

Department Behavior In Relation To Organization Size

Procurement & Sourcing Survey Whitepaper Series

Part 3

PROCUREMENT DEPARTMENTS INCREASE DEPARTMENTALIZATION AND REDUCE REPORTING GAPS AS THEY GROW IN SIZE

Introduction

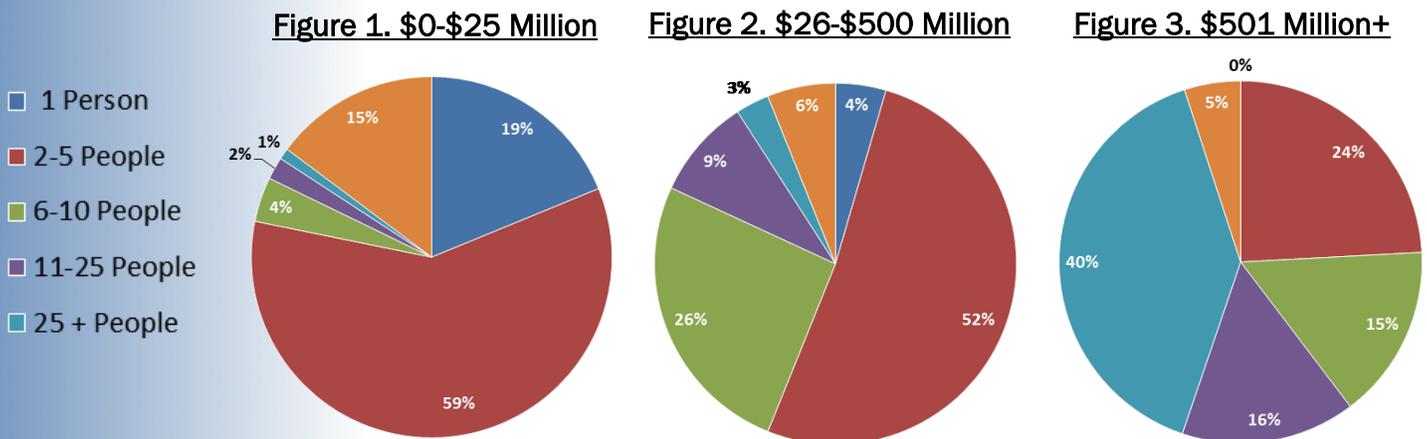
In 2012, Source One Management Services, LLC conducted a state of the industry survey, soliciting answers from professionals in all areas of procurement and from organizations of all sizes. The results have been combined, sorted, and analyzed to produce the clearest synopsis of the industry ever offered by those actively involved in it. Each month, relevant data sets will be explored and further analyzed as a prelude to a full-length presentation that will become available in 4Q 2013.

- ◇ *Procurement department staffing is lean across companies of all sizes, but growth shadows revenue*
- ◇ *As companies grow in size, so do their internal reporting demands on the procurement departments*

Issue At Hand

The role of the procurement department has heightened in recent years due to a combination of factors, from a down market leading to a need to cut savings to a move to more strategic sourcing operations undertaken by best-in-class organizations and those wishing to mimic their successes. With more work, the line of thinking goes, the more people required to perform it. Extending that line of reasoning, the larger the organization, the more work required. So the question becomes, what role does an organization's size actually play in its procurement strategy?

Figures 1 through 3. Breakdown of procurement department size by organizational revenue



Respondents were asked to provide information pertaining to the annual revenue generated by their organization, with responses split into three revenue categories: \$0-\$25 Million being the lowest, \$26-\$500 Million being mid-range, and \$501 Million or more being the highest. Respondents in each of the three revenue categories were asked to disclose the size of their procurement group. In the lowest revenue category, \$0-\$25 Million (Figure 1), more than three-quarters of respondents had procurement departments of five people or less, with 59% stating that their procurement group consisted of 2-5 individuals and 19% of reporting that their procurement group consisted of only one person. Concerning staffs of more than five, 4% reported having a procurement group size of 6-10 people while

2% reported having 11-25 people and only 1% reported that their procurement group consisted of 25+ individuals. Mid-range organizations, \$26–\$500 Million (Figure 2), have a majority (52%) of procurement departments staffed by 2-5 people, with only 4% reporting a single staff member. Just over a quarter (26%) of respondents stated that their procurement group consisted of 6-10 people, while 9% reported a group size of 11-25 people and 3% claimed to have more than 25 people. The high revenue group, \$501 Million+ (Figure 3), illustrated the greatest range of responses, with 0% utilizing only one procurement professional, 24% using five or less, 15% employing between 6 and 10, and 16% using between 11 and 25. A near majority of these large firm respondents (40%) stated that their procurement department was larger than 25 associates.

Figures 4 and 5: Who do procurement groups report to?

