

**What are some suggested metrics for Procurement Managers?
(Within the context of a manufacturing environment, running a
mid scale ERP program)**

Member Question:

I'm establishing my own suggested goals for a company performance-based bonus based on my work as the Procurement Manager for a manufacturing division; we're running Epicor Vantage ERP software to manage the business.

Houston, Texas

My Answer:

The following is an excerpt from an article I wrote on January 31, 2008 that should serve as a cautionary beacon to any purchasing professional contemplating the establishment of performance metrics.

Bridging the Communications Gap between Finance and Purchasing

A May 4th, 2006 article titled How to Speak Like a CFO stressed that "Too often, finance executives in Corporate America simply don't believe that purchasing departments are really bringing in the savings they claim. That may be because finance and purchasing don't speak the same language."

For example, the finance department isn't interested in cost avoidance. They are interested in hard cost savings. This is perhaps one of the main reasons why a recent study revealed that of the 11.9% of average identified savings presented by the purchasing department, only 3.2% actually gets booked by the finance department - a difference of 73% from identification to realization.

Here are some additional findings from the Aberdeen study that may surprise you:

- Less than 20% of CFOs consider the work of CPOs and their staffs as having a very positive impact on competitiveness.
- On average only 46% of CFOs feel that the procurement team has contributed to enterprise growth.

- Only 57% of CFOs feel that procurement contributes to enterprise profitability.

Against this backdrop of miscommunication and misunderstanding, it is therefore imperative for the purchasing professional to both recognize and understand the financial objectives of the finance department as these will almost always reflect the primary interests of senior management.

Along these lines, and according to Robert Rudzki, president of Greybeard Advisors and co-author of Straight to the bottom line, here are the five critical finance terms:

1. ROIC (Return on Invested Capital): earnings divided by the total capital invested in the business (long term debt plus stockholder equity)
2. Cost of Capital: the weighted average "cost" of debt and equity. It represents what you must earn to, minimally; cover the expectations of your debt holders and stock holders
3. EVA (Economic Value Add): if ROIC is greater than Cost of Capital, then EVA is positive (you are adding value to the organization). If ROIC is less than Cost of Capital, then value is being destroyed and - absent substantial corrective action - the demise of the enterprise is just a matter of time
4. EPS (Earnings per Share): the net income divided by the # of common shares outstanding. Typically calculated on a quarterly and annual basis.
5. P/E Ratio: