What Finance can (and should) expect of Procurement
1 What Finance can and should expect of Procurement

It’s often been suggested that Finance and Procurement don’t get along.

Too different are the views of what is good for the organisation. Is it savings? Is it risk reduction? Or is it commercial outcomes, compliance and sustainability goals?

In addition, the two functions often don’t understand what to expect of each other.

So what is reasonable for Finance to expect of procurement?

This report explores these questions beyond the various opinions you might have heard at the odd conference.

Grosvenor partnered with Michael Page Recruitment to undertake this research. We surveyed 91 organisations, with 42 responding from a Procurement angle and 38 from a Finance perspective. This included 31 Chief Finance Officers (CFO) and 17 Chief Procurement Officers (CPO). As a ‘thank you’ to participants we donated $500 to the Women’s Community Shelters.

Here’s what we learnt.
1. In more than half of all organisations procurement seems to operate in a vacuum. Procurement has defined a vision, strategy and policy that at best only somewhat aligns with the objectives of the overall organisation.

2. The main reason for Finance and Procurement butting heads is that Finance requires cost savings as well as long-term value, which is not aligned with procurement’s agenda as they would like to focus solely on long term value.

3. Our respondents say that Procurement should focus on value creation (for internal customers, for external customers and their own business), instead of the perceived current focus on cost reduction and risk mitigation.

4. Public sector procurement teams could not be further away from focussing on what is required of them. These organisations remain focused on cost reduction and risk mitigation, but not a single respondent considered those items as important to focus on.

5. The degree of strategic alignment between procurement and the overall organisation is a key differentiator between mature and immature procurement functions. 81% of low maturity organisations have procurement vision, strategy and policies that do not or only somewhat align with the overall company strategy.

6. Two-thirds of procurement teams achieve an emerging or established capability making it very clear that procurement in Australia has considerable room for improvement.

7. The ability to improve the way in which the organisation operates has become the most important goal for procurement functions. 29% of respondents said this was the most important goal, followed by the ability to facilitate supplier-led innovation (22%) and enhancing the value to external customers (15%).
3 Procurement and the rest of the business are not on the same page

Would you say that your procurement team’s vision, strategy and policies are aligned with the strategic objectives of the overall organisation?

Shockingly, more than half of the respondents to our study indicated that their procurement function operates in a vacuum. Meaning, its vision, strategies and policies are only somewhat or not at all aligned with the overall organisation.

About a third (32%) of respondents said that there was a strong alignment and 7% concluded that there was complete alignment.

Is there a difference in how this alignment is seen between Finance and Procurement respondents?

Finance is pessimistic about how well procurement’s vision, strategy and policies align with the overall company strategy.

Have a look at Figure 1. While 35% of procurement folk say there is strong alignment, only 26% of Finance respondents would say the same. 50% of procurement people would describe the alignment as ‘somewhat’ whereas more Finance staff (68%) would describe alignment in that way.

To drive the point home: only one Finance respondent said that procurement’s strategy completely aligns with company strategy.

Finance is pessimistic about how well procurement’s vision, strategy and policies align with the overall company strategy – Procurement is by far more optimistic about its own alignment compared to what Finance would say.
There is a vast difference between what procurement needs to do and what it does.

Figure 2 says it all.

Procurement is expected to improve how the business operates and to deliver an innovation capability through the supply base. Instead, procurement professionals are focused on cost reduction.

“We focus on internal cost controls, whereas our strategy is to be the biggest and best in the market” (CFO)

This cost focus, arguably, leads to worse outcomes on how the business operates and for innovation.

<table>
<thead>
<tr>
<th>Where focus needs to be</th>
<th>Where focus is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve the way we do business</td>
<td>29%</td>
</tr>
<tr>
<td>Increase the organisation’s ability to innovate / work with the market to innovate</td>
<td>27%</td>
</tr>
<tr>
<td>Enhance the value we deliver to our external customers</td>
<td>15%</td>
</tr>
<tr>
<td>Enhance the internal customer’s experience, including speed to procure</td>
<td>10%</td>
</tr>
<tr>
<td>Reduce cost</td>
<td>8%</td>
</tr>
<tr>
<td>Deliver against our social and sustainability commitments</td>
<td>5%</td>
</tr>
<tr>
<td>Reduce risk (incl regulatory, compliance, reputational risk)</td>
<td>5%</td>
</tr>
<tr>
<td>Reduce supply risk</td>
<td>4%</td>
</tr>
<tr>
<td>Increase revenue</td>
<td>1%</td>
</tr>
</tbody>
</table>

Figure 2: Expectations vs reality. Procurement should focus on improving the way the business operates and deliver an innovation capability – instead our sole focus is cost reduction.
Let’s have a closer look at the numbers:

> The current focus of procurement is on reducing costs (47% of respondents said this was the main focus). Whereas only 8% of respondents said that this is what procurement should be doing.

