of contract savings.

Limberakis, Constantine G. *Procurement Contract Lifecycle Management: Assessing the value of contract automation*, Aberdeen Group, December 2011.

2 Benefits realisation is inextricable from change management – one cannot exist without the other.

"The fundamental reason for beginning a programme is to realise benefits through change. The change may be to do things differently, to do different things, or to do things that will influence others to change."

Great Britain Office of Government Commerce, *Managing Successful Programmes*, Norwich, The Stationary Office, 2003, p.31.

"A benefit is an outcome of change which is perceived as positive by a stakeholder."

Bradley, Gerald. *Benefits Realisation Management: A practical guide to achieving benefits through change*, Hampshire, Gower Publishing, 2006, p.102.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Literature Review: five global findings *continued...*

3 Business alignment and shared goals are integral to winning stakeholder support for identified benefits.



"The procurement team should not be the 'sole owners' of savings. Instead the focus of the team should be on facilitating and driving initiatives. They should also be accountable for the governance function through recording, measuring and reporting savings."

Costelloe, Noah. *Five things: getting the basics right in Procurement*. Ernst & Young, 2014, p.4.

"A fundamental principle of effective benefits management is that the value of a benefit should be determined by the recipient. A project may claim to deliver a benefit of 10% of £10,000, but if the business won't sign up to deliver that benefit it is unlikely that it will be realised."

Jenner, Stephen, *Realising benefits from Government ICT investment: a fool's errand?*, Reading, Academic Publishing International, 2011, p.9.

"Success in the procurement field ... is a nebulous concept [because] procurement's objectives aren't usually clearly defined. Or perhaps, more accurately, it's because procurement's objectives are defined quite differently by its practitioners and the business leaders they serve."

Cooper-Bagnall, Jonathan, "Defining procurement success", Proxima, June 2015

"[Procurement must] provide alignment and clear links between the programme [benefit], its vision and desired outcomes, and the strategic objectives of the organisation involved."

Great Britain Office of Government Commerce, *Managing successful programmes*, Norwich, The Stationary Office, 2003, p.32.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Literature Review: five global findings *continued...*

4 Procurement teams are expanding their strategic footprint beyond costs through the identification and realisation of additional value opportunities.



"[There is a] disconnect between what C-suite executives see as priorities for procurement and what procurement sees itself as its priorities ... C-suite executives overwhelmingly saw cost savings and cost avoidance as the number one priority for their procurement function, while procurement was more concerned about touchless transactions or driving process efficiencies."

Procurement and Supply Australasia, "Moving the conversation beyond cost savings", July 2015.

In ProcureCon Europe's survey of 2,000 procurement professionals, "Total Cost Savings" still retains its place as the most popular metric for measuring the value of procurement (85%).

ProcureCon Europe 2014 Benchmarking Survey.

"The key to unlocking the value in contracts is to develop a granular understanding of the drivers underlying the commercial relationship."

Ernst & Young. *Supporting local public services through change: contract optimisation*. UK, 2013

"Significant opportunities still remain to drive sustainable bottom line and top line value Procurement will need to stretch beyond savings to become a centre of value creation throughout the organisation. Executives will also need to play a part."

KPMG. *The Power of Procurement: A global survey of Procurement functions*. KPMG, 2012, p.14.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Literature Review: five global findings *continued...*

- 5 Clear definitions and categorisation of savings and other benefit types drive cross-functional understanding, shared measurements and realisation.



"Savings [is] an inherently ... complex metric [with] greater disparity among the definitions used by procurement teams today ... 'implemented savings' should be the preferred savings definition because it captures the benefits that accrue to the enterprise".

Bartolini, Andrew. *CPO Rising 2014: Convergence*, Ardent Partners 2014, p.19.

"Crucial to [Procurement's] mission is the proper categorisation of the various types of cost reduction and their application to the company's operating budgets and profit and loss measures ... [There is no] universally accepted definition or method by which they are tracked and applied to company financials."

Ashenbaum, Bryan. "Defining cost reduction and cost avoidance", *CAPS Research Critical Issues Report 2006*, p.2.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Top six ways to Make it Stick



1. Prove it

The key to benefits realisation lies in the difference between projected and realised benefits.

