

## Potential procurement savings during crisis go unrecognized

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Most companies have failed to take advantage of a potential 4% savings on material costs, resulting from the global recession, due to a lack of skilled personnel, underemployment in the procurement sector, and the failure of top management to deal with the problem, according to a study released today.

The study, conducted by the consulting firm Valueneer under the supervision of Thorsten Makowski in cooperation with the International Chamber of Commerce; the Federation of German Wholesale and Foreign Trade; the German Chamber Network; and the Lorange Institute of Business, Zurich, involved more than 790 companies from 62 countries across all industry sectors.

The survey said that companies were achieving only a quarter of the potential 4% savings, that the lack of qualifications and inadequate number of procurement personnel were inhibiting success, and that the best procurement performance could be found among companies involved in trade.

It found that potential savings remain unidentified because there is not enough attention given to strategic procurement tasks. The bigger a company, the more likely it is to have a better procurement performance.

In another major conclusion, the survey found that chief executive officer or chief finance officer-lined procurement organization has a significantly higher performance record than companies organized on a chief operations officer-organized procurement basis. Clearly defined and documented procurement strategy and implementation, purchase control, optimal tendering and skilled procurement personnel were also considered major factors of success.

“This survey shows that putting in place intelligent personnel and management policies can lead to substantial savings,” said Jean Rozwadowski, ICC Secretary General. “Intelligent investments, made up front, can save companies money and increase their productivity in the long run.”

The 187 questions in the survey included the impact of the financial crisis, the companies' procurement strategies, benchmarking, supply management, and processes and organizational issues.

Indian companies showed the best procurement performance, followed by German, Austrian and Swiss companies. North American companies came in third. The retail, consumer goods and automotive industries demonstrated the best procurement performance.

The study concluded that for North America, India is now the fastest growing sourcing market, with China stagnating at a high level. However, China's importance as a key sourcing market in Asia is expected to continue increasing. Among the four major emerging countries (China, Brazil, Russia and India), China will also develop the most rapidly in the procurement sourcing sector.

Global sourcing will continue to increase, according to the survey results, with one third of the respondents indicating that they intend to enhance sourcing from foreign procurement markets primarily China, India and Eastern Europe. This will have an impact on Western Europe and North America, whose procurement markets are predicted to decline by 13% and 8% respectively.

Purchasing costs will remain the most important criteria for procurement, the survey findings showed. However, trends also indicated that despite the economic pressure due to the global recession, sustainability is becoming increasingly more important for companies.

Two-thirds of survey respondents expect an increase in the use of sustainable raw materials that in turn they expect will generate competitive advantages. Other determining factors in procurement include time and speed of delivery, convenience and customization of the product.

Approximately 60% of survey respondents considered the impact of the economic crisis on their business to be negative or threatening, and 76 % of companies questioned expect a further reduction of purchasing costs. Economic pressure and decreasing material costs were the decisive reasons for the forecast of lower cost.

At the same time, some 60% of companies surveyed expect a strengthening of their procurement power, which in turn will have an effect on subcontractors. Approximately 50% predict a decrease in the number of suppliers.

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