> In contrast, 29% of respondents saw the ability of procurement to improve the way the organisation does business was the most important consideration but only 13% have this as their current focus.

> Increasing the organisation’s ability to innovate and work with the market to realise innovation was considered the most important contribution of procurement by 22% of respondents, yet only 2% of procurement teams actually have this as their focus.

The implications are stark and mainly lead to a loss of trust in the procurement function.

“Procurement neither has advocates in our organisation, nor is it valued” (C-Suite)

The lack of trust and high level of frustration with procurement leads to a loss of opportunity for the procurement team to partner with internal stakeholders to deliver against the organisations’ objectives.
“Some decisions are not made in the best interest of the organisation” (CFO)

A further consequence is that the wider business doesn’t involve procurement at the right time, which leads to ‘fire-fighting’ and a further deterioration of the perception of what value procurement can actually add.

“Creating value is not just about reducing costs, there needs to be a shift so the procurement function is focussed on whole of business objectives not just lowest cost purchase.” (CFO)

It will not be easy for procurement teams to shift their focus to what the organisation demands.

Typically, the organisational and people capabilities of procurement teams are structured in a way to deliver savings, often without the deep category expertise required to drive innovation from the supply base. The ability to drive change throughout the organisation and implement supplier-led innovation requires a different skillset, processes and approach.

Are procurement teams ready to make this shift?
5 Public sector procurement teams could not be further away from what is expected of them

28% of respondents are from the public and not-for-profit sectors. We wondered whether their procurement teams show greater alignment between what is required of them and what their current focus is.

Public sector procurement teams could not be further away from focusing on what is required of them. They focus on cost and risk reduction, but not a single respondent considered those items important.

Compared to private companies, public sector procurement teams focus less on cost reduction (29% vs 53%). However, not a single respondent considered cost to be what procurement should focus on.

Similar results were found for risk reduction. While 42% of public sector respondents focus on this (compared to 15% of private companies), again not a single one of them said that this is the most important area of focus.

Instead respondents said public procurement teams should focus on the following:

- the delivery of social and sustainability goals. With 21% of public sector respondents indicating this is the most important item to focus on, it is by far more important than for the overall cohort (5.5%). However only 4% of respondents say that the current focus of the team is on delivering sustainable and social outcomes.

  Tensions exist however, for some public sector organisations when relationships with providers uphold their vision, yet negatively impact on departmental KPIs.

- enhancing customer centricity and the overall value to internal customers (13% compared to 10% in private sector) and taxpayers (21% compared to 14%) plays a bigger role than for other respondents.
Figure 3: For public sector teams, the focus should be on the delivery of sustainable and social outcomes and to enhance the taxpayer’s value. Instead, the focus is too often on cost and risk.
And now it is time to contrast Procurement and Finance. What are the expectations and what is the reality?

We asked about expectations of the procurement function. The table below includes the three most important facets of procurement:

<table>
<thead>
<tr>
<th>What Finance expects of Procurement</th>
<th>What Procurement expects of Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve the way the business operates (29%)</td>
<td>Improve the way the business operates (26%)</td>
</tr>
<tr>
<td>Increase ability to innovate (18%)</td>
<td>Improve value to external customers (19%)</td>
</tr>
<tr>
<td>Reduce cost (16%)</td>
<td>Increase ability to innovate (19%)</td>
</tr>
</tbody>
</table>

Finance doesn’t consider the ability to improve value to external customers to be a top 3 priority for procurement. In contrast, cost reduction doesn’t make the top 3 list for procurement teams but is the single most important factor for 16% of Finance respondents.

Here it becomes clear why Procurement and Finance often find themselves butting heads: Finance requires procurement to keep an eye on cost and also deliver long term value, whereas procurement’s ideal agenda would focus on long term value only.
When it comes to Procurement’s actual contribution (rather than the aspirational targets above), both groups draw very similar conclusions. This shows that Procurement is clear about its strengths and weaknesses and therefore in a good position to drive the required transformation ahead.

Both, Figure 4 and Figure 5 show that Procurement’s focus is on cost reduction, risk reduction and improvement of business outcomes.

