



Procurement Professionals Capability

The PMMS
Sourcing Knowledge Questionnaire
Five Year Report 2004-2009



Consultancy

Negotiation

Skills Development

Recruitment

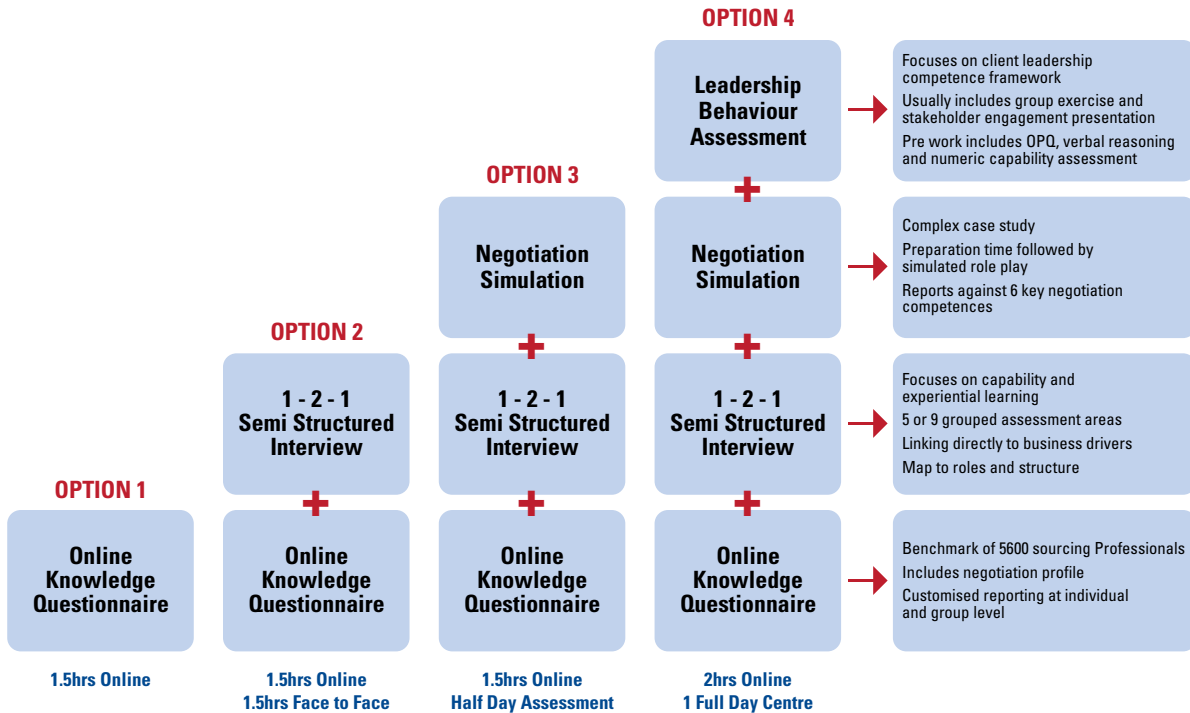
Interim Management

Asia Sourcing

Introduction

This paper reports results from the PMMS base capability tool in our assessment suite: The Sourcing Knowledge Questionnaire.

Assessment Service Options



The online assessment has now been completed by over **5600 sourcing and procurement professionals** across the globe and is the largest database of its kind. We have found the results both surprising and shocking in equal proportion and now feel the dataset is large enough in terms of numbers, geographic spread, sector coverage and job function for us to draw specific conclusions as to the current state of technical knowledge held by those with whom we entrust responsibility for managing corporate spend and external resources.

The basis of the assessment

The assessment is a knowledge-based assessment completed online together with a negotiation profile. Its basis is that whilst a high level of technical knowledge cannot guarantee good job performance, it is unlikely that optimum performance will be achieved by those unable to apply effective tools and techniques as they undertake development of sourcing strategy and tactics.

