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CPO Rising 2019

#ValueExpansion - "Procurement Performance"

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The CPO Rising 2019 Summit

On October 29 & 30, you're invited to join a select group of Chief Procurement Officers and other business leaders who will come together at the Harvard Club (Back Bay) in Boston for the annual CPO Rising 2019 Summit, an executive symposium brought to you by Ardent Partners.

This exclusive event promises valuable networking opportunities and the interactive exchange of ideas for CPOs and other procurement executives. Attendees can expect to return home with a collection of new and innovative ideas and strategies that will help improve the performance of their organizations and increase the impact their teams have on business results.

From keynote presentations to CPO panel discussions, case studies, and breakout sessions, the unparalleled speaker panel will highlight the topics that matter most to those procurement executives driving value within the enterprise and across the supply chain.

CPO Rising 2019 is an event for CPOs by CPOs. The day and a half summit provides an intimate setting for delegates to connect, network, and share knowledge and experiences. Join an expected 125-150 CPOs and other procurement executives for this exclusive event.

Online registration now available with "Early Bird" Pricing available until August 31.

For more details, visit: <http://events.cporising.com>

THE CPO IS RISING IN 2019!

CPO Rising 2019: #ValueExpansion

In 2019, the procurement profession still has momentum and is more critical to business operations and results than ever before. But, a decade of Ardent Partners research shows that the profession is also approaching a performance plateau. The truth is that the average procurement department has already picked the low-hanging fruit and most of its easy work has been done. The teams that continue to do the same things over and over again will actually get different results (as in increasingly worse). In this context, procurement's new definition of insanity is for a CPO to stay the course and make no changes.

Breaking plateaus and launching into a new performance trajectory demands new and innovative ideas and approaches. It also requires a broad, multi-faceted approach since no single ingredient can alter the overall procurement recipe. To avoid a frustrating and momentum-killing plateau, CPOs must work to elevate their organization's capabilities and gain improvement across a host of areas in a deliberate attempt to rethink what is possible. They will also need catalysts to ignite a new sense of urgency and new sources of value so that their departments can work smarter, expand their mastery, and raise their commitment. Identifying these new catalysts and sources and framing the different ways that CPOs can leverage them is the focus of this CPO Rising 2019: #ValueExpansion report.

This fourteenth annual CPO-themed report is part of an ongoing dialogue that Ardent Partners' analysts have had with CPOs and other procurement leaders for more than a decade. The report examines the general competencies and capabilities of procurement organizations today and highlights the management strategies and tactics that leading CPOs leverage to get the most from their teams. It also presents a comprehensive, industry-wide view into what is happening in the world of procurement and captures the experience, performance, perspective, and intentions of 308 CPOs and other procurement executives. The report includes benchmark statistics, analysis, and recommendations that procurement teams can use to better understand the state of procurement today, gain insight into best practices, benchmark their performance against the Best-in-Class, and ultimately improve their operations and performance.



Procurement Performance

“You miss 100% of the shots you don’t take.”

– Wayne Gretzky, NHL Hall of Famer

The Agile Procurement Organization

In 2019, the tried and true procurement strategies still work. But, fourteen years after the first report in this series was written, the procurement profession needs new, more adaptive strategies and approaches to propel it to the next level of performance. The winners in procurement will be the agile organizations that can leverage their strategic prowess and fluid resources to anticipate and support dynamic business requirements amidst the more rapid changes in industry, supply markets, and customer behaviors. Agility is the characteristic that will help procurement departments advance and thrive in this new age, when innovation continues to expand beyond mere products and services to core business processes and entire business models.

CPOs and procurement teams need to have honest conversations with themselves, their stakeholders, and their executive teams if they are serious about expanding their value.

In the context of procurement, agility requires enterprise sourcing and procurement teams to be highly responsive to any changes in stakeholder needs, supplier capabilities, and market conditions. For example, agile sourcing may now also require shorter contracts and thusly, more iterative sourcing. A CPO can develop an agile organization by blending together the collection of key resources, activities, tools, and capabilities to create better coordination and responsiveness. Agility takes training and discipline, especially as procurement executives balance the opportunities at hand with process rigor, investments in technology, and the proper strategic outlooks in a shifting, dynamic market.