While the ability to innovate is a clear expectation of Finance and Procurement alike, both concede that procurement teams currently do not focus on innovation.

And for the remaining items, a switch of priorities is required. The current focus on cost must shift to business improvements.

### Where focus needs to be vs Where focus is (Finance View)

<table>
<thead>
<tr>
<th></th>
<th>Where focus should be</th>
<th>Where focus is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve the way we operate as a business</td>
<td>29%</td>
<td>14%</td>
</tr>
<tr>
<td>Enhance the value we deliver to our external customers</td>
<td>18%</td>
<td>0%</td>
</tr>
<tr>
<td>Increase the organisation’s ability to innovate / work with the market to innovate</td>
<td>16%</td>
<td>43%</td>
</tr>
<tr>
<td>Enhance the internal customer’s experience, including speed to procure</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Deliver against our social and sustainability commitments</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Reduce supply risk</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Reduce cost</td>
<td>5%</td>
<td>16%</td>
</tr>
<tr>
<td>Increase revenue</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Reduce risk (incl regulatory, compliance, reputational risk)</td>
<td>0%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Figure 4:** Finance expects cost reduction, innovation and business improvement. But in their view, procurement is in fact too focused on delivering cost savings and risk reduction.
Figure 5: Procurement considers customer centricity for internal and external customers more important than other respondents, while cost reduction should be less important, albeit it still is the main area of focus of procurement teams today.
7 Smaller organisations have a higher focus on cost reduction, whereas big organisations focus more on value

Priorities and activities of procurement teams differ based on the spend they are responsible for. Small teams (those who work for organisations with less than $50M annual procurement spend) typically are required to focus more on value to external customers (21% vs 13% for larger organisations) and less on sustainability considerations (0% vs 9%).

In reality, smaller organisations are solely focused on cost reduction (60% vs 35% in larger organisations). Bigger procurement teams have a focus on risk reduction and business improvement. Again, the message is the same as before: Procurement should focus on value creation (for internal customers, for external customers and their business) but instead is focused on cost reduction and risk mitigation.
8 How procurement maturity and strategic alignment are linked

8.1 Grosvenor’s procurement maturity model

Grosvenor distinguishes five levels of procurement maturity. The higher the maturity of a procurement function, the more it can add value to an organisation. This obviously comes at a cost to implement and therefore each organisation must find the ideal point along the maturity curve for its procurement function, where value and implementation costs are aligned.

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**Procurement maturity life-cycle**

<table>
<thead>
<tr>
<th>Foundation</th>
<th>Emerging</th>
<th>Established</th>
<th>Strategically Executed</th>
<th>Fully Integrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>Servant</td>
<td>Coordination</td>
<td>Early Involvement</td>
<td>Collaborative Partner</td>
</tr>
<tr>
<td>Fire Fighting</td>
<td>Market Expertise</td>
<td>Operational Effectiveness</td>
<td>Strategic Value Partner</td>
<td>Whole of Life Performance</td>
</tr>
</tbody>
</table>

Procurement Maturity Score

0  1  1.5  2  2.5  3  3.5  4  4.5  5

*Figure 6: Grosvenor’s procurement maturity model*
The table below defines the maturity levels and also reports the percentage of respondents to this study at each level. The majority of businesses achieve level 1 or 2 (52%).

<table>
<thead>
<tr>
<th>Maturity Level</th>
<th>Description</th>
<th>Respondents who identified their maturity at this level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td>Foundation</td>
<td>Procurement is administrative and stuck in an operational “fire fighting” delivery mode</td>
</tr>
<tr>
<td>Level 2</td>
<td>Emerging</td>
<td>Procurement is seen to be a servant to the business with moderate levels of coordination</td>
</tr>
<tr>
<td>Level 3</td>
<td>Established</td>
<td>Procurement is an established function that understands business requirements, has early engagement and go to market expertise</td>
</tr>
<tr>
<td>Level 4</td>
<td>Strategically Executed</td>
<td>Procurement is a collaborative business partner with strategic alignment and enables operational effectiveness</td>
</tr>
<tr>
<td>Level 5</td>
<td>Fully Integrated</td>
<td>Procurement is strategic value chain partner involved in whole life-cycle planning and performance</td>
</tr>
</tbody>
</table>

The respondents indicated that:

> Smaller procurement teams are more likely to have a low procurement maturity. 71% of organisations achieving Level 1 and Level 2 have less than 5 staff in their procurement team.

