The Procurement of Services Survey 2023

Initial Findings + 6 Services Best Practices

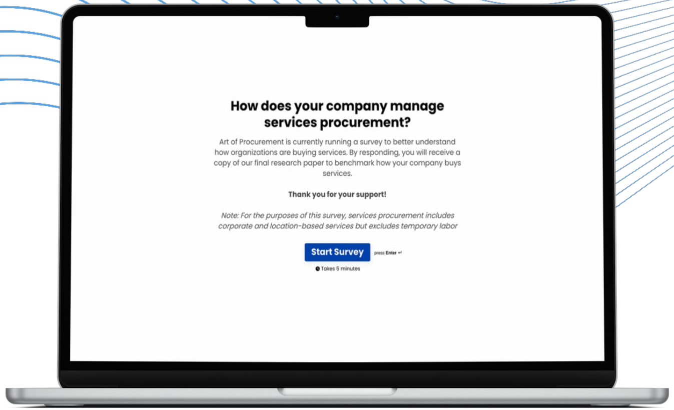
THE PROCUREMENT OF SERVICES SURVEY 2023

Studying Procurement in a Services World

An increasing portion of today's enterprise capabilities are associated with third party services.

Art of Procurement is currently researching how companies buy services as part of a study to provide benchmarking information back to the procurement community.

The following pages represent findings across three of our ten questions, based on the first 75 responses.



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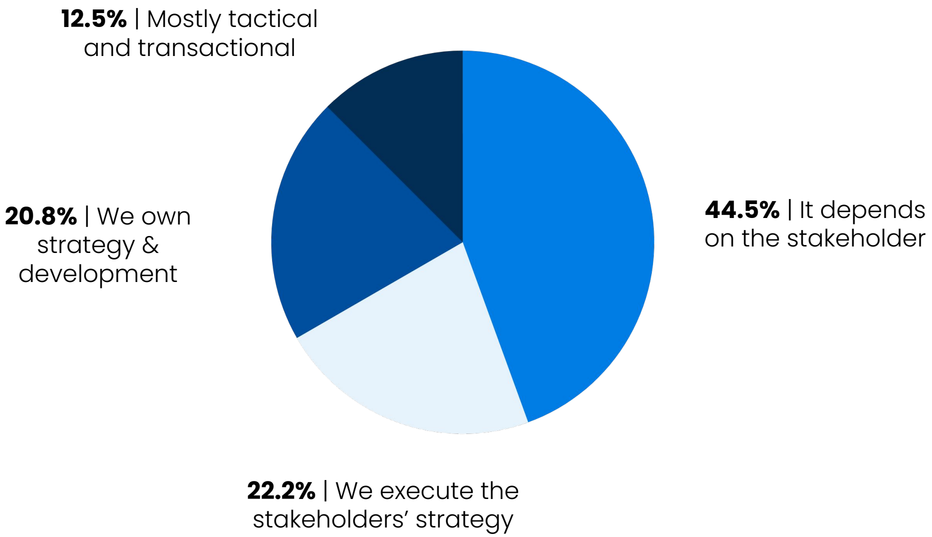
5 minutes

What we seek to understand

- Who is the decision maker for deciding which services to outsource?
- What is the role of procurement in the services buying process?
- Is technology used (effectively) to assist the buying of services?
- Who typically writes the specifications to support the sourcing of services?
- How is the estimated demand for services forecasted?
- What determines whether a particular service is strategic or not?
- How are contracts and pricing mechanisms structured for services?
- What are the most popular risk/reward mechanisms used for services?
- How often are services used to satisfy supplier diversity requirements?
- What is the primary method of tracking the performance of services contracts?

