



## FINANCE & SOURCING: A CASE FOR COLLABORATION

### INTRODUCTION

Finance's role is evolving. Following the 2008 financial crisis, it guided the business through extraordinarily difficult economic times, relying on cost management and lean practices to keep their organizations afloat. Today, finance must switch gears and find ways to navigate sustainable and profitable growth.

However, this presents its own set of challenges. Cost control has been and will always be a top priority for finance, making it difficult for the department to simultaneously foster growth. But, given that growth is a primary concern for the business now more than ever — in an Accenture survey, 71 percent of CFOs stated that growth was their organization's strategic priority — that is exactly what finance must do.<sup>1</sup>

Fortunately, finance needn't look far for the secret to economic growth. Procurement, long relied on for its ability to drive operational efficiency and identify cost savings, is

experiencing its own renaissance. High-performing sourcing and procurement functions deliver concrete financial returns that are quick to accrue and easy to identify. In 2016, Owens Corning's procurement and sourcing team drove millions of dollars of hard savings, which helped the publicly traded company achieve record levels of adjusted EBIT and free cash flow.<sup>2</sup>

To learn more about the existing relationships between finance and procurement, we interviewed over 280 finance professionals in a sourcing sentiment survey. 66.5 percent came from enterprises with less than 1,000 employees, while 33.5 percent came from enterprises with more than 1,000 employees. 51 percent of respondents were under the age of 45, while 49 percent were over the age of 45. Respondents originated from the United States, Mexico, Canada, and the United Kingdom.



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### HOW DO PRIORITIES OF THE CFO AND THE CPO ALIGN?

To understand why it makes business sense for finance and procurement to work closely together, one must first understand how analogous they actually are. Deloitte asked both CPOs and CFOs to outline their top priorities for the year and, when placed side-by-side, they look remarkably similar:

Top priorities for CFOs <sup>3</sup>	Top priorities for CPOs <sup>4</sup>
▶ On-going cost control	▶ Cost reduction
▶ Increasing productivity/efficiency	▶ Managing risks
▶ Introducing new products/services	▶ Introducing new products/services
▶ Organic growth	▶ Increasing cashflow

This overall focus on cost is merited. According to Genpact, setting cost savings and spend under management goals at an enterprise level can yield:

- Leaner processes
- 30-40 percent greater addressable spend visibility
- 5-10 percent reductions in working capital requirements
- 20-40 percent less maverick spending
- Incremental ROI on existing technology investments<sup>5</sup>

In short, increasing spend under management doesn't only deliver more savings, but it also drives strategic advantages such as spend control and visibility. One of the primary ways for finance to achieve this is by working collaboratively with procurement.

### WHAT IS THE TRUE NATURE OF FINANCE'S RELATIONSHIP WITH PROCUREMENT?

Finance and procurement have complementary strengths and corresponding priorities, so working collaboratively makes sense strategically and practically. Despite this, many enterprises still have a strong disconnect between these departments; in a survey of more than 800 firms, nearly one third (31 percent) rated the relationship between procurement and finance as weak or non-existent.<sup>6</sup> This mirrors a wider issue of independent and siloed finance operations; CFOs indicate that a lack of integration between the finance function and the line of business is a key barrier to the effectiveness of their role.<sup>7</sup>

There seems to be a near split in the nature of finance's relationship with procurement. Of the finance professionals surveyed, 51.4 percent characterize it as largely transactional, limited to procuring goods and services. Survey results show that finance teams who only scratch the surface with procurement also potentially close themselves off from opportunities for strategic collaboration, higher visibility, and better business outcomes. The remaining 48.3 percent of finance respondents categorize their relationship with procurement as more strategic, noting that both departments work closely together to analyze, plan, and drive value more effectively. These high-performing finance and procurement executives contribute enterprise-wide value by providing a collaborative environment that has a real-time pulse on the business.

## HOW DOES FINANCE FEEL ABOUT CURRENT PROCUREMENT PRACTICES?

While more than two thirds (68.2 percent) of finance professionals report that procurement makes them more effective as a department, a significant portion (39.1 percent) say that it does not influence their efficacy. The partnership with procurement is felt more keenly at larger enterprises; at enterprises with more than 1,000 employees, 76.9 percent say that procurement makes finance more effective as a department, compared to 63.6 percent at enterprises with fewer than 1,000 employees.

When taking a sentiment pulse of finance professionals vis-à-vis their current procurement processes, neutrality reigns supreme: 65.9 percent feel neutral about their current procurement processes, while 28.2 percent feel positive and just 5.9 percent feel negative.