Projected benefits are:

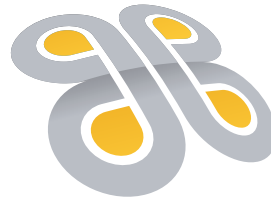
- estimated savings across the whole organisation when a contract is finalised
- targets rather than measurements
- susceptible to variation
- unproven value based on historical data.

Realised benefits are:

- tracked and updated in real-time over the life of the contract
- proven and delivered actual value
- validated by Finance in P&L balance sheet.

"In order to articulate, capture and realise benefits, your information has to be meaningful so you can act upon it."

Paul Dobing, Executive Director,
NSW Procurement at Office of
Finance & Services



2. Collaborate

When it comes to benefits realisation, Procurement cannot afford to function in isolation. Build a cross-functional collaborative team to plan, track and validate benefits, involving:

- senior stakeholders
- finance
- end-users / business owners.

Cross-functional collaboration leads to alignment of targets, validation outside of the function and reduced disagreement over Procurement wins. Best-practice involves the whole organisation being committed to using the new contract.

"If it isn't cross-functional, it's dysfunctional"

Naomi Lloyd, Procurement Director
Asia Pacific at Campbell Arnott's



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

**Top six ways to
Make it Stick**

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Top six ways to Make it Stick *continued...*



3. Expand the focus beyond costs

Pressuring suppliers exclusively on costs leads to the risk of compromised service and standards as they are forced to take costs out of their own operations.

Expanding Procurement's focus from transactional, cost-focused benefits to non-monetary value-adds will:

- add breadth to the value Procurement contributes to the organisation
- lead to growth in supplier innovation and risk mitigation
- encourage a culture of quantifying, measuring and proving non-monetary benefits.

"You can only pressure suppliers on cost up to a certain point before you risk compromising on quality and service levels. The key is to seek out different types of value in the supplier relationship."

Mike Blanchard, General Manager Strategic Procurement (CPO) Sydney Trains



4. Align to business targets

Measures of success should be agreed in conjunction with senior stakeholders and Finance, ensuring that the function:

- links all benefits to overall business values and goals
- agrees on definitions, baselines and measurement methodologies for each benefit type
- focuses on individual business savings as well as shared goals and targets
- uses the language of business partners to aid cross-functional understanding.

"How procurement measures success must be aligned to what the business views as success."

David Henchliffe, Chief Procurement Officer, Santos



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Top six ways to Make it Stick *continued...*



5. Define Benefits

Definitions of all identified benefits should be documented and a key part of an organisation's Benefits Realisation Framework.

Definitions should be:

- categorised by benefit type
- agreed upon with Finance
- clear and concise
- in plain English (not "Procurement lingo")
- aligned to business targets
- linked to a clear set of measurement and validation methodologies.

"If benefits aren't clearly defined, other parts of the business will dispute Procurement's savings."

David Macdonald,
Procurement Director, Asia
Pacific and Air BP



6. Focus on compliance

Maverick spend, contract leakage and other non-compliance issues are the enemy of effective benefits realisation. Some practical steps to drive compliance include:

- establishing enforceable penalties for compliance breaches
- educating end-users during the handover process about consequences of compliance breaches
- creating a foolproof system (such as an ERP) that minimises opportunities for compliance breaches
- clearly defining roles and responsibilities
- monitoring and controlling maverick spend through an exceptions management signoff process.

"Having one way of working across the business aids process checks and compliance management."

Ron Brown, General Manager
Supply Chain at MMG Limited



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Digital checklist: Planning



Planning



Implementing



Making it Stick



Validating



Planning

Stakeholder engagement

- Define objectives of stakeholder engagement
- Develop stakeholder communication plan and handover process ([see link 1](#))
- Identify and map key stakeholders
- Engage stakeholders early and often
- Give stakeholders opportunity for input
- Understand and integrate stakeholder requirements
- Update relevant Procurement policies.