The assessment consists of **65 complex multiple-choice questions and a case-based negotiation profile**. The knowledge assessment questions are complex because each has a gradation of answers which are marked and converted to scores (of between 0-5) across between 1 to 5 competences. The complete assessment matrix consists of over **300 measured elements** and delivers a numeric score against each of the 9 PMMS technical competence "strands":

- **Procurement Process Management (PPM)**
- **Contract Selection and Legal (CS&L)**
- **Supply Chain Analysis (SCA)**

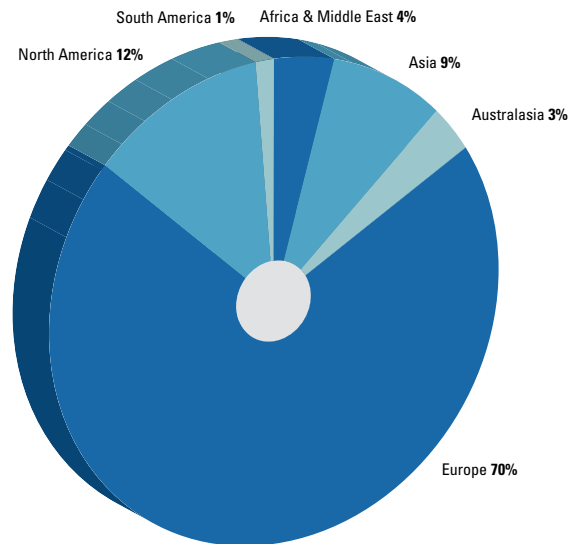
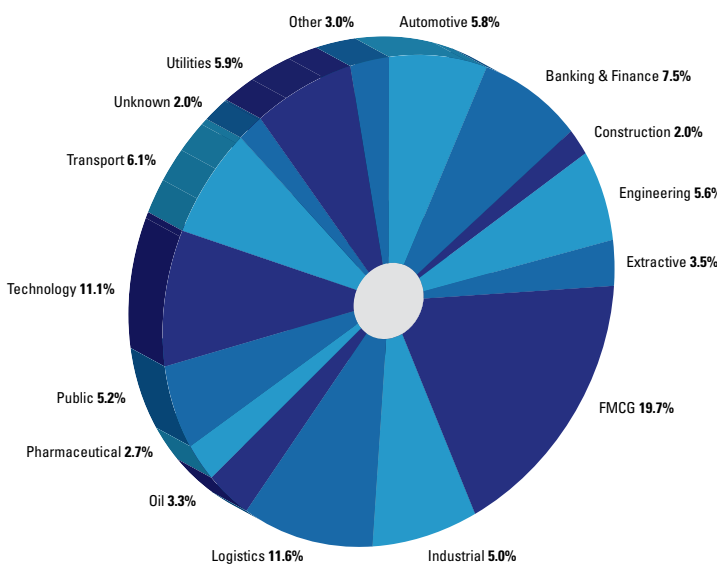
continued overleaf...

- **Risk Management (Risk)**
- **Negotiation Skills (Neg)**
- **Finance for Procurement (Fin)**
- **Contract Management (CM)**
- **Supply Base Analysis (SBA)**
- **Customer / Client Management (CCM)**

When combined with the negotiation profile, we build a powerful predictive model of areas of required development at individual and corporate level. *The definition, basis and use of the technical competence strands are detailed at the back of this document.*

Assessment is benchmarked against four elements:

- **Total Population**
- **Industrial Sector**
- **Geography**
- **Job Function/Role**