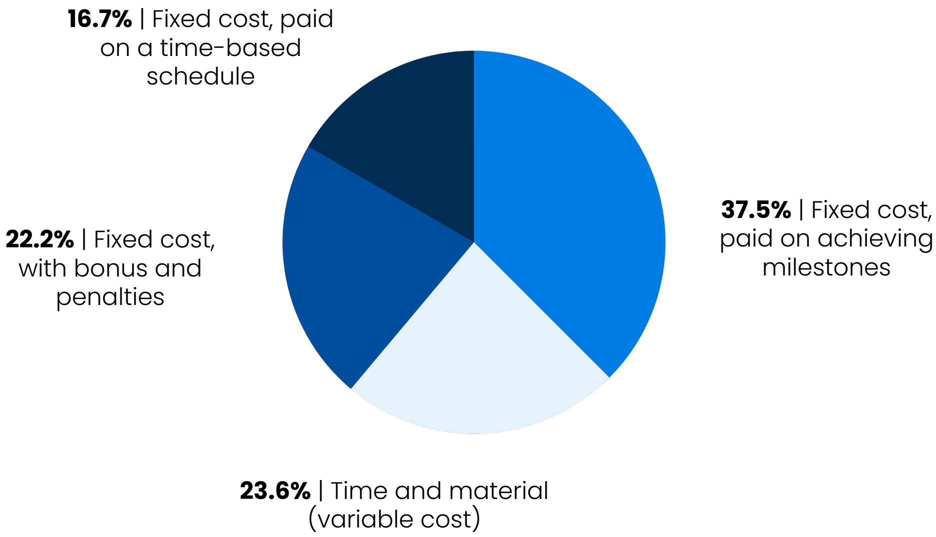
Initial finding: only 21% of procurement leaders have responsibility for services strategy development



When procurement's role is relegated to execution, their potential impact diminishes, leaving business outcomes subject to the business' whims or internal preferences.

With services procurement, there are so many factors to satisfy beyond quality and cost that if procurement isn't involved from the strategy stage, they can't build supplier relationships or maximize third party value.

Initial finding: over 75% services contracts use a fixed cost pricing model

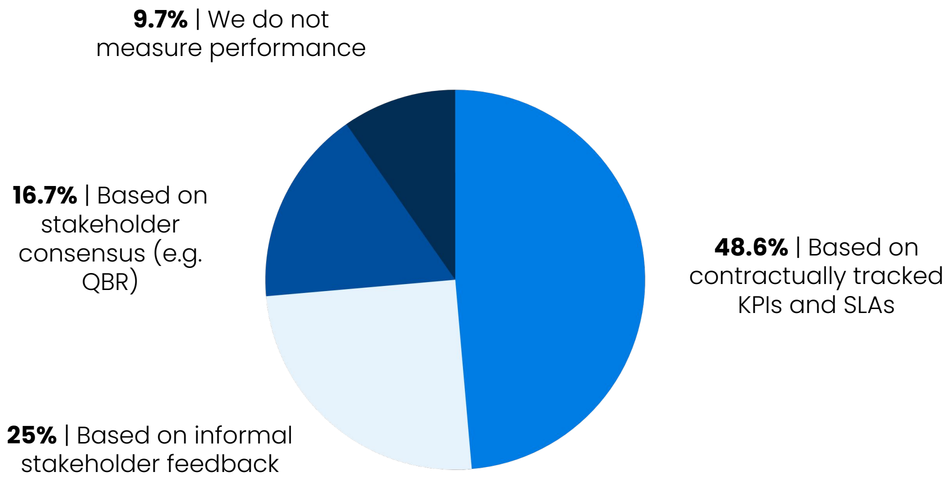


"It depends."

That is often the answer to the question of which pricing model is optimal for services contracts.

Procurement must ensure that each service drives the intended business outcomes – and this can be incentivized and reinforced by selecting a specific pricing and payment model.

Initial finding: only 49% of contracts include formal performance KPIs



Setting expectations up front and specifying how success will be measured is a critical step.

Formal KPIs for third party services are likely to be highly contract or supplier specific.

Addressing these KPIs at the same time as pricing and delivery terms can reduce the need for re-negotiation during the lifetime of the contract.

BONUS CONTENT
Buying Services Best Practices

Check Twice - Source Once

When sourcing services, “specifications” can easily be clouded by a stakeholder’s perception of a service.

Having an accurate description ensures that the specs included in the bid process are accurate and objectively documented.