Alignment to business requirements

- Ensure benefits realisation framework aligns to business goals, values and drivers ([see link 2](#))
- Communicate Procurement policy requirements and incorporate into framework ([see link 3](#))
- Link identified benefits to business values and drivers
- Ensure end-users have operational input into benefits realisation planning
- Seek cross-functional agreement with Finance and other relevant functions on what will be measured ([see link 4](#))
- Agree on how benefits will be utilised (i.e. savings removed from budget)
- Employ language used by other functions to aid understanding and buy-in
- Review contract and supplier relationship to identify additional value opportunities.

Identification and agreement on benefits

- List benefit types that will be measured and validated
- Create clear and concise benefits definitions ([see link 5](#))
- Categorise benefits (categories may include “cost reduction”, “cost avoidance”, “revenue” and “other value”)
- Define measurement methodologies for each benefit type ([see link 6](#))
- Agree on reporting and validation process (cross-functional sign-off and balance sheet)
- Ensure benefit definition and measurement methodologies are incorporated into handover process
- Update contract performance scorecard to include measurement and benefit reporting elements.

Capability uplift

- Determine capability levels required to realise identified benefits
- Conduct capability assessment (if required) and determine areas for targeted improvement ([see link 7](#))
- Determine capability uplift methodology: formal training, coaching or content refresh
- Perform uplift as required ([see link 1](#))
- Conduct follow-up capability assessment to determine effectiveness of training program.

Useful links

1. [The Faculty: Organisation, Culture & Training](#) >
2. [Case study: NSW Procurement benefits realisation framework](#) >
3. [The Faculty: Procurement Strategy & Process](#) >

4. [Case study: Cross-functional wins at Campbell Arnott's](#) >
5. [Case study: Savings definitions at BP](#) >
6. [Sample benefits definitions and measurements](#) >
7. [The Faculty: Capability Assessment](#) >



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Digital checklist: **Implementing**



Planning



Implementing



Making it Stick



Validating



Handover to business owners

- Engage early and often
- Focus on “what’s in it for me”
- Tailor your language to the recipient
- Ensure your handover documentation includes:
 - overall goals
 - specific targets
 - roles and responsibilities
 - key milestones
 - benefits definitions
 - benefits measurement methodology
 - benefits validation methodology
 - consequences of non-compliance
 - risk mitigation processes ([see link 1](#)).

Useful links

1. [Case study: Best-practice handover process](#) >
2. [Case study: Cross-functional wins at Campbell Arnott’s](#) >
3. [The Faculty: building a cost-conscious culture](#) >

Driving the right behaviours

- Build team KPIs around realised (rather than projected) benefits to incentivise team on delivery rather than promise
- Create a culture that values data integrity throughout the organisation
- Drive a culture of joint accountability for benefits realisation ([see link 2](#))
- Build a cost-conscious culture throughout the organisation ([see link 3](#)).



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Digital checklist: Making it Stick



Planning



Implementing



Making it Stick



Validating



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Making it Stick

Benefits tracking

- Utilise reporting capability of ERP system
- Track contracted benefits against realisation targets identified in planning stage
- High-level benefits reporting at CPO level (dashboard)
- Detailed benefits reporting at contract management level
- Update projected targets with live data
- Reporting to Finance and other key stakeholders.

Governance and Compliance

- Track end-user and supplier compliance to contract
- Follow up compliance breaches and maverick spend
- Educate end-users on compliance as necessary
- Utilise ERP (catalogues) to minimise non-compliance ([see link 1](#))
- Review and correct contract leakage with suppliers.

Risk management

- Risk prevention
 - Identify potential risks
 - Analyse likelihood of risks
 - Rank risks by consequence to benefits realisation
 - Create risk triggers (automatic notifications)
 - Create a risk response plan
- Risk management ([see link 2](#))
 - Minimise impact of risk event
 - Evaluate effect on benefits realisation
 - Adjust benefits targets as required.

Ongoing communication

- Regular supplier communication and meetings as per SRM program ([see link 3](#))
- Drive culture of joint accountability and focus on benefits realisation through ongoing updates to:
 - Procurement team
 - Finance
 - End-users
 - Suppliers.