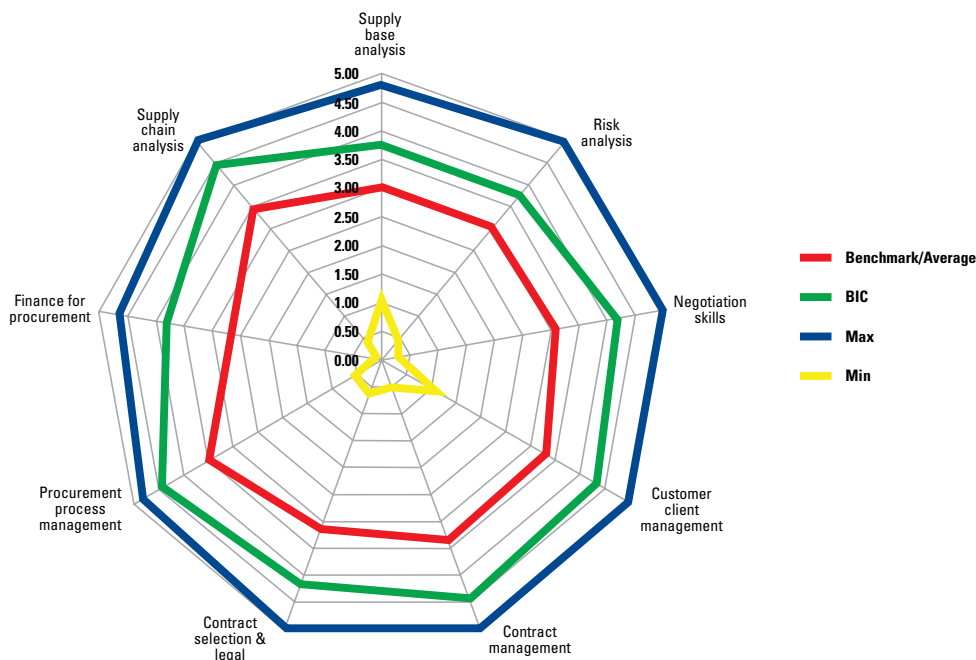
(The database for the Negotiation Profile is smaller at just over 2300 – although we have been using the Profile for a number of years, it has only more recently been included with the Sourcing Knowledge section and results recorded).

The scoring system

Individual scores are given against a benchmark / average of a given population. In addition we measure against a Best in Class score which represents the top 10% of scores in any given population (the 90th percentile).

Sourcing Knowledge Questionnaire

Total population summary data



In addition to these base comparisons we note the raw scores against the following principles:

- **Score > 4 Little or no knowledge development need**
- **Score < 3.25 Development need**
- **Score < 2.25 Significant development need**

Scores of less than 2 would indicate an individual lacking even the most basic knowledge to perform a sourcing or procurement role.

Total Population

5643

	Supply base analysis	Risk analysis	Negotiation skills	Customer client management	Contract Management	Contract selection & legal	Procurement process management	Finance for procurement	Supply chain analysis	Total
Benchmark/Average	2.99	3.00	3.09	3.33	3.40	3.14	3.55	2.70	3.46	28.65
BIC	3.76	3.76	4.18	4.31	4.50	4.21	4.43	3.82	4.47	37.44
Max	4.80	5.00	5.00	5.00	5.00	5.00	4.86	4.64	5.00	
Min	1.08	0.43	0.27	1.08	0.50	0.64	0.57	0.09	0.40	
<4	50	132	739	1113	1253	769	1568	171	1562	
<3.25	3412	3344	3188	2433	2148	3192	1819	4081	2065	

Strength
Development need
Significant development need

Our practice therefore is to measure the proportion of a population scoring less than 3.25 as a general guide to the “gap” that has to be closed for optimum knowledge levels and prior to embarking on experiential learning and development. The results for the total dataset of 5643 professional purchasers are sobering:

Competence Strand	Number less than 3.25	Proportion %
Finance (Costing)	4081	72.3%
Supply Base Analysis	3412	60.5%
Risk Analysis	3344	59.3%
Contract Selection & Legal	3192	56.6%
Negotiation Skills	3188	56.5%
Customer / Client Management	2433	43.1%
Contract Management	2148	38.1%
Supply Chain Analysis	2065	36.6%
Procurement Process Management	1819	32.2%

This means that **in 5 of the competence strands**, more than **50% of the population lack the knowledge to be effective**, despite the strides made by the profession to develop talent over the last 25 years.

Furthermore, 4 of these strands – Finance for Procurement, Risk Analysis, Contract Selection & Legal, and Negotiation Skills are fundamental to the sourcing / procurement role and indeed might be those areas that advocates for the profession would identify as being the key contributions to be made to the multi functional team managing a category.

