

# Drive Improvement with these Top 10 Procurement Metrics

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***“Without data, you’re just another person with an opinion.”***

You’ve probably heard that expression by pioneering management consultant and quality guru W. Edwards Deming.

Deming inspired efforts to identify meaningful performance metrics in every area of business. When you track the things that are most important, it becomes apparent where problems lie and when you are making progress towards your goals.

Procurement is no different, and most modern procurement organizations have a suite of indicators for feedback on their performance. Efficient procurement depends on systematically analyzing spend data. The three big categories of KPIs (key performance indicators) for procurement look at quality, delivery and cost savings.

But which numbers are most illuminating? And which KPIs belong on today’s dashboard for procurement executives? Read on for our top 10 nominees.

## 1. **Spend Under Management**

This is usually expressed as a percentage of actively managed spending as a ratio of all potentially manageable spending. The greater the amount of an organization’s spending, the more influence procurement has and scope for savings and optimization. A general rule of thumb is that top-performing companies are around 85 percent, average 55 percent and weaker teams at 35 percent or less. There is considerable debate about what constitutes spend under management. [Andrew Bartolini](#), chief research officer of Ardent Partners, argues for it to be defined as spend for which savings have been optimized.

Matt Holzapfel, who worked in strategic sourcing at Dell, says that procurement can achieve 5 to 10 percent savings on spend that falls under management.

## 2. **Total Cost Savings**

This is a major focus area because cost savings are concrete demonstration of procurement’s contribution to the bottom line. There are many potential metrics for this, and growing emphasis is being placed on total cost of ownership, which goes beyond purchase price to measure direct and indirect costs, according to Shoshanah Cohen, former director of the Stanford Global Supply Chain Management Forum, This pulls in costs such as maintenance, end-of-life disposal and replacement expense. One commonly tracked metric is the amount of reduction in total cost of ownership year over year excluding changes in

volume. Martin Putters of Capgemini Consulting offers [helpful insights into how to measure procurement savings](#).

### 3. **Procurement ROI**

This is a high-level metric measuring the procurement organization's performance by comparing cost savings to the procurement team's operating budget. Pierre Mitchell of Spend Matters says [10x is an excellent target](#), though he notes ROI has limitations as a metric especially if investment is low, while [the Hackett Group](#) in a 2014 report found "world-class" ROI to be 9x.

### 4. **Cost Avoidance**

This is savings that flow from actions that reduce future spending such as slowing or delaying supplier price increases. It can also capture things such as getting additional services from a supplier at no extra cost. Cost avoidance can be tricky to measure, but the [National Association of State Procurement Officials](#) has a helpful guide that looks at the topic in depth.

### 5. **Implemented cost savings**

This KPI measures realized cost savings and reflects a different timeframe for tracking than forecast or identified cost savings. Realized savings will be recorded after implementation. So if at the start of a purchasing initiative you estimate how much will be purchased over the next year, the benefits or realized savings will occur after the year is complete. Paulo Moretti of [PM2Consult](#) says this metric drives organizations to [improve the effectiveness](#) of procurement activities. Traditionally procurement teams have credited savings at the time of negotiation while finance departments have focused on actually capturing those savings. Consultants at Accenture say that forward-thinking procurement leaders are [paying more attention to realized savings](#) and explore key measurement methodologies.

### 6. **Procurement Cycle Time**

This is an indicator of procurement's efficiency both within the team and with suppliers. KPIs look at the average time for for the procurement process, from a sourcing request being submitted to a purchase order being placed or contract being signed. The [American Productivity & Quality Center](#) has done research on procurement cycle time efficiency and looked at how top organizations performed on [three measures](#): cycle time in hours to place a purchase order, average supplier lead time on purchased materials and procure-to-pay cycle time in days.

### 7. **Percent of active suppliers accounting for 80 percent of total spend**

This metric is a reflection of whether your procurement team is maximizing its purchasing power, which is considered an important way to drive efficiencies and decrease costs per purchase order. One caveat is that concentrating on a smaller number of suppliers can make an organization vulnerable in industries with limited competition. An old rule of thumb was to seek to execute 80 percent of purchasing with 20 percent of your suppliers. But this has been in decline,

according to CAPS benchmarking research that found it dropped from more than 9 percent in 2004 to 6 percent in 2011.

#### 8. **Contract Compliance**

This benchmark looks at how well suppliers are meeting contract terms and conditions and is a gauge of the procurement team's supplier relationship management efforts. It is often expressed as a ratio of the number of contracts not meeting specifications compared to total number of contracts, or it can be reflected as a dollar value of spend in noncompliant contracts vs total contracted spending. Bryan Ball, supply chain analyst at Aberdeen Group, found in a report that best-in-class organizations achieve up to 80 percent more savings than others through a clearly defined contract compliance process.

#### 9. **Quality**

This looks at the quality of goods and services that procurement obtains by tracking metrics such as defect rates, rejections of goods and services and supply disruptions due to poor quality. Accuracy is another important metric both by the procurement team and suppliers. Among the KPIs that procurement teams track is percentage of procured products that meet standards.

#### 10. **Delivery**

These indicators strive to measure whether procurement is obtaining what the organization needs when it needs it. This can be measured as a percent of on time deliveries, percent of shipments arriving in usable condition and quoted delivery time compared to actual delivery time. You can also track how often deliveries are early or late and by how many days as well as whether your business' work has been disrupted by the delivery schedule.

With all the top 10 KPIs for procurement teams, having visibility into your processes and credible data are key to harnessing the power of performance measurement.

Is your organization able to track performance and identify areas for improvement? At eBidSystems, we have helped many procurement teams improve their efficiency and effectiveness. Get in touch today to see how we can help you.