Useful links

1. [The Faculty: Procurement Systems](#) >
2. [The Faculty: Risk Management & Governance](#) >
3. [The Faculty: Supplier Relationship Management](#) >

Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Digital checklist: **Validating**



Planning



Implementing



Making it Stick



Validating



Validating

Benefits signoff

- Review benefits realisation against original targets
- Ensure all projected benefits are converted to realised benefits
- Ensure cross-functional signoff to validate realised benefits outside of Procurement
- Identify additional value gained (benefits not identified in contract).

Benefits realisation

- Collaborate with business to ensure benefits are utilised according to agreed purpose, such as:
 - cost savings removed from budget
 - improved quality becoming new standard
 - improved service becoming standard practice.

Useful links

1. [The Faculty: Procurement Transformation](#) >

End of contract review

- List benefits realisation successes and opportunities
- Document reasons (learnings) where benefits have not been realised to full extent
- Incorporate learnings into future contracts and contract management processes ([see link 1](#)).

Recognise and celebrate

- Communicate benefits realisation successes and opportunities to wider business
- Use realised benefits % as a key indicator of the Procurement function's effectiveness
- Celebrate and reward Procurement team's delivery to promise.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist

Case studies >

Benefits definitions >
and measurements

About The Faculty >



Case studies: Savings definitions – from conflict to collaboration at BP



Ensuring clarity in savings definitions was vital to strengthening the working relationship between BP Procurement and Finance and reducing disagreement over what constitutes a “saving”.

The Challenge

Prior to 2012, communication between BP Procurement and Finance was felt to be poor, with the two functions “speaking a different language” in relation to what constitutes a saving. This led to disagreement when Procurement reported savings that Finance had not agreed to measure, indicating that the two functions had differing views about the role of Procurement at BP. The fundamental issue identified was a lack of accord on terminology, or definitions of savings types.

The Solution

In 2012, BP Procurement and Finance invested time and resources into the development of mutually-agreed savings definitions. The overall definition for a “saving” demonstrates the working group’s focus on conciseness: “A saving is a monetary impact on the business, attributable to a deliberate action”. The definition uses plain English, avoids over-complication and ambiguity.

BP categorises savings into four types: cost reduction, cost avoidance, revenue and other value savings. Each savings type has a clear, concise definition that is equally applicable across Procurement, Finance and the international business.

Alongside the definitions, BP Procurement and Finance also agreed on simple calculation methodologies and a set of ten “golden rules” for team members, again with a focus on simplicity.

The new level of collaboration between Procurement and Finance continues to grow. Both parties now have shared value drivers and targets, achievable through the use of the jointly developed savings definitions. The teams communicate regularly and are seated in close proximity to facilitate this.

The Outcome

The strong partnership and agreed definitions between Procurement and Finance have greatly reduced disagreement over what constitutes a saving at BP.

Flow-on benefits include increased productivity, simplicity, visibility and clarity. The reduction of disagreements has contributed to an increase in Procurement’s credibility which has resulted in the function being viewed as a trusted advisor to the wider business.

BP has demonstrated a best-in-class approach to cross-functional partnerships through its investment of time and resources into savings definitions. The function’s vision is to extend this rigorous approach to definitions and methodology for non-monetary benefits.



“Lacking agreed, universally accepted savings definitions is a fast-track to business skepticism of Procurement value – it’s one of the first questions I ask when joining a new organisation.”

David Macdonald, CPO, BP.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies

Benefits definitions >
and measurements

About The Faculty >



Case studies: Cross-functional wins at Campbell-Arnott's



Cross-functional collaboration was identified as vital in moving Campbell Arnott's Procurement from a predominately transactional to a strategic value role. This was achieved through the creation of a cross-functional working group and the astute adoption of existing terminology that is understandable by the wider business culture to create and sustain buy-in.

The Challenge

Before 2013, Campbell Arnott's Procurement was focused on traditional benefits in the form of savings, or "enabler cost out" in the language used by the wider business. This was supported by a strong process that was aligned to budget and driven and validated by finance. The key challenge faced by Procurement was expanding from this traditional (transactional) role to a broader definition of value.