## WHERE DOES TECHNOLOGY FIT IN?

Finance is well-versed in the transformative impact that the right technology can have, so it is little surprise that most finance professionals realize the importance of strategic procurement solution: 82.9 percent say a strategic procurement solution is important, while just 17.1 percent deem it unimportant.

This sentiment felt even more strongly among finance professionals under the age of 45. Within that demographic, 51.2 percent say a strategic sourcing solution is very important, compared to 26.5 percent of finance professionals over the age of 45.

**Despite the general consensus that a strategic procurement solution benefits the business, few finance professionals seem to be using them in practice.** The function predominantly relies on legacy methods — namely a combination of email (74 percent), Excel (50.2 percent), and PDF and Word documents (46.1 percent) — to communicate around sourcing projects.

## WHAT IS THE SENTIMENT TOWARDS SUPPLIERS?

While most financial professionals (96 percent) are pleased with their suppliers as a whole, there is room for improvement: Just 26.4 percent report being “very satisfied” with their suppliers, indicating that **73.6 percent feel there are opportunities for supplier enhancement.**

However, there is a cost to subpar suppliers. The 2015 North American Automotive Tier 1 Supplier Working Relations Index (WRI) created a stir when it identified \$2 billion of lost profit due to poor supplier relations. It found that Ford, General Motors, Nissan, and Fiat Chrysler Automobiles would have generated between \$144 and \$285 more profit per vehicle if they matched the supplier relations of industry leaders Toyota and Honda.<sup>8</sup>

Finding new suppliers can be daunting, so it's not unusual that many finance professionals stick with the status quo. When asked what is holding them back from exploring other supplier options, a few leading factors emerged:

- It is difficult to determine whether potential suppliers actually meet the business's criteria
- Gathering data on prices, offerings, etc. is too time consuming
- It is difficult to understand which suppliers are performing or underperforming
- Internal stakeholders are resistant to change

This is where proper technology comes into play. The right tool gives sourcing teams and stakeholders the ability to compare and qualify potential suppliers, gather critical data, and monitor existing suppliers.

## HOW CAN PROCUREMENT & FINANCE BETTER COLLABORATE?

- 1 Improve spend control and visibility
- 2 Drive process efficiencies
- 3 Plan and set standards together
- 4 Use collaborative technology
- 5 Provide insights throughout the sourcing process



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## CONCLUSION

Given their intersecting priorities and complementary strengths, finance and procurement are a natural fit for a strategic partnership. By working together strategically, sharing insights, and using technology that empowers collaboration, both departments can drive results that will go right down to the business's bottom line.

So what really distinguishes high-performing finance and procurement executives and teams from the rest of the pack? When Bain & Company interviewed nearly 100 CFOs, 41 percent reported that their biggest challenges revolved around strategic planning and budgeting.<sup>9</sup> Given the fact that procurement has a bird's eye view of savings opportunities — not to mention an eagle eye on spend across departments — it is a natural partner to help finance solve these challenges.

There is also the cost factor: According to Accenture, high-performing sourcing and procurement functions save \$82 for

every \$8 in cost to procure — effectively saving more than 10 times the cost of the procurement function.<sup>10</sup> For finance teams looking for new ways to both drive growth and control costs, procurement is a top resource to tap.

High-performing finance and procurement executives understand that revenue generation is only half of the cash flow equation; skillfully navigating the “loss” side of P&L is equally critical to maximizing growth reinvestments and investor returns. Their policies and systems for managing cash flow go beyond raw savings generation to incorporate a broader strategic lens. This magnified visibility is what allows executives to quickly understand underlying cost drivers, gain stakeholder alignment on spend decisions, and act on strategic intents quickly — and to achieve that, they need to partner with procurement. When finance and procurement work collaboratively, they also work more effectively and drive better business results.

## FOOTNOTES

- 1 Accenture: The New CFO Growth Agenda (2016).
- 2 Harvard Business Review: High-Performance Sourcing and Procurement Driving Value Through Collaboration (2017).
- 3 Deloitte: The Deloitte CFO Survey: Outlook 2017 (2016).
- 4 Deloitte: The Deloitte Global Chief Procurement Officer Survey 2017 (2017).
- 5 Genpact: How Procurement and Finance Executives can create bottom line impact from Source to Pay (2010).
- 6 IBM: The Finance Perspective on Procurement (2010).
- 7 Oracle: The CFO as Catalyst for Change (2013).
- 8 CIPS: Poor supplier relationship management costs US automakers \$2 billion (2015).
- 9 Bain & Company: When the Finance Department Becomes a Company's Secret Weapon (2017).
- 10 Harvard Business Review: High-Performance Sourcing and Procurement Driving Value Through Collaboration (2017).

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