> The higher the annual procurement spend the higher the maturity. 70% of organisations with a spend exceeding $50M per annum achieve at least a maturity level 3

> Government and Manufacturing have typically a higher procurement maturity. Of the organisations achieving at least level 3, 25% are government, 20% are in manufacturing and 10% operate in the healthcare industry.

> Healthcare and educational organisations typically achieve a lower maturity with 17% in Healthcare and 9% in Education respectively, only achieving Level 1 or Level 2.

Two-thirds of procurement teams achieve an emerging or established capability making it very clear that procurement in Australia has considerable room for improvement.
8.2 Procurement is more optimistic about its maturity than Finance

Again, we contrasted the perception of procurement maturity of Procurement and Finance respondents. It seems logical that Procurement would score its maturity higher than Finance and Figure 7 reports exactly that. The main point of difference is between Level 2 and Level 3. 53% of Finance respondents are of a view that procurement is more of a servant to their business with moderate levels of coordination, whereas only 31% of Procurement respondents would say the same about their organisation.

Most Procurement professionals would rate their organisation as achieving level 3 where procurement is an established function that understands its business requirements and has early engagement with the business.

Figure 7: Finance rates the maturity of the procurement function consistently lower than Procurement themselves.
8.3 Low maturity means low alignment between expectations of procurement and reality

We first looked at those organisations that reported a procurement maturity at level 1 or level 2.

It is striking to see that 81% of low maturity organisations have procurement vision, strategy and polices that do not or only somewhat align with the overall company strategy.

These respondents identify the following as the biggest hurdles for procurement within their organisation:

1. Bogged down in ‘fire-fighting’ (16% of respondents identified this hurdle)
2. Do not get involved early enough (14%)
3. Do not have the required people capability (10%).
As shown in Figure 8, the focus of low-maturity organisations typically is on cost reduction.

**55% of these organisations have cost reduction as their main focus. This is in contrast to only 12% of them saying that cost should be the primary focus.**

Customer orientation on the other hand should be a primary focus for low maturity organisations. 16% of respondents say internal customer orientation should be the primary focus, but only 2% of organisations make this a priority, a clear indication why Level 3 of the maturity curve has not been achieved.

Compared to all respondents, those with a low maturity should focus more on risk reduction, but in fact do so more than required (the target is 12% but in fact 24% focus on risk reduction).

**Figure 8: Low maturity organisations should focus more on value for internal and external customers than their counterparts**
8.4 High procurement maturity and high strategic alignment go hand in hand

Highly mature procurement organisations reach at least maturity level 3.

*Within highly mature procurement organisations, 61% of respondents report that their procurement strategy completely or strongly aligns with the overall company strategy.*

*Not a single organisation indicated that procurement and company strategy do not align.*

Given this stark contrast with low maturity organisations, it becomes clear that the degree of strategic alignment is a key differentiator between mature and immature procurement functions.

But even mature procurement organisations face challenges, namely:

1. They get involved too late (15% of respondent mentioned this as a hurdle)
2. Do not have access to the right technologies and systems (12%)
3. Do not have the right people capabilities (11%).
As Figure 9 shows, the focus of mature procurement functions should be on business improvement (which is 16% currently but should be 31%) and less so on cost reduction (which is 37% but should only be 4%).

**Supplier-led innovation is key for mature procurement functions, as 28% of respondents indicated, but only 2% of them are able to deliver innovation currently.**

Similarly, mature functions should deliver more value to external customers (30%) than they currently are (only 6%). While the focus on supply risk reduction (11%) is more than required (2%).

**Where focus needs to be vs. Where focus is (High Maturity)**

<table>
<thead>
<tr>
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<td>Improve the way we operate as a business</td>
<td>30%</td>
<td>16%</td>
</tr>
<tr>
<td>Increase the organisation’s ability to innovate / work with the market to innovate</td>
<td>28%</td>
<td>2%</td>
</tr>
<tr>
<td>Enhance the value we deliver to our external customers</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>Deliver against our social and sustainability commitments</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Enhance the internal customer’s experience, including speed to procure</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Reduce cost</td>
<td>4%</td>
<td>38%</td>
</tr>
<tr>
<td>Reduce risk (incl regulatory, compliance, reputational risk)</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>Reduce supply risk</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Increase revenue</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Figure 9: Highly mature procurement organisations should focus on delivering innovation through their supply base, delivering value to external customers and to improve the way the organisation operates.*
Interested in how you can assess and improve your procurement maturity to deliver against

As Grosvenor’s Director of Procurement, I’d like to offer you the opportunity to undertake an obligation-free and in-person consultation.