The Solution

In 2013 the Procurement team launched its Growth Enabler Program, setting up monthly cross-functional meetings to identify and drive broader value across the business. At present the meetings are attended by representatives from Procurement, Supply Chain, Finance and R&D, with plans to extend an invitation to Marketing for their input. Procurement deliberately employs the language used and understood by the other participating functions to build on the existing legacy and ease the change process.

Monthly GEM (Growth Enabler Meetings) create advantage through joint process improvements, specifications improvements, joint business planning and relationship restructuring, with a primary focus on driving benefits realisation and growth through leveraging the SRM of Campbell Arnott's top six strategic suppliers.

The Outcome

The Growth Enabler Program delivers increased profit and growth through cross-functional ownership of innovation, new product development, enablers and quality. The meetings also increase visibility across all attending functions around:

- joint capacity/business planning
- value chain optimisation
- cash and costs
- sustainability and risk management
- talent development
- mentoring and
- operational excellence.

Procurement's strong processes that include alignment to budget and finance validation have now been extended across all of the above outcomes, leading to realisation of a wider range of benefits through shared goals and targets across the business.

Campbell Arnott's Procurement team's creation of cross functionality and visibility at the grassroots level has filtered up to the leadership team, creating a culture where leaders are increasingly taking ownership of a full business result rather than focusing upon the functional role that they sit in. The Growth Enabler Program has pushed change upwards through good governance and culture, leading to a new level of cross-functional cooperation and conversation.



"If it isn't cross-functional, it's dysfunctional."

Naomi Lloyd, Procurement Director Asia Pacific at Campbell Arnott's.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies

Benefits definitions >
and measurements

About The Faculty >



Case studies: NSW Procurement – leading the pack through a world-class framework



NSW Procurement's current focus is to develop and implement a government-wide strategic approach to procurement and ensure best value for money in the procurement of goods and services by and for government agencies. One of the initiatives being undertaken is a procurement reform: the simplification of procurement processes while ensuring probity and fairness, including the rollout of a new and improved Benefits Realisation Management Framework.

The Challenge

A review of government-wide benefits realisation found that red-tape, prescriptive rules, and the lack of a unified, consistent framework meant:

- many government agencies had their own approach to realising contracted benefits
- some agencies were found to have a haphazard approach with no clear documented process
- a lack of clarity around roles and accountability for benefits realisation, and
- subsequent poor realisation of benefits identified in the contract creation phase.

The Solution

NSW Procurement consulted with NSW Government agencies and suppliers to develop a Benefits Realisation Management Framework that includes:

- an introduction and guidance for program sponsors and business benefit owners
- best-practice principles for benefits realisation
- a standard approach for benefits realisation management and
- consistent terminology and benefits categorisation.

NSW Procurement has also improved benefits realisation planning through more effective category management approaches and principles, along with standardised government contracts across the commercial and private sectors.

The Outcome

NSW Procurement now has a robust, five-part Benefits Realisation Management Framework that not only guides the actions of NSW Procurement, but is accessible and understandable by cross-agency program sponsors and business benefit owners. The communication piece that accompanies the Framework focuses on "what's in it for me" for the wider audience, and will assist stakeholders to:

- build a business case
- focus attention on the most important benefits
- improve communication with stakeholders by providing measures for planned changes
- improve the chances of successful business change by focusing on final outcomes
- identify, manage and mitigate risks associated with the realisation of benefits, and
- provide input for Post Project Implementation Reviews.

A strong endorsement for the success of this Framework can be seen in its planned adoption by another state government's Procurement function.



"We want to see our vision for benefits realisation mature across the organisation to obtain sustainable outcomes all the way through our value chains."

Paul Dobing, Executive Director, NSW Procurement at Office of Finance & Services.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies

Benefits definitions >
and measurements

About The Faculty >



Case studies: Making it Stick through a best-practice handover process

The Faculty developed a contract handover process for a leading global resources company. Each element of the handover process directly influenced the business' ability to realise the benefits identified by Procurement.

The Challenge

With its international operational environment, the organisation required a simple, easy to understand process that could be replicated globally. The three keys to a good handover were identified as enabling contract owners and end-users to understand simply:

- what they needed to do
- when to do it and
- how to fully realise all benefits negotiated by Procurement in every contract.