- Gather ‘as-is’ specifications from existing contracts / stakeholders
- Validate with incumbent supplier(s) if appropriate
- If possible, review past invoices or observe the service in action
- Provide an opportunity for bidding providers to suggest delivery improvements in addition to bidding on the process as-is
- Ask incumbent suppliers about unique requirements that are driving additional costs

Are you buying people, or outcomes?

Companies often set out to buy workforce capacity or hourly coverage rather than outcomes.

Buying outcomes encourages provider creativity and creates a shared commitment to achieving desired - and ideally stated - results

> Consider the outcomes you want to achieve rather than the number of people you need to service your account

> Issue an RFP to a small number of potential suppliers, rationalizing your supplier list via an RFI instead

> Provide a problem statement vs. a fully detailed specification to drive service provider creativity

> Contractually incentivise and reward suppliers for achieving and exceeding your desired outcomes

Mapping the Services Supply Chain

Many procurement teams think the concept of a "supply chain" only refers to direct materials.

The principles of managing the risks associated with the supply chain apply equally to services - and extend multiple tiers away from your company.

- Ensure that you are not inadvertently creating geographic concentration risk through supplier selection
- Consider multiple delivery locations for the services that you buy
- Map the elements that are necessary to ensure services business continuity (e.g. talent availability, facilities, technology)
- Identify any high impact / medium to high probability risks and develop contingency plans with each supplier

Hope for the Best, Prepare for the Worst

When companies enter into a new supply partnership, everyone is enthused, motivated, and ready to go. Then reality sets in.

Every typical services contract will require a realignment at some point during the term. Procurement should ensure that the necessary optionality is built in.

- Look for the landmines. What contractual terms would allow the supplier to reduce their contractual outputs (e.g. in case of volume declines)?
- Are the volumes used in the contract realistic? Do both sides agree?
- Do you have a way to reduce the scope of the engagement if demand is lower than expected?
- Build in a formal mechanism that allows a review of the scope should business needs evolve

Managing the Transition Period

There is one thing we can say about people: they are only human.

When a services contract is changing hands from a former incumbent to a new incoming provider, procurement needs to make sure the transition is as seamless as possible.

> Put a clear transition plan in place and secure sign off from representatives of both suppliers

> Communicate the upcoming change directly to anyone that is affected by the service, directly or indirectly

> Ensure that all company representatives treat members of the outgoing supplier team with respect

> Prepare internal points of contact to support the new provider and set them up for success

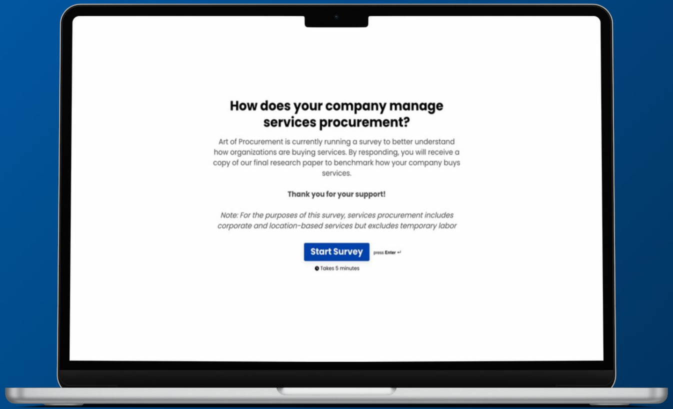
Ensure On-site Services Readiness

Although many roles are performed remote or hybrid, third party service provider representatives may be on-site.

Procurement should make sure that they have the access and orientation they need to deliver successfully from day one.

- Make a checklist of arrangements, including security badge access, building orientation, and a review of relevant facility policies
- Assign responsibility for each detail, and give the provider points of contact for follow up questions
- Inform the provider of any location-based exceptions, such as sound ordinances or time restrictions
- Follow up with each location (as well as the centralized budget owner) post-implementation to ensure expectations are being met

Take the survey by October 6th and receive early bird access to the research findings



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The Procurement of Services Survey 2023 is undertaken by AOP and underwritten by SAP.