It needs to be restated here that this population is one of professionals working in sourcing / procurement for over 130 clients, the majority of whom are blue-chip and most of whom have invested significantly over time in development of procurement as a professional role with staff complements of up to 300 people.

Our belief is that it is too simplistic to assume that this is due to poor investment or motivation, because we witness no absence of either in our interactions with most corporates or their procurement staff. We believe the issue lies not in the lack of investment but in the way the competences are being developed.

In our view, most training is taught in competence silos whereas nearly all live business interactions require a mix of complementary skills to achieve optimum effectiveness – we do not see how anyone can be a good negotiator without understanding risk, but how many programmes of development assess and deliver this competence mix?

Our experience is that most training and development providers will talk of payback on investment in development but very few organisations follow through development programmes to the point of proving and demonstrating payback, and even fewer are effective at combining training with experiential development. If anything, improvements in technology have made the situation worse - with many employers assuming that simply because they have a strategic sourcing process mapped on an intranet, there will be a base level of competence achieved through osmosis.

Industrial sector

When we examine the sector benchmarks it is clear that a number of sectors which might consider themselves as at the forefront of the profession do in fact score relatively poorly.

Rank	Sector	No. of Participants	Total*	BIC**	Total as % of Database BIC	No. of Comps < 3.25***
1st	Logistics	652	30.86	36.34	82%	3
2nd	Consulting	24	30.74	37.13	82%	3
3rd	Chemicals	47	29.69	35.55	79%	4
4th	Engineering	315	29.16	34.85	78%	3
5th	Public	293	28.97	36.71	77%	5
6th	Utilities	334	28.90	37.73	77%	4
7th	Automotive	325	28.44	36.62	76%	5
8th	Technology	627	28.36	37.79	76%	5
9th	Pharmaceutical	150	28.28	37.26	76%	5
10th	Transport	343	28.26	37.75	75%	6
11th	Banking & Finance	425	28.19	37.91	75%	5
12th	FMCG	1111	28.15	37.50	75%	6
13th	Extractive	199	28.15	37.39	75%	5
14th	Industrial	282	28.12	38.01	75%	6
15th	Information	104	28.10	37.87	75%	7
16th	Oil	187	27.33	36.97	73%	7
17th	Construction	111	26.14	34.76	70%	9

* total in green & bold where higher than benchmark

** BIC in green & bold where higher than benchmark BIC

*** no. of comps <3.25 in red & bold where more than half of the competencies

Furthermore, when we analyse those competence strands requiring least development by sector, it is no surprise perhaps that the Logistics sector score very well on Supply Chain Analysis but less exciting that all other sectors seem to root their knowledge expertise in Procurement Process Management.

Most worrying to us is that with the exception of the Banking sector, knowledge of Finance for Procurement is the lowest scoring competence strand.

Sector	Highest Scoring Competency	Lowest Scoring Competency	2nd Lowest Scoring Competency	3rd Lowest Scoring Competency
Logistics	SCA	Fin	Neg	CSL
Consulting	PPM	Fin	Neg	CSL
Chemicals	PPM	Fin	CSL	Neg
Engineering	PPM	Fin	CSL	Neg
Public	PPM	Fin	Neg	SBA
Utilities	PPM	Fin	Risk	SBA
Automotive	PPM	Fin	SBA	Neg
Technology	PPM	Fin	Risk	SBA
Pharmaceutical	PPM	Fin	Risk	SBA
Transport	PPM	Fin	Risk	SBA
Banking & Finance	PPM	SBA	Fin	Risk
FMCG	PPM	Fin	Risk	SBA
Extractive	PPM	Fin	CSL	SBA
Industrial	PPM	Fin	Risk & SBA	-
Information	PPM	Fin	Risk & SBA	-
Oil	PPM	Fin	Risk	SBA
Construction	PPM	Fin	Neg	CSL

Job function/role

Results benchmarked by job level are as you would hope – knowledge levels increase with seniority, though again we see some overall weakness in the Finance strand. (Job level definitions are in the appendix to this document).

Rank	Level	No. of Participants	Total*	BIC**	Total as % of Database BIC	No. of Comps < 3.25***
1st	Level 4	42	32.78	39.35	88%	1
2nd	Level 3	187	30.77	38.37	82%	1
3rd	Level 2	987	28.17	37.53	75%	5
4th	Level 1	327	26.73	34.42	71%	7

Level	Highest Scoring Competency	Lowest Scoring Competency	2nd Lowest Scoring Competency	3rd Lowest Scoring Competency
Level 4	CM	Fin	Risk	Neg
Level 3	SCA	Fin	CSL & Risk	-
Level 2	PPM	Fin	Risk	SBA
Level 1	PPM	Fin	Neg	CSL

Geography

Rank	Geographic Region	No. of Participants	Total*	BIC**	Total as % of Database BIC	No. of Comps < 3.25***
1st	EUR	3956	28.85	37.28	101%	5
2nd	AUS	153	28.45	37.08	99%	5
3rd	ASIA	526	28.37	37.30	99%	6
4th	NA	705	28.22	37.51	98%	5
5th	SA	67	27.68	36.99	97%	7
6th	AME	236	27.66	37.16	97%	6

Key:

- AME – Africa & the Middle East
- ASIA – Asia
- AUS – Australasia
- EUR – Europe
- NA – North America
- SA – South America

Geographic Region	Highest Scoring Competency	Lowest Scoring Competency	2nd Lowest Scoring Competency	3rd Lowest Scoring Competency
EUR	PPM	Fin	SBA	Risk
AUS	PPM	Fin	Risk	SBA
ASIA	PPM	Fin	Risk	SBA
NA	PPM	Fin	Risk	SBA
SA	PPM	Fin	Risk	SBA
AME	PPM	Fin	SBA	Risk

Negotiation Profile

Industrial sector

To fully appreciate the implications of these negotiation profiles you will need to read the definitions in the appendix.

Sector	Accept	Compromise	Bargain	Threat	Logic	Emotion	No. of Participants
Automotive	4	10	7	8	10	7	207
Banking & finance	3	10	6	9	11	7	15
Chemicals	2	10	7	8	11	8	51
Construction	5	9	8	8	10	7	111
Consulting	5	9	7	6	11	8	25
Engineering	4	10	8	7	11	7	310
Extractive	4	10	7	8	11	7	86
FMCG	3	10	7	8	11	7	192
Industrial	4	10	8	7	10	7	31
Information	5	11	8	6	13	6	8
Logistics	3	9	7	7	11	8	648
Oil	5	10	9	7	9	7	32
Other	2	11	9	6	11	9	4
Pharmaceutical	4	9	9	7	11	7	39
Public	4	9	8	7	10	8	185
Technology	4	10	7	7	11	7	107
Transport	4	10	7	7	11	8	46
Unknown	4	9	8	7	11	8	111
Utilities	4	9	8	7	11	7	123

We are concerned that there should be any slant towards acceptance within a professional population. Of more concern however is the propensity to use the two-way levers of Bargaining and Compromise – if this is combined with poor knowledge of what products and services should cost (as witnessed by the poor Finance results in the main questionnaire), such a propensity is highly dangerous.

We would prefer a greater propensity for Emotion as a lever which may deliver results where Logic will fail – indeed Emotion may be the only really effective counter to Logic. Of course this is dependant on the balance of power and all our evidence is that buyers take comfort in Logic without fully appreciating how predictable this makes their behaviour.

Geography

There is less regional variation here than we might have normally expected but of course the benchmark relates to very wide geography – for instance the averaging effect in Europe tends to merge many cultural variations into one score.