The Solution

The contract handover process now in place includes the following components, all necessary for effective benefits realisation:

- defining resource requirements
- determining the roles and responsibilities of each party involved
- creating a development plan
- determining steps and timing for implementation
- developing a supplier strategy and joint business plan
- developing an implementation plan and
- documenting risks and mitigation strategies.

The Outcome

The simple, structured contract handover process has led to a smoother transition process between Procurement and end-users. Contract compliance (and subsequent benefits realisation) has improved due to the process creating:

- better communication between Procurement and stakeholders
- less ambiguity and confusion
- increased consistency internationally
- clearer understanding of roles and responsibilities
- set milestones for each contract to ensure benefits are tracked and realised
- improved risk mitigation to arrest contract leakage in a timely manner and
- better knowledge of contracted benefits for end-users.

Rather than overcomplicating the handover process and potentially generating confusion or disconnect among end-users, the focus on three key essentials (what, when and how) enables users to fully realise the benefits negotiated by Procurement.



"Without a clear handover process that defines responsibilities, milestones and methodologies, contract compliance will suffer and benefits cannot be realised to their full extent."

Robert Pease, Commercial Director, The Faculty Management Consultants.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies

Benefits definitions >
and measurements

About The Faculty >



Benefits definitions and measurements

The table below contains sample definitions and measurements employed by participating organisations. Please note that many definitions are worded similarly, but are reproduced here in full to give readers a broad set of examples to adapt for their own organisations.

A concise set of definitions aids cross-functional understanding and should be developed in partnership with the wider business.

Benefit type	Benefit sub-type	Sample definitions	Sample measurements
Efficiency / Savings	Purchase price variance	"Purchase price variation: the standard measure of price-reduction performance, being an historical baseline price comparison (delivered through a purchase price reduction, or a change to a lower cost alternative)."	(Last year's price – current price) X volume.
		"Standard savings (recurring; must use same material, part, or service)."	(Old price – new price) X number of units purchased.
	Reduced total cost	"An improvement to a credible historical total cost baseline through a reduction in costs or a revenue improvement on previous year. A reduction to expenditure as a result of reduction in price, usage or associated costs."	<ul style="list-style-type: none"> Cost = volume of units purchased X price paid per unit Revenue = volume of units sold X price per unit Saving = reference point cost or revenue – actual cost or revenue.
		"Cost reduction: spend is reduced below level of spend in prior period."	<ul style="list-style-type: none"> Decrease in total cost of purchased materials/ services Decrease in purchased volume of goods or services (due to a deliberate action by Procurement) Reduction in cost due to specification changes Reduction in total cost of ownership Reduction in demand Supplier rebate or discount offered for certain volumes or usage.
		"Metrics that compare historical cost against current cost; used to determine negotiated price improvements or reduction in usages. A reduction to expenditure as a result of reduction in price, usage or associated costs."	
		"Material or service replacement savings (different source, part or easing of specifications)."	(Original material or service cost – new material or service cost) X number of units purchased.
		"Negotiated price for non-capital spend savings (recurring; applies to first time non-capital spend only; used when last year's price is not set)."	Accepted quote – negotiated reduction.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions
and measurements

