



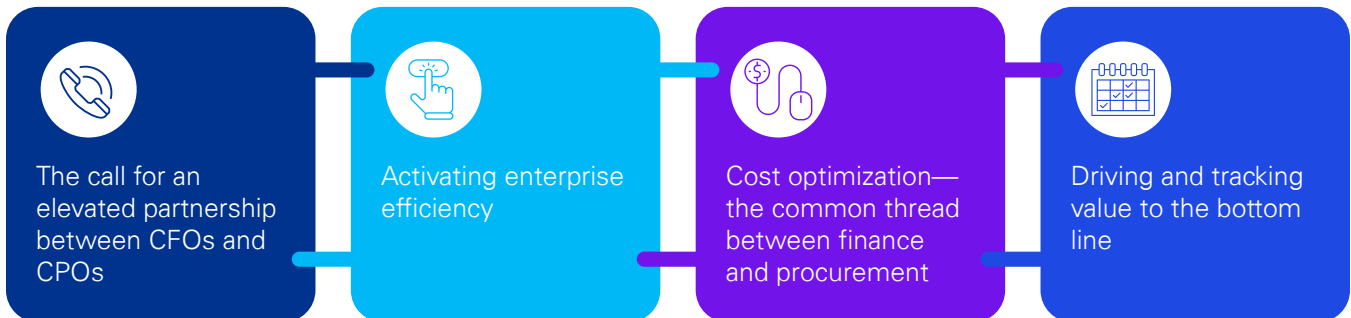
# C-suite perspectives: Elevating the CPO and CFO partnership

May 4, 2023

The pace of disruption has shifted the corporate growth agenda. Staying ahead of change demands an elevated partnership between finance and procurement to turn these disruptors into opportunities. The right alignment between the two functions can lead to significant cost savings while driving long-term sustainable growth.

This webcast discussed why collaboration between chief financial officers (CFOs) and chief procurement officers (CPOs) is essential to boosting business performance.

Panelists addressed the following topics:



## The call for an elevated partnership between CFOs and CPOs

Businesses are scrambling to inject resilience into their value chains due to multidecade high inflation, geopolitical instability, and an impending economic downturn. Amid global headwinds, CFOs and CPOs play pivotal roles to help optimize businesses and lift the strain on corporate profitability. While finance is the custodian of enterprise performance management, procurement oversees strategic sourcing and supplier networks. Together, as strategic collaborators, they can drive organizational agility and boost top and bottom-line performance.

Current market dynamics are further reinforcing the partnership between the two functions. These include geopolitical impacts, margin pressure, expanding regulatory requirements, new and converging business models, the speed of innovation, and the growing importance of ESG integration. All of these levers have a direct or indirect impact on operations and the bottom line. Organizations are increasingly looking to CFOs and CPOs to drive business strategy and real-time decision-making by taking advantage of change and prioritizing opportunities to unlock value.



## Activating enterprise efficiency

The most critical step is to ensure the right alignment between finance and procurement. Businesses must define a robust strategy that encompasses all market forces. This includes identifying activities that drive value for finance and procurement and developing a unified framework to accurately assess costs and benefits before making significant investments.

The following framework can help identify levers for sustainable profitability and unlock enterprise efficiencies:

**Revenue and growth:** Improve the top-line of the business generated from sales or core business operations. Key metrics include sales force effectiveness; efficiency of marketing and promotional strategies as well as product bundling—cross- or up-selling.

**Gross margin:** Maximize the bottom-line by analyzing sources of value creation and areas of leakage; rationalizing portfolios based on product profitability; and optimizing vendor pricing through cost of goods sold (COGS) analysis.

**Cost optimization:** Look at ways to reduce costs while improving business value. This includes optimizing selling, general, and administrative (SG&A) expenses; simplifying organization design; leveraging an optimal labor mix to consider outsourcing versus nearshoring; and improving indirect procurement and spend.

**Reinvention:** Explore ways to make fundamental changes to your business and operations, such as expanding to new markets; transitioning to as-a-service business model; building strategic partnerships; and embracing new ways of working.