Figure 4: Respondents reporting to Finance

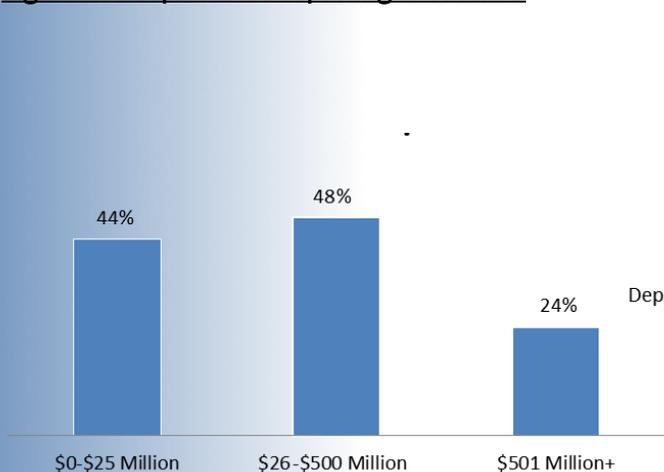
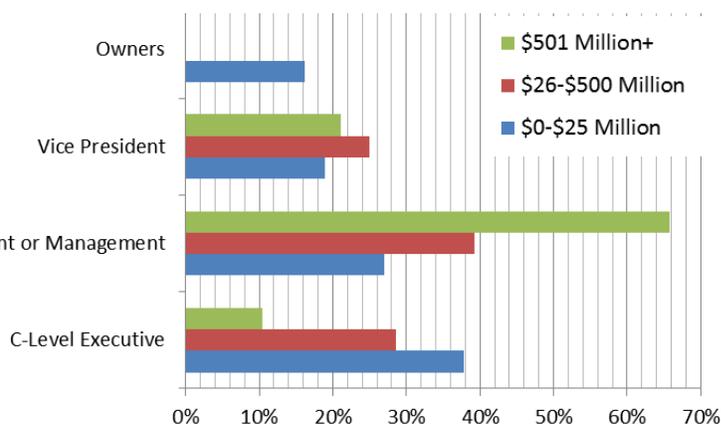
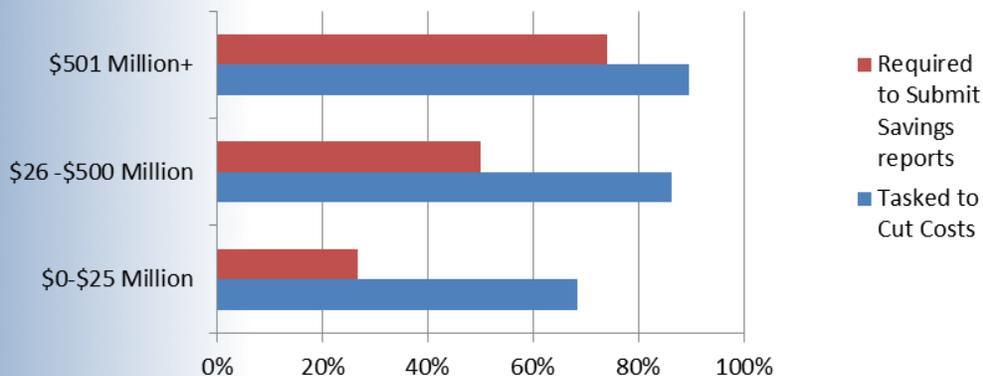


Figure 5: Respondents reporting elsewhere



Respondents were also asked if their organization’s procurement department reported to the finance department (Figure 4). As a follow-up, those who did not report to finance were asked which department they did report to (Figure 5). In the two lower revenue categories, nearly half, 44% and 49% respectively, the respondents stated they report to the finance department while in the largest revenue category only 24% of respondents did. Of those not reporting to finance in the \$0-\$25 Million group, 38% report to a C-level executive, 27% report to another department or manager, 19% report to a vice president, and 16% report to the owner, the only revenue category to do so. In the \$26-\$500 Million revenue group, nearly 40% report to a department head or direct manager, 31% report to a C-level executive, and 27% report to a VP. In the highest revenue group, the overwhelming majority of respond-

Figure 6— Who is tasked with cutting costs & submit savings reports



ents (67%) stated their procurement group reports to a department head or direct manager, with 21% reporting to a VP and only 10% reporting to a C-level.

Respondents were also asked a two part question; if they were currently tasked to cut costs, and if they were required to submit savings reports. At the smallest revenue tier, 68% were tasked with cutting costs while only 27% were directed to submit savings reports, while at the mid tier, 86% were tasked to cut costs while half (50%) were required to submit reports on savings. The highest tier had the smallest gap, with 90% reporting an edict to cut costs and 74% required to submit savings reports.

Closing

Procurement Group Size Correlates With Revenue Increase

While each revenue tier boasted procurement departments of all sizes, as expected, larger organizations demand more resources, as more than 50% of companies with revenues less than \$500 Million using procurement departments of 2-5 people while more than 50% of the highest revenue companies employed more than 11.

The Larger the Company, the Bigger the Demands for Reporting

Regardless of company size, the majority of procurement departments are tasked with cutting costs. However, the demands on procurement groups to adequately report those savings favored larger organizations. Within the smallest organizations and the largest ones 41% and 16% respectively, have cost reduction edicts, but do not require their procurement departments to report or validate their efforts. Presumably, as companies grow and as departments add headcount, the need to add structure and formality to cost reduction efforts increases, making reporting a crucial deliverable of the procurement group.



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