About The Faculty >



Benefits definitions and measurements

Benefit type	Benefit sub-type	Sample definitions	Sample measurements
		"Supplier rebate saving (one-time; cannot be used to offset a price increase)."	100% of money received (less any fees).
	Cost avoidance / cost mitigation	<p>"Cost avoidance is a measurement of the mitigation of a potential price increase. This is where the cost of products/services is not lower than historical spend, however the costs are less than the reference cost, demonstrating value versus costs that would have incurred without the deliberate action.</p> <p>For new or replacement goods or services where no historical price exists, cost avoidance savings are based on the difference between the average supplier quoted price and the final agreed price."</p>	
		"Where an increase in cost is avoided based on actions undertaken by Procurement. This may include avoidance of price increases or avoidance of additional costs."	Net benefit is the difference between previous price that would have been applicable and actual price paid.
		"Where a contract states an escalation is permitted by market index rates and supplier does not pass on due to negotiation."	(Market index – negotiated price) X number of units purchased.
		"Where a commitment is determined as unnecessary or redundant; negotiation with supplier reduces value of legal commitment."	Remaining contract cost / number of years left in agreement.
		"Price increase avoidance (recurring; must receive supplier documentation of price increase and final negotiated price)."	Cost avoidance = (increased price per unit – negotiated price per unit) X volume OR cost avoidance = CPI increase.
		"Cost reduction for one off purchase (one off saving; restricted to one time non-capital purchases; not the beginning of a repeat purchase)."	Cost avoidance = (quoted price – negotiated price) X volume or cost avoidance = (market value – negotiated price) X volume.
		"An avoidance of an increase to a credible Historical Total Cost Baseline through avoiding costs or reducing risk. Avoiding cost increases through negotiation to reduce price increase or against indexed / market prices. Reducing risk of events occurring that have a potential to impact the company. A cost of debt calculation for balance sheet improvements for reduction in inventory (i.e: raw materials / spares)."	



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

**Benefits definitions
and measurements**

About The Faculty >



Benefits definitions and measurements

Benefit type	Benefit sub-type	Sample definitions	Sample measurements
		<p>"A cost reduction that does not lower the cost of materials or services when compared against historical results – but rather minimises or avoids entirely the negative impact to the bottom line that a price increase would have caused. Examples include:</p> <ul style="list-style-type: none"> • resisting, delaying or minimising a price increase; • a purchase price that is lower than the original quoted price; • additional services provided at no extra cost; • contracts with price-protection provisions; • an increase in output/capacity without increasing expenditure; • negotiating an expense increase, where industry average increases at a higher rate." 	
	Efficiency improvements	<p>"Reduction in headcount directly linked to Procurement's involvement."</p> <p>"Increasing line speed or capacity of production for a bottleneck process (must be a direct impact of Procurement's involvement)."</p> <p>"Decreased downtime."</p>	<p>Percentage of headcount as determined by Business Unit X annual wage as determined by Business Unit.</p> <p>(Revenue from yield / Product yield) X yield improvement.</p> <p>Cost per occurrence X likelihood per cent.</p>
		<p>"Changes implemented via contracting arrangement directly leads to an improvement in reliability / performance. This can be a process or the output of technical advice."</p> <p>"New system implementation leading to less processing time for activities."</p> <p>"Reduced red tape; streamlined processes/reduced documentation."</p> <p>"Operational efficiency savings (recurring; must be a reduction in headcount directly linked to procurement's involvement)."</p>	<p>(New variable – old variable) X volume.</p>
	Demand / consumption management	<p>"A reduction in demand through the development and implementation of a scope of work reduction (e.g. policy change), finding ways to avoid spend, or reducing services levels."</p> <p>"Reduced consumption, better utilisation of assets (quality rather than price)."</p>	<p>Net benefit between previous spend baseline and new spend baseline.</p>



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

**Benefits definitions
and measurements**

About The Faculty >



Benefits definitions and measurements

Benefit type	Benefit sub-type	Sample definitions	Sample measurements
Capital organisation	Inventory reduction	"Reduced inventory held."	
		"Reduction of inventory due to Procurement's involvement; may be due to supplier-held, supplier-managed inventory or reduced lead times; also recorded in EBIT Improvement."	Net value of inventory reduction X WACC.
		"Inventory reduction savings (one off saving; must be inventory reduction due to procurement's involvement)."	Cost avoidance = net value of inventory reduction. P&L = net value of inventory reduction X current cost of capital (agreed by Finance).
		"One-off cash effect from inventory reduction exercise."	
	Payment terms	Favourable payment terms negotiated by procurement.	Longer payment periods, reduced invoice numbers or bank fees.
	Capital Expenditure	"Capital savings project management (one-time; must involve cost estimation process; savings can be released through project lifecycle as contract is awarded and risk and contingency factors change)."	Final project savings = total project budget – final project cost.
		"Negotiated price for capital spend savings (one-time saving)."	Annual cost savings = negotiated reduction / useful life (reflecting annual depreciation).
Growth	Revenue growth	"Revenue from increased services or increased user charges."	
		"Claimable revenue savings by procurement are due to direct procurement intervention (which may involve interaction with a supplier). Enhancements to a process are made which have a direct correlation to an improvement in revenue. Examples of Revenue savings are an increase in throughput, production, recovery or revenue due to increased sales or increased price of saleable goods."	
		"A revenue improvement may be as a result of process improvements or bottleneck elimination that lead to a production volume enhancement or decreases in selling costs."	
		"An improvement to a credible Historical Total Cost Baseline through a reduction in costs or a revenue improvement on previous year. A revenue improvement as a result of process improvements or bottleneck elimination that lead to a production volume enhancement or decreases in selling costs."	