To support these pillars, it is crucial to have the right **systems and tools** in place that enable a comprehensive understanding of market opportunities to improve EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). Effective governance paired with the right tools is a critical foundation for managing the pace of transformation and gaining efficiencies. This requires cross-functional collaboration between finance and procurement to prioritize initiatives that drive enterprise value.



## Cost optimization—the common thread between finance and procurement

One of the areas where CFOs and CPOs can collaborate to drive the most impact is cost control over spend. Indirect spend represents the cost of operating a business; and gaining visibility into it can drive a direct impact on the organization's bottom line.

- While CFOs scramble to navigate budgeting and the trade-offs between near-term benefits and longer-term growth, CPOs are in a unique position to serve as true business partners due to their understanding of the competitive landscape and visibility across the supply chain network.
- To gain efficiency, finance must work with procurement to not only realize sustainable cost savings, but also establish better oversight of indirect spend. This can be achieved by using optimizing levers such as eliminate, aggregate, source, and outsourcing.
- By leveraging technology and automation, companies can ensure transparency into overall spend, improve processes, and create sourcing centers of excellence (CoEs).
- Although finance is responsible for organization-wide budgeting, a mindset shift is required to enable true savings. With a seat at the strategic planning and budgeting table, procurement can gain valuable insights for decision-making and ensure sourcing strategies are aligned with overall organizational goals.
- While procurement outsourcing yields significant cost savings, companies must assess the long-term value of using third parties. Before contracting out business functions and processes, establishing a strong governance model is critical to balancing internal procurement and outsourcing operations. By doing so, firms can respond to market changes quickly while ensuring compliance. Having CEO and leadership backing is paramount in this process, as loss of control over the outsourced function is a potential business risk.



## Driving and tracking value to the bottom line

Aligning procurement savings to financial statements is a challenge, even for leading procurement organizations. It is critical to track procurement performance effectively because it has a direct bearing on the company's bottom line. To succeed, both functions must work cross-functionally to align the following metrics and drive transparent savings tracking.

### What is the spend baseline?

The first step is to create a baseline of current spend using historical data to support a single source of truth and insight.

### How should we calculate value?

This involves determining the contract value versus realized value. While contract value is simply the total savings compared to spend, realized value refers to the tangible benefits derived from a purchase over time, such as vendor consolidation or supply base restructuring.

### Who will realize the benefits?

The aim of procurement savings is to reduce sourcing costs, improve vendor terms, lower COGS, and gain operational efficiencies. Besides joining efforts for budgeting, it is also important for CFOs and CPOs to address analytical and technology needs for reinvesting savings appropriately.

### How do we report progress?

Reporting helps find the parallel between the cost and true value of an idea. It is imperative to understand the spend baseline impact and

probable savings on every function, along with a mechanism to report and track it back to the income statement.

In a nutshell, it is important to formalize and harmonize savings approaches to establish a common language between finance and procurement. By aligning procurement performance to standard financial practices, companies can foster a clear and transparent focus on improving profitability.

### What is the spend baseline?

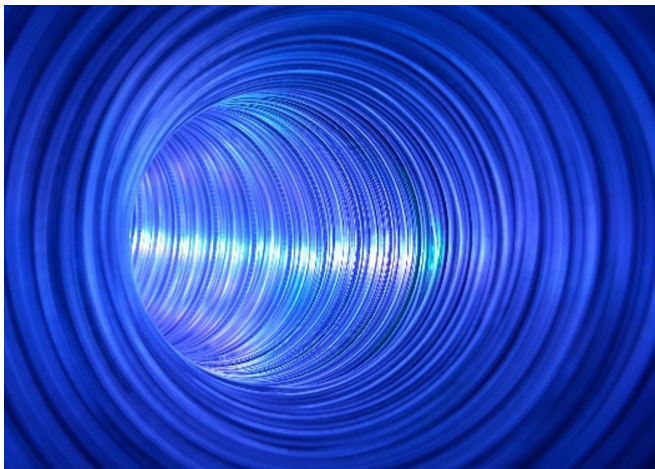
Four areas to consider that can truly help elevate the role of finance and procurement in driving business and sustainable growth:

- **Envision:** Envision how finance and procurement collaboration can play a key role as the value multiplier within your organization.
- **Strategize:** Align the two functions on a common goal to capitalize on key opportunities and enable cost efficiencies.
- **Evaluate:** Assess whether finance and procurement are aligned to track value such as quick wins and communicate it across the organization.
- **Commit:** Identify ways to create a culture of cost savings as strategic collaborators.