Adaptation as Agility’s Precursor

While many procurement leaders will obviously point to the desire for business agility as a starting point for transforming their function, the truth is that adaptation should be the precursor for the agile procurement department. Nearly every business function faces some sort of organizational pressure, whether it is the impact of new and innovative technology, market fluctuations, internal challenges, or major economic events. This necessitates a CPO-led



cycle of assessments designed to accelerate the team into an agile business function. The more understanding a procurement team has in its current inner workings from both internal (collaborative) and external (suppliers) sources, the more educated it will be in regard to how it should approach the future. Thus, it is critical that CPOs and their teams consider these potential agility drivers and measure them using these methods and metrics:

- Adaptation to budget dynamics (the ability to do more/better with less).
- Proactive engagement with external stakeholders (i.e. suppliers).
- Responsiveness to disruptive market/regulatory events.
- Adoption/incorporation of supplier innovation.
- Net Promoter scores (NPS) for stakeholders.
- Other types of customer satisfaction surveys.

As discussed, the need to continuously monitor and assess key procurement activities and results is absolutely crucial in adapting to evolving market conditions. In 2019, 48% of all CPOs and procurement teams assess and adjust their strategies regarding team and department management on a quarterly basis; 35% of CPOs do this on a biannual basis, according to new Ardent

Partners research. True agility requires continuous monitoring, reassessment, and the adjustment of strategies and approaches.

At the end of the day, there is a delicate balance to the realm of “adaptation:” procurement executives must not only execute continuous assessments of relationships, performance, and other key factors, but must also weave in the power of intelligence to truly understand what the future may hold. Becoming a truly agile procurement function does not just entail the mere measurement of its current and expected performance, but rather true assessments of the relative experiences of its collaborative partners and key stakeholders, as well as how these relationships will impact the future.

The 2019 Procurement Benchmarks

Every year, this report presents the results of hundreds of procurement teams’ performance across several standard performance metrics and key performance indicators (KPIs). These metrics and KPIs help to tell a story about the state of procurement overall, and then enable CPOs and their teams to benchmark their performance against two maturity classes – the Best-in-Class and All Others. One of the goals of this benchmarking is to provide CPOs and procurement teams with insight into where they stand in relation to their peers and how they can improve in the year ahead.

**Table 1: Procurement Performance Metrics for 2019**

Metrics	Average
Spend under management	63.2%
Savings 2018 (Actual)	7.55%
Savings 2019 (Target)	7.49%
Addressable spend that is sourced	51.0%
Enabled suppliers	35.6%

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Spend under management refers to the percentage of total enterprise spend (all direct and indirect spend – including capital and services spend) that a procurement organization manages or influences. At 63.2%, Spend under Management for all respondents in 2019 is largely the same as it was in 2018. In fact, between 2012 and 2019, the average spend under management metric has barely moved. Over this same period, fewer CPOs are focused on increasing this percentage despite Ardent Partners' research that shows this is a valuable pursuit. There are other benefits beyond savings that also result from procurement's influence, including improved quality and lower risk. More broadly, procurement teams have plateaued in their performance here and other major areas of performance and they must do something to compensate.

Although the average procurement team saved a bit more in 2018 than in 2017, and they have identified slightly more savings in 2019 than in 2018, procurement's overall savings performance in 2019 reflects a "snapshot" rather than a steady year-over-year trend. Procurement teams sourced more addressable spend in 2019 than in 2018 (51% vs. 46.9%), while they have more enabled suppliers in 2019 than in 2018 (35.6% vs. 32.4%). And, like spend under management, spend and contract compliance rates continue to hover around 65%, suggesting that there might be more than a correlative relationship between the two.

Best-in-Class Procurement Performance

Ardent's analysis in this report determined Best-in-Class procurement performance by identifying the top 20% of performers in the spend under management metric. As a group, they have placed, on average, 89.1% of spend under the management of the procurement organization, nearly 36% more than their peers (see Table 2, next page). Ardent uses spend under management as a starting point in the development of its Best-in-Class Framework and to drive additional discussion and deeper analysis of strategies, capabilities, and results.

Best-in-Class enterprises are known for their top-tier performance across a series of critical procurement, sourcing, compliance, and supply management metrics; and the metrics presented in Table 2 bear this out. Best-in-Class procurement teams are clearly superior to All Other teams in every performance measurement:

**Table 2: The 2019 Best-in-Class Procurement Framework**

Metrics	Best-in-Class	All Others
Spend under management	89.1%	53.6%
Savings 2018 (Actual)	7.8%	6.7%
Savings 2019 (Target)	7.5%	7.4%
Addressable spend that is sourced	70.9%	44.2%
Enabled suppliers	49.7%	31.0%

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- They realized more savings in 2018 and identified more savings opportunities in 2019 than their peers – and they improved upon their own performance from 2018.
- They competitively source more addressable spend and a greater percentage of suppliers that are electronically enabled – compared to their peers in 2019 and to themselves in 2018.
- There is still quite the performance gap between the two maturity classes (89.1% vs. 53.6%). Although the percentage of spend under management in the average organization has plateaued over the past several years, the Best-in-Class rely on this critical benchmark to reinforce its value.
- Although the Best-in-Class tend to save more than others and have more savings targeted, at some level the largest savings opportunities remain with less-mature companies.

Still, Best-in-Class procurement teams are able to outperform their peers due, at least in part, to superior process capabilities (Figure 2, page 11) and enabling technology solutions (Figure 3, page 13). Together, process standardization, linkage, and automation create business conditions that can often result in powerful visibility into many different aspects of a typical business (Figure 4, page 14) – from operational, tactical drivers to strategic big-picture measures, and procurement-centric KPIs and performance metrics. Each one of these Best-in-Class advantages will be discussed in greater detail here.

Trust the Process - It Works

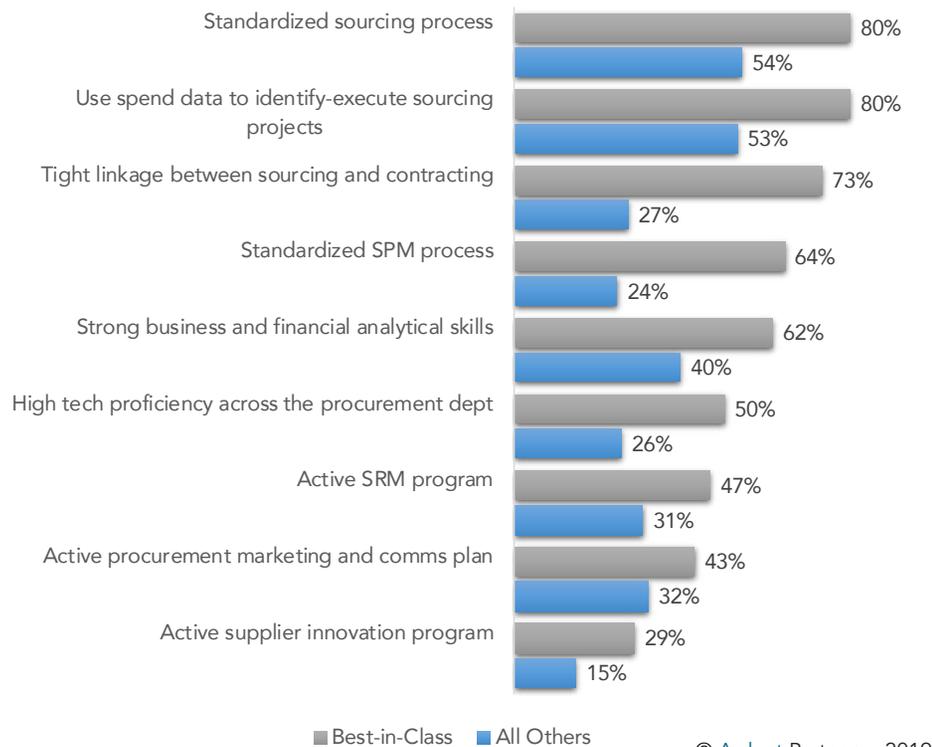
Best-in-Class procurement teams tend to standardize their processes to a greater degree than their peers, despite the fact that their process capabilities, while superior to All Other teams, are not exceedingly high. Figure 1 on the next page shows that the most prevalent process capabilities for the Best-in-Class are standardized sourcing processes and the use of spend data to identify and execute on sourcing projects. The research also shows that while even the Best-in-Class have room for improvement, their process advantages are a key reason for their performance lead.

Four of five Best-in-Class procurement teams (80%) reportedly have the ability to not only conduct standard sourcing projects (including eSourcing, eAuctions, and reverse auctions), but also leverage actionable spend intelligence to make more informed sourcing decisions and improve sourcing outcomes (79%). A little



more than half of All Other teams, 54% and 53%, respectively, have these capabilities which help explain the Best-in-Class' higher savings rates and larger sourcing throughput.