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions
and measurements

About The Faculty >



Benefits definitions and measurements

Benefit type	Benefit sub-type	Sample definitions	Sample measurements
Risk	Risk mitigation	"Risk mitigation for safety/environmental occurrences with baseline established. Where material/service is strategic security or strategic critical item. Mitigation of risk of unplanned downtime through a contract."	Cost per occurrence X likelihood per cent.
		"Extended warranties/guarantees, reduced residual value risk."	
	Social licence	"Ongoing approval and acceptance for a project at a local community and broad social level."	Level of local community and broader stakeholder acceptance, approval and trust.
Other	Improved supplier relationships	"Additional value realised through improved collaborative relationships with key suppliers."	SRM program; joint performance scorecards.
	Innovation	"Innovation by suppliers or internally that leads to a cost reduction, process enhancement or revenue growth. Must be attributable to Procurement's involvement." "While it is unquantifiable, innovation is a lever to other benefits that are quantifiable, such as reduced costs and efficiency improvements."	Savings, process improvements or revenue growth attributable to specific innovation. Innovation ROI.



Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions
and measurements

About The Faculty >



About The Faculty

At The Faculty, we believe procurement is integral to core business strategy. Through commercial leadership, innovation and deep procurement knowledge, we are helping to transform the profession.

THE FACULTY DELIVERS:

- Consulting and change implementation to elevate procurement through operational, functional and systems transformation, strategy development and best-in-class benchmarking.
- Leadership, commercial and technical skill development to build and embed high-performance procurement teams.
- Networking and thought-leadership forums to connect and inspire Asia-Pacific's most dynamic and strategic procurement minds.

We are not theorists. We are practitioners, committed to delivering innovative, actionable and manageable solutions.

Our clients include an outstanding cross-section of global and regional industry leaders and government organisations. We are proud to have many long-term clients who count on us to challenge their thinking and enhance their performance.

The Faculty employs highly talented commercial professionals with global experience and blue chip company pedigree. We offer a positive, challenging and energetic work environment. We encourage and appreciate the creativity and talent of our team, and seek their contribution across all aspects of the business.

ABOUT THE FACULTY ROUNDTABLE

The expectations of procurement are evolving. Tactical activity will no longer satisfy executive expectations. Today, procurement leaders must engage the organisation's highest decision-makers in strategic commercial conversations that will help to deliver game changing results.

Comprised of an elite group of procurement leaders, The Faculty Roundtable operates as the premier procurement knowledge network in the Asia-Pacific. Committed procurement advocates, members share experiences and insights to achieve greater commercial success both for their business and the profession. Through The Roundtable, members have access to cutting-edge thought leadership, a ready supply of valuable expertise through exclusive market intelligence, as well as networking and professional development opportunities for themselves and their teams.

Since 2006, The Roundtable has sponsored numerous research projects, issues workshops, mentoring programs and founded the Procurement Executive Program with Melbourne Business School, as well as the annual Asia-Pacific CPO Forum. The Roundtable now operates out of Melbourne, Sydney, Brisbane, Perth and Singapore.



CONTACT

For more information about The Faculty Roundtable, please contact Max Goonan, Networks Director, on +61 9654 4900 or via

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Executive summary: >
The money drain

Context: Are things >
coming unstuck?

Key findings >

Top six ways to >
Make it Stick

Digital checklist >

Case studies >

Benefits definitions >
and measurements

About The Faculty





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