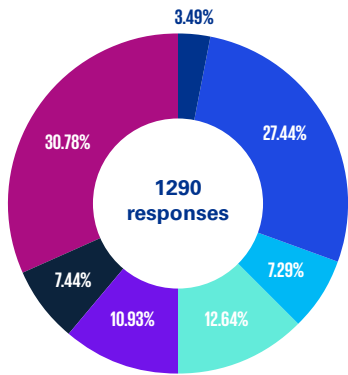


## Closing comments

Organizations are facing unprecedented change and disruptions that threaten their future viability. Macroeconomic forces such as inflationary pressures, technology advancements, evolving regulations, and the ongoing supply chain crisis are all compelling CFOs and CPOs to reevaluate strategies and innovate. Forward-looking companies are aiming to strengthen partnerships between finance and procurement to optimize business costs, enable insight-driven decision-making, gain better understanding of the competitive landscape, and activate enterprise efficiency. Together, as strategic collaborators, CFOs and CPOs can improve spend visibility and boost top- and bottom-line performance.



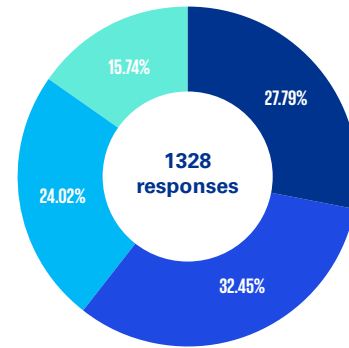
### Which current market dynamic is impacting your organizations the most?



- Activist investors
- Geopolitical risks and global inflation
- M&A transactions
- Operational resiliency
- Other
- Performance against peers
- Slow economic growth

Note: Percentages may not total 100 percent due to rounding.

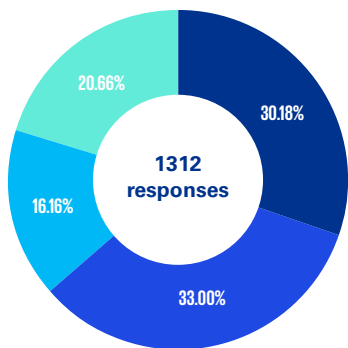
### What is your key challenge in addressing indirect spend?



- Enforcing spend controls
- Gaining organizational alignment on opportunities
- Lack of data and reporting to perform the necessary analysis
- Resistance to changing goods or service providers

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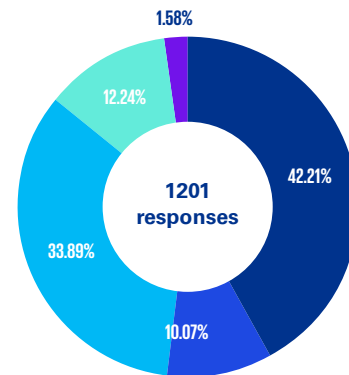
### Which lever of spend optimization is your organization looking to focus on next?



- Aggregate
- Eliminate
- Outsource/Offshore
- Source

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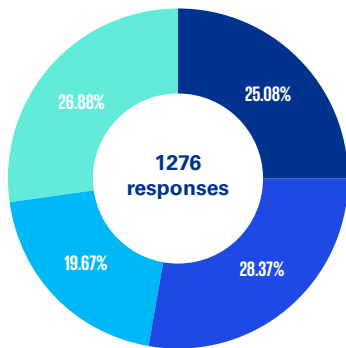
### Your finance and procurement functions currently working together to enable value tracking and reporting?



- Agree
- Disagree
- Neutral
- Strongly agree
- Strongly disagree

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## Of the topics discussed today, where is your organization's greatest opportunity?



- Identifying opportunities for cost optimization
- Implementing change across the organization to achieve cost optimization
- Improving cross functional collaboration between finance and procurement
- Navigating market challenges

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