Figure 1: Process Capabilities - Best-in-Class vs. All Others



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The greatest disparity between Best-in-Class and All Other procurement teams is in how tightly their sourcing and contracting

processes are linked. While nearly three quarters of the Best-in-Class (73%) report tight linkage between the two, just 27% of All Other teams report the same – a whopping 270% difference. As a result, Best-in-Class procurement teams are better enabled to capture the value they negotiated with suppliers during the sourcing event (i.e., identified savings), and codify it in a legally-binding contract. In turn, this can lead to greater realized savings, less savings leakage, and less financial and supplier risk.

If a procurement teams' sourcing process is not tightly linked or not linked at all to its contracting process, then it becomes more likely that pertinent information will fall through the proverbial cracks. Terms and conditions could be omitted; SLAs could be overlooked; delivery schedules could be missed; performance criteria, including supplier codes of conduct, could be ignored; contract expiration/renewal dates could be misstated or misplaced, and the wrong pricing could be charged and paid. Any number of undesirable business outcomes could occur as a result – service upcharges, supplier poor/non-performance, missed production schedules, operational downtime, fines and legal fees, and reputational damage. Maverick/off-contract spend can also occur if/when procurement teams find other suppliers or vendors at the last minute to fill gaps. All of these outcomes ultimately lead to savings leakage – the difference between savings identified during a sourcing event and savings subsequently realized in downstream purchasing.



Best-in-Class procurement teams also reportedly standardize supplier performance management (SPM) processes to a significantly greater degree than All Other teams (64% vs. 24%) – almost nearly as much as sourcing-contracting process linkage. Collaboratively engaging suppliers, setting performance criteria and expectations during the sourcing event, regularly monitoring and assessing performance, employing supplier surveys and scorecards, and having honest and direct conversations with strategic suppliers are all ways that Best-in-Class procurement teams manage supplier performance to drive the very best performance and innovation from their supplier base. Failing to do so can result in almost all of the same outcomes as loose linkage between sourcing and contracting processes.

It seems intuitive, but Best-in-Class procurement teams reportedly have much stronger business and financial analytic skills than their peers (62% vs. 40%) – more than one-and-a-half times so. It is fair to say that those staffs that have better business sense and analytical skills will generally outperform those that lack them. They will generally manage data better, find more and better business opportunities, make better, more informed decisions, and use the data to drive auditing and compliance to ensure that they are capturing and realizing savings opportunities.

From there, significant disparities remain between Best-in-Class and All Other procurement teams in terms of process capabilities:

- **Nearly twice as many Best-in-Class teams** have high tech proficiency across their departments, which bodes well for their ability to employ applicable Industry 4.0 technologies, like advanced analytics, AI, AR, and others.
- **Best-in-Class teams are 1.5 times more likely** to have a supply risk management (SRM) program which should enable mature procurement teams to identify and proactively manage or avoid risks.
- **Best-in-Class teams are 1.34 times more likely** to have their own marketing and communications plan – important for communicating the function’s mission and value and for driving greater collaboration across the typical enterprise.
- **While not prevalent, nearly twice as many Best-in-Class teams** have a supplier innovation program, enabling more mature procurement teams to adopt and then adapt supplier innovations.

Solid process capabilities can provide major lift to procurement operations as seen in Best-in-Class teams. But, it is when they are combined with a higher level of technology adoption that a competitive advantage is realized.



Flexing Their Muscles: Best-in-Class Technology Adoption

One of the reasons why Best-in-Class procurement teams are able to not only employ superior process capabilities and drive much higher performance, is their consistently higher adoption of automated supply management solutions (see Figure 2). Procurement skill, talent, and discipline shine through in process capabilities; but technology adoption is truly where procurement teams can flex their muscles and scale their resources.