Region	Accept	Compromise	Bargain	Threat	Logic	Emotion	No. of Participants
AME	5	10	9	7	9	6	75
ASIA	3	10	8	7	10	7	141
AUS	4	9	8	8	10	7	49
EUR	4	9	7	7	11	8	1891
NA	4	9	7	7	11	7	163
SA	4	10	7	9	10	6	23

Appendix I: PMMS Technical & Professional Competency Definitions

Most competence frameworks attempt to define an activity – for instance “supplier relationship management” - at a number of levels. Such an approach means that it is increasingly difficult to differentiate capability at more advanced levels as competences begin to merge and this results in poor levels of feedback and reliance on generalisations – of no use to a higher performing sourcing operation.

Furthermore, we see too many competence matrices which do not even attempt to define role specific competence requirements reflective of market complexity or changes in technology – issues which themselves may have substantial impact on target setting. The tendency to homogenise roles such as category manager is over simplistic when we consider the relative complexity and change risk in commodities such as steel or oil.

The PMMS approach to defining competence is to customise to specific role rather than activity, and this presents a range of distinct advantages:

- **Allows easy matching and benchmarking of role profiles across the organisation and for external comparison**
- **Delivers detailed profiles at four application levels from Basic through to Authority**
- **Reflects changing nature of competence mix through pay grades**
- **Allows simple dovetail of PMMS technical standards to your organisation leadership and behavioural competence definitions**
- **Creates quick and effective routes to update competence standards to reflect latest thinking / new tools and techniques / different market structures**
- **Allows addition of role or category specific competence add-ons**
- **Creates powerful feedback models**
- **Creates quick links to specific development initiatives through self-learning, job enrichment or experiential development through secondment**
- **Creation and maintenance of standards becomes a low cost activity and reduces consultancy dependence whilst always ensuring currency**

1. Procurement Process Management

Ensuring the effectiveness and continuing development of the procurement process in all phases from identification of business need through to performance measurement. Everyone involved in the process can contribute to value creation. The establishment and modification of processes, strategies and control procedures will result from review and constructive challenge at each stage of the procurement process. The procurement process should have the appropriate strategic context and key elements: Demand Management, Sourcing, Supplier Performance & Measurement, Performance Management, Knowledge Management.

2. Contract Selection and Legal

Drafting, negotiating, and agreeing clear, concise, and complete contractual documentation which identifies roles and responsibilities and makes provision for all aspects of the agreed strategy with reference to process, steps and templates. An understanding of contract law, the business application and its critical success factors, negotiating skills, and the ability to access and apply specialist legal and technical advice, are all required, in order to protect a client's commercial position in such areas as liabilities, indemnities, insurances and warranties. Building flexibility into contracts such that business change and associated requirements can be reflected over the life of the contract. Elements of Contract Execution: Supplier Performance Metrics / Risk Assessment / Risk Mitigation / Exit Strategies / Terms & Conditions.

3. Supply Chain Analysis

The ability to apply knowledge and awareness of supply chain processes and networks to control and optimise operations. The execution of Supply Chain strategy, understanding how the elements integrate and the risks / rewards associated with the integration. Understanding of the concept of activity based costing models, and the primary factors that impact on supply chain complexity and how these impacts on costs.

4. Risk Management

Managing commercial, reputation, ethical and other risks associated with the procurement process to ensure that undesirable consequences of the risks are mitigated. As well as market knowledge and commercial acumen, an understanding of technical integrity assurance and the HSE Management Expectations is particularly valuable. Elements of Risk Management: HSE Assessment / Financial Assessment / Market Analysis / Operational Continuity / Strategic Impact on Business / Brand Values / Ethical Conduct.

5. Negotiation Skills

Identifies and agrees division of value and risk with third parties. Plans the negotiating strategy, utilising leverage, identifying the risks, and developing options to close a contract successfully. Uses a wide range of influencing styles in order to execute negotiations with third parties. There are significant opportunities for negotiating and influencing in the following steps: Requests for Information (RFIs), Requests for Proposals (RFPs), Requests for a Quote (RFQs), Bidding Process, Contract Award.