Together with a colleague, I will analyse your current situation benchmarked against best practice and provide a roadmap of the options and activities that could be undertaken to improve your organisation’s procurement performance.

The Situation Analysis workshop, which typically runs for three hours, commences with an educational session on cutting edge procurement practices that drive real savings and marked supplier performance improvements. We’ll also discuss, in broad terms, projects we’ve undertaken with organisations similar to yours and how we have helped them achieve their goals.

We will then perform a three-step diagnosis.

**Diagnostic 1: Understand your customers**

a. What are the business objectives outlined in your organisation’s business plan?

b. How can procurement deliver against each business objective?

**Diagnostic 2: Understand your spend**

a. Based on your general ledger data we will run high level spend analysis to understand who you are spending money with, how much, when and on what

b. We will then identify where your biggest savings opportunities are

**Diagnostic 3: Understand current capabilities and maturity**

a. We will ask a series of questions from our better practice comparator to understand the capability of your procurement team, systems and processes

b. We then identify how your function can deliver against the opportunities identified during the Situation Analysis
On completion, we will provide you with a high-level 3-4-page Situation Analysis report which aligns procurement’s strategic direction with your overall business strategy.

This analysis will outline the short- and long-term steps you need to take to ensure your procurement function is best practice and the right fit for your organisation now and into the future.

The workshop is free-of-charge. To maximise the benefits for your organisation the only provisos are:

- All attendees have read this document
- Your CFO, COO and CPO are present.
- Our travel costs (if applicable) are covered.

So that’s it… let me know if you’re interested and we can schedule your free Situational Analysis workshop.

**Dr. Stefan Gassner, Director**  
Procurement Advisory  
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10 Profiles of our respondents

10.1 Role of respondent

What is your role at your organisation?

- Finance (46.15%)
- Other (41.76%)
- Procurement (12.09%)

What is your role at your organisation?

- Other (please supply)
- Chief Financial Officer (CFO)
- Senior Procurement Manager
- Head of Finance
- Head of Procurement
- Chief Procurement Officer (CFO)
- Senior Finance Manager
- Other C-Suite
- Chief Executive Officer (CEO)
- Chief Operating Officer (COO)

10.2 Procurement or Finance

Finance or Procurement?

- Finance
- Other
- Procurement
10.3 Industry

What is your organisation’s main industry?
- Government
- Healthcare
- Manufacturing
- Not for Profit
- Education
- Technology
- Construction
- Professional Services
- Resources and Mining
- Transport and Logistics
- Agriculture
- Financial Services
- FMCG
- Industrial Services
- Media and Entertainment
- Retail
- Tourism
- Utilities

10.4 Number of employees

What is your best guess for the size of your procurement?
- < 5 FTE
- 5 - 10 FTE
- 10 - 20 FTE
- > 50 FTE
- 20 - 50 FTE
What is your best guess for your organisation's annual procurement spend?

- Less than $50M: 38 (41.3%)
- $50 - $250M: 29 (31.52%)
- $250 - $500M: 14 (15.22%)
- $500M - $1B: 6 (6.52%)
- $1B - $2B: 2 (2.17%)
- > $2B: 3 (3.26%)

10.5 Annual Procurement Spend

WHAT FINANCE CAN (AND SHOULD) EXPECT OF PROCUREMENT
Dr Stefan Gassner
Director, Procurement Practice Lead

Dr Stefan Gassner is a driven procurement leader with ten years’ experience in supply chain, procurement and commercial management, including internationally. Leading Grosvenor’s Procurement Practice, Stefan loves delivering tangible results and has worked for more than 70 of the biggest organisation in Australia to transform their procurement functions, deliver high stakes sourcing projects and implement performance management processes.

Katie Zhang
Manager

Katie has an extensive background in procurement, both as an in-house advisor and as a procurement consultant across multiple categories of spend. Through GPG, she has also delivered multiple property, program and organisational reviews across both government and private sectors. She brings strong skills in data analysis, research and stakeholder engagement.

Dr Caroline Ladewig
Senior Consultant

Caroline is a seasoned professional with experience in the public and private sectors, and brings a wealth of insight and expertise relating to service delivery, performance measurement and human resource management. She has a reputation for strong collaboration and her commitment to co-design enables both incremental and transformational change.
12 Questions?

Contact us

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