Figure 2: The Best-in-Class Technology Advantage



Compared to All Other procurement teams, the Best-in-Class more frequently:

- Deploy eSourcing tools to conduct sourcing events, which enables them to process more throughput and place more enterprise spend under their management.
- Employ digital, automated contract repositories to enable procurement to have enterprise-wide access to contacts for easy retrieval, review, and auditing, and to help drive on-contract spend, compliance, and realize savings.
- Leverage automated spend analysis solutions, which automatically collect, categorize, cleanse, enrich, and analyze spend data to inform sourcing decisions, enrich financial reporting, and boost governance, risk management, and compliance (GRC) efforts.
- Manage downstream payments with “ePayables” solutions that automatically receive and process digital invoices and submit electronic payment to vendors. This ultimately can reduce the costly time to process invoices and enable procurement to take advantage of dynamic discounting, early-payment discounts, supply chain financing, and other cash management opportunities and techniques.
- Tap into the wide-ranging benefits of business/payment/supplier networks, which include enabled and vetted suppliers,



community business intelligence, sourcing and payment infrastructures, communication and collaboration tools, and wider, faster access to supplier innovations.

The evolution of business technologies will help procurement ascend to a new performance trajectory and help create a digital, data-driven, and automated network of interconnected actors and applications along extended supply chains.

These are only the most prominent examples of how Best-in-Class procurement teams can benefit from greater use of digital, automated supply management solutions that cover end-to-end process execution. One invaluable byproduct of digital transformation data, can provide CPOs and their teams with multi-dimensional visibility into a wide array of business processes and performance, and help them drive processes and performance to higher levels.

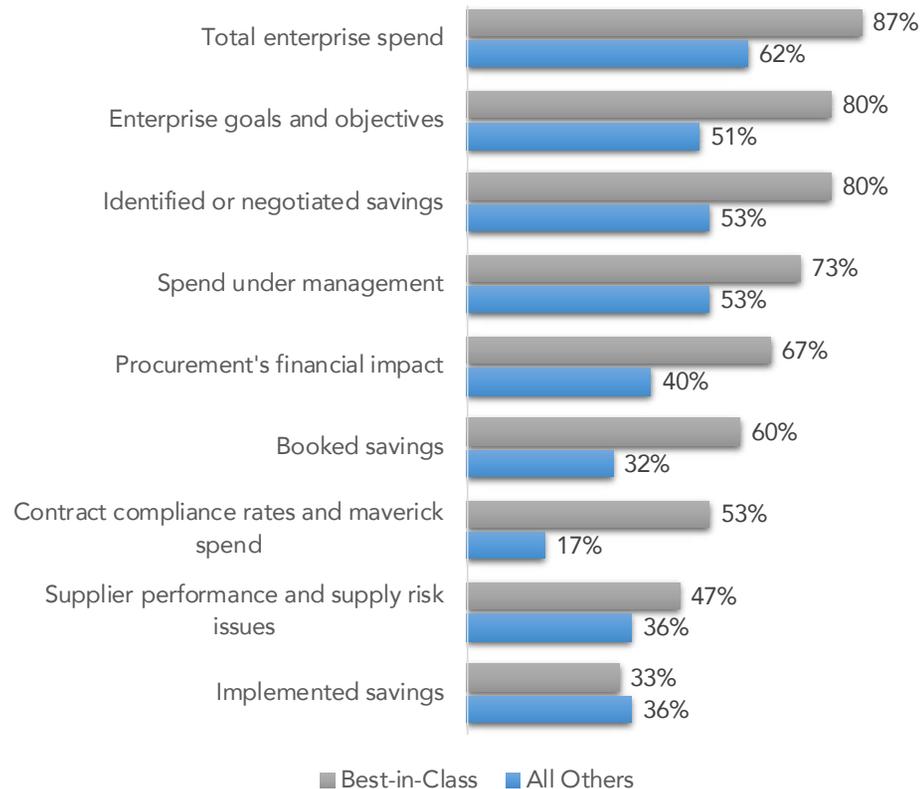
Turning Data into Intelligence - Step One: Visibility

When procurement teams begin to transform their end-to-end processes, particularly when they digitize and automate, they begin to create significant quantities of structured and unstructured data that can either overwhelm or enrich their business processes.

Teams that have the tools and skillsets to harness that data can gain significant visibility into many dimensions of the business – like spend, savings, performance, compliance, risk, and so on.

Figure 3 (next page) shows a striking contrast between the levels of visibility that Best-in-Class procurement teams have when compared to All Other procurement teams. Just as the Best-in-Class have dramatically greater process and technology capabilities than their less mature peers, they also have significantly greater visibility into a host of operational and performance metrics. These rates can define an organization's maturity, signal its resiliency, and demonstrate its unique ability to ascend to the next level of performance.