6. Finance for Supply Chain

Undertaking a meaningful financial appraisal and assessment of risk within a market and utilising this information in planning, control and decision making. An ability to understand costing methods and cost make-up and analyse financial information as part of procurement strategy. There is a requirement to interpret financial ratios and the interrelationships of financial statements, etc. to assist with the creation of appropriate conclusions. Conduct economic and financial analysis and ensure models provide insight into make or buy decisions and price negotiation strategies. Monitor and ensure compliance with financial and finance-related corporate and company policy, and statutory regulations. Monitor customers' and suppliers' business/trading situation to avoid bad risks.

7. Contract Management

Establishing robust contract management systems. Successful contract management will add value to the contract delivery by providing review and feedback, assessing contractual compliance by both parties, establishing appropriate and effective key performance indicators, managing any disputes in a timely, appropriate and effective manner, identifying continuous improvement opportunities, and liaising with stakeholders to ensure that their business needs are met and developed.

8. Supply Base Analysis

Evaluation of suppliers & supply markets that are consistent with market sector strategies: that is, to ensure appropriate alignment between the supplier and client. Management of appropriate supply base analysis processes, Identification and implementation of optimal supplier selection processes. Utilisation of tools and technology where appropriate, for example Porter's Five Forces and PESTLE. An integral part of this competence is the ability to work with accountable line management and others (including legal, financial, technical integrity and HSE specialists) to establish a comprehensive assessment of the suppliers under consideration, including compliance with client's HSE policies, full & robust external market analysis, financial analysis, supplier selection, supplier segmentation, developing award criteria, risk mitigation.

9. Customer/Client Management

Determine & implement appropriate management of internal relationships, utilising stakeholder mapping. Awareness of the importance of working in cross-functional teams as an aid for decision-making. Awareness of how the function can raise its own profile through a strategy of internal procurement marketing, and improved and effective communications. Build relationships with internal and external customers so that the Company is able to anticipate, learn of, understand and meet customer requirements. Choose appropriate methods of communication to impart information and promote client understanding of our capabilities.

Appendix II: Summary of Negotiation Levers

Compromise

Compromise involves a search for the middle ground, a process through which parties make concessions until they arrive at an agreement. It is typically characterised by statements like, 'Let's split the difference and meet in the middle' or 'Let's meet each other half way – 50/50'.

In its favour, compromise is perhaps the quickest and simplest way to break a deadlock in a negotiation, particularly if the parties' positions are not too far apart. It is the least imaginative approach, however, and it could result in you conceding more to the other party than they would have been prepared to accept.

A compromise is made over a single issue: the salesperson wants a 5 per cent price increase and the buyer refuses - both parties move and agree to a 2.5 per cent increase. Compromise is often used by negotiators who are in a hurry. Research shows that people are much more likely to compromise when they are face to face with the other party. No matter how hard-line your position may have been, personal contact with the other party can trigger a concession.

Bargaining

Bargaining is where the parties to the negotiation trade options with each other. They give and they take, with each party making concessions. The key difference between bargaining and compromise is that bargaining will span a range of issues, and therefore the eventual agreement does not necessarily represent the mid-point between the parties' opening positions.

Obviously the more issues upon which the parties give and take, the more complex the negotiation: it becomes increasingly difficult to put a value on the worth of, say, two concessions where one concerns price and the other concerns after-sales service arrangements. The key point about bargaining and compromise is that both parties need to concede before the approach will work.

Coercion/Threat

Negotiators who are (or imagine they are) in a powerful position will sometimes seek to force the other party into an agreement through coercion. Examples are where an employer gives a trade union leader an ultimatum: 'Either your members accept my pay offer, or I close the factory', or where a buyer threatens a salesperson, perhaps indirectly: 'You wouldn't want me to look for another source, would you?'

Some well-known large companies use their dominant market position to coerce their suppliers, their distributors, etc. If used correctly, it's a powerful negotiation approach. If it's misused, however, it can be counter-productive. When negotiators are having little success moving another party through bargaining or logical reasoning, they can get frustrated and they may try to get their way by resorting to blunt threats or to bluffing about their intentions. Threatening or bluffing in the heat of a frustrated moment has obvious dangers: if someone successfully calls your bluff, you're in trouble. If successfully used, coercion leads to only one party conceding.