Curiously, Best-in-Class visibility into spend and savings metrics does not correlate with automated spend analysis adoption (51%), suggesting that some Best-in-Class procurement teams are able to gain visibility without the automated tools to match. Recall that 80% of Best-in-Class procurement teams can reportedly use spend data to identify and execute sourcing projects, which roughly tracks with their ability to gain total visibility into enterprise spend (87%), identified or negotiated savings (80%), and spend under management (73%).


Figure 3: The Best-in-Class Visibility Advantage


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While technological prowess and pure functional and process standardization are the typical Best-in-Class hallmarks, another area in which top-tier CPOs and their teams shine is in regards to its stranglehold on spend, supplier, and risk visibility. In the Age of Intelligence, the contemporary procurement department sits on a veritable goldmine of insights; it cannot be overstated just

how crucial the visibility advantages detailed in Figure 3 are to the greater success of today's procurement function. The main takeaway of the "Best-in-Class visibility advantage" does not just revolve around the specific elements of spend visibility, but rather the totality of intelligence that the Best-in-Class procurement team has achieved in 2019. The ability to maintain (or develop) agile competencies is dependent on true intelligence derived from robust reporting and analysis capabilities; a truly dynamic response to new and challenging market pressures is tightly-linked to predictive insights gleaned from the totality of spend, supplier, and risk data.

#ValueExpansion: CPOs Must Rise to the Challenge

Moving forward, CPOs and procurement teams of both maturity classes need to have honest conversations with themselves, their stakeholders, and their executive teams if they are serious about expanding their value. They can start by making an honest assessment of their current operation (by performing a SWOT or similar analysis) and surveying stakeholders on the overall impact their department is having on the enterprise today. They can continue by framing out the near-term and mid-range capabilities that will be needed to support business strategy and overall operations while positively impacting results. While the items most needed to propel procurement ahead (and their prioritization) will be unique to each individual department, certain key characteristics must shine through in all cases:



- **Agility** – Top performing procurement teams must be able to adeptly manage their operations in support of the fast-changing needs of the business to compete in a volatile and highly-competitive market.
- **Intelligence** – The concept of an intelligent procurement department is not dependent upon a single technology, process, or strategy but rather an ecosystem of interconnected and interdependent plans, solutions, and innovations whose whole is greater than the sum of its parts. Truly intelligent procurement teams rely upon a few common elements: collaboration, communication, best practices, automation, data, data management hubs, algorithms, and analytics.
- **Innovation** – While most procurement-led innovation today focuses on the incremental; the reality is that many of the enterprise's larger, longer-term opportunities will depend on how well procurement identifies and drives innovation within the enterprise and across the supply chain. This is not hyperbole. This is fact.
- **Boldness** – In a risk-averse environment, challenges can quickly become major obstacles and the rationale for inaction. The tendency to favor decisions that lead to more predictable outcomes pushes many organizations to take more measured steps or simply stay in place. The net effect of this behavior is that in general, procurement organizations are less aggressive

than they should be in driving change. CPOs must work to counteract organizational prejudices and more actively push boundaries, challenge limits, and rethink paradigms. Failing fast is more acceptable today and the opportunities merit taking greater chances. Rise up, rise up, it's time to take a shot.

Figure 4: Procurement's Keys to #ValueExpansion





Appendix

About the Authors



Andrew Bartolini, Founder & Chief Research Officer, Ardent Partners

With 20 years in the industry and 10 years leading the charge at Ardent, Andrew Bartolini is a globally-recognized expert in sourcing, procurement, supply management, and accounts payable. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their finance and procurement departments. Andrew is also the publisher of CPO Rising, the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 350 times in eight different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their sourcing, procurement, supply management, and accounts payable operations and his research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a "real-world" context for his research and writing.

Andrew has been named a "Pro to Know" by Supply and Demand Chain Executive multiple times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.



**Matthew York, Senior Research Analyst,
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Matthew York is a Senior Research Analyst at Ardent Partners who for more than a decade has been fascinated by emerging technologies like artificial intelligence, Blockchain, and connected devices, and how they can enrich business operations. At Ardent Partners, Matt researches, analyzes, and writes about the intersection of people, processes, strategies, and technologies in supply management and how they are changing the business landscape of tomorrow. He has been lead author on data-driven, thought leadership reports ranging from advanced analytics to contract management to strategic sourcing to supply risk management. Matt has twice been named a “Pro to Know” by Supply and Demand Chain Executive magazine and is a sought-after speaker. Previously, Matt served as an analyst with the U.S. Department of Justice and the U.S. Intelligence Community. He earned a B.A. in Political Science/International Relations from Stonehill College and an M.A. in Political Science/International Politics from the University of New Hampshire. Matt can be reached via Twitter (@MattYork_Ardent), [LinkedIn](#), and at myork@ardentpartners.com.