Logical Reasoning

We all like to consider ourselves reasonable people. It is hardly surprising then that we can easily be swung by a well-reasoned case. Negotiators use logical reasoning to support their position, and if possible, to undermine the other party's positions. The more factual the case prepared, the more careful the research supporting a negotiator's position, then the greater is the likelihood that logic will win the day – unless, of course, the other party knows how to counter it.

A typical example is where a salesperson seeks a buyer's agreement to a price increase. The buyer, quite naturally but perhaps unwittingly, asked why he should accept it. If the seller can only offer a vague or very general explanation ('our costs have gone up') then the buyer's negotiation position is strengthened. If, however, the seller presents a detailed, well-researched, logical justification for the increase, the buyer's position is weakened: he will feel/appear unreasonable to refuse. If the logical reasoning approach succeeds, then usually one party will do all the conceding.

Emotion

The role of emotion is poorly understood in many Western countries. But a major determinant of negotiators' behaviour is how they feel towards the other party (warm or cold), how passionately or dispassionately they put their case or how they react to a negotiation ploy – with surprise, with anger, etc.

Of course we all hold certain views that may not be entirely founded on facts: prejudices which are emotional, not rational positions. Good negotiators use controlled emotion as part of their armoury, but should be wary of prejudice. Controlled emotion is characterised by statements such as, 'My boss will kill me if I accept', 'I need your help to...' or 'we can't afford that, what with...'. It is important when using emotion to make sure your body language is in tune with what you are saying. When a powerful emotional approach is used, it will often result in only one party conceding.

Appendix III - Summary of Job Levels

Below are details of the 4 job levels defined by PMMS for the database and for simplicity. These categories and the use of particular job titles serve as guides only – job titles vary with different organisations and inside knowledge of company structure is often used to place individuals in the four levels consistently.

1. Buyer

Typically reports to: *Senior Buyer, Procurement Manager, Specialist*. Roles that typically report to this role: *Team member support roles, Buyer*.

2. Senior Buyer

Typically reports to: *HoP, Procurement Manager, Specialist*. Roles that typically report to this role: *Senior Buyer, Buyer*.

3. Procurement Manager/Category Manager

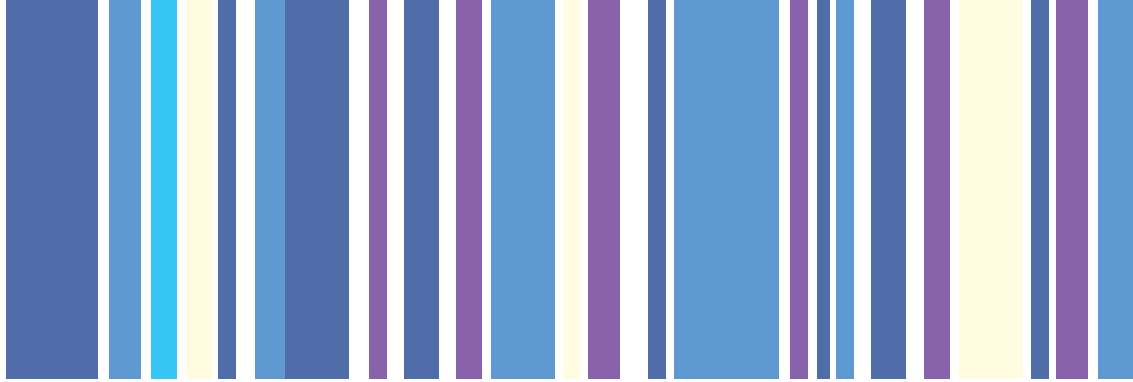
Typically reports to: *General Manager, Procurement Manager, HoP, Vice President*. Roles that typically report to this role: *Senior Buyer*.

4. Head of Procurement (HoP)

Typically reports to: *Vice President – Procurement/Supply Chain Manager*. Roles that typically report to this role: *Senior Buyer, Specialist, Procurement Manager, Senior Procurement Manager*.



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