About Ardent Partners

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the [CPO Rising](#) and [Payables Place](#) websites. Register for exclusive access to Ardent Partners research at ardentpartners.com/newsletter-registration/

Research Methodology

Ardent Partners follows a rigorous research process developed over years spent researching the supply management market. The research in this report represents the web-based survey responses of 308 CPOs and other procurement and business leaders captured from January to March, 2019 as well as direct interviews with 11 CPOs and procurement leaders (all of whom took the survey). These 308 participants shared their strategies and intentions, as well as their operational and performance results to help us define Best-in-Class procurement performance and understand what levers the leading groups pull to obtain their advantage. One hundred and eighty seven (187) of the total participants shared some personal insight and commentary to help provide greater context to the results. This primary research effort was also informed by the experience and analysis of the report author and the entire Ardent Partners research team. Complete respondent demographics are included below.

Report Demographics

The research in this report is drawn from 308 respondents representing the following demographics:

Job Function: 89% procurement; 3% supply chain; 3% operations; 2% finance; 3% other

Job Role: 41% VP-level or higher; 27% director-level; 23% manager-level; 3% staff-level, 3% consultant, 2% other

Company Revenue: 50% Large (revenue > \$1 billion); 24% Mid-market (revenue between \$250 million and \$1 billion); 26% Small (revenue < \$250 million)

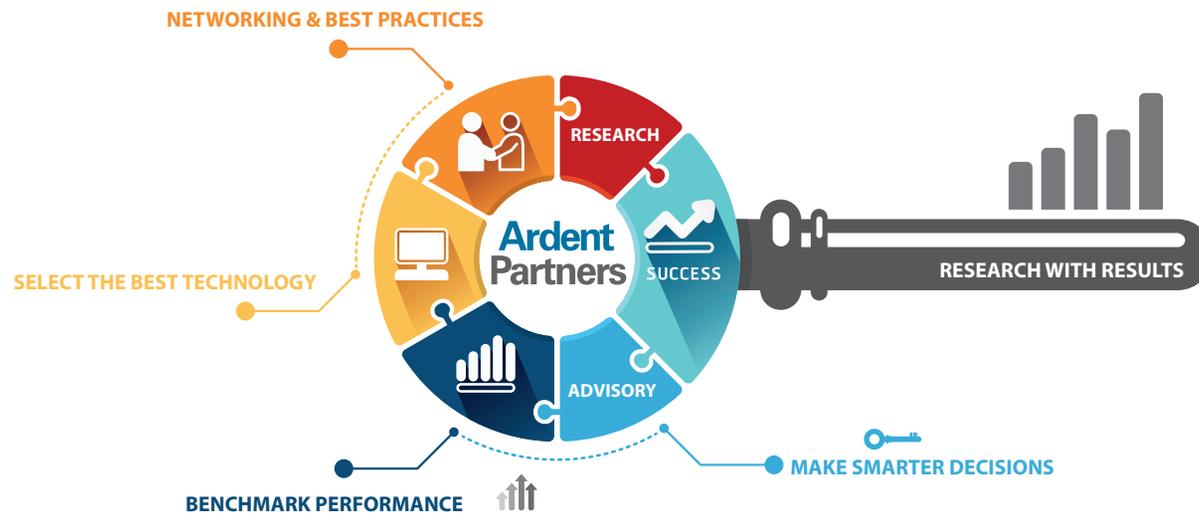
Region: 64% North America; 27% EMEA; 7% Asia-Pacific; 2% South and Central America

Industry: More than 20 distinct industries are represented. Manufacturing, Oil and Energy, Pharmaceutical, Higher Ed, Financial Services, and Hi-Tech are the largest industries in the survey pool; no industry represents more than 11% of the overall survey respondents.

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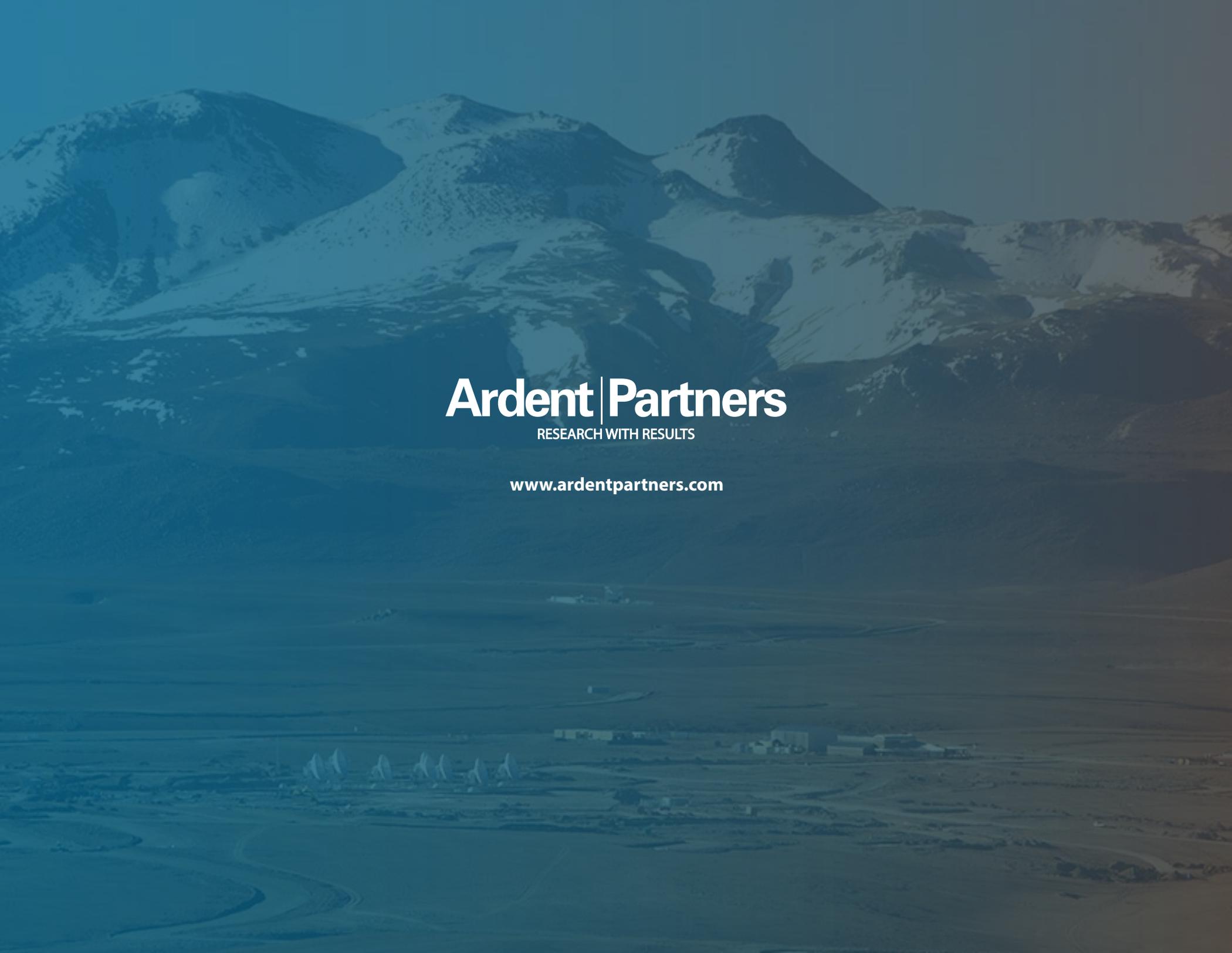
Ardent Partners is a research and advisory firm focused on defining, and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent Partners was founded by Andrew Bartolini.

Ardent Partners actively covers the supply management marketplace and produces research to help business decision-makers understand (1) industry best practices and how to improve performance & (2) the technology landscape and how to identify the best-fit solution(s) for their specific budget and requirements.

Contact research@ardentpartners.com if you have any questions about this report or our research in general.

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An aerial photograph of a coastal town, likely San Francisco, with a bay in the foreground and mountains in the background. The image is overlaid with a semi-transparent blue filter. The text is centered in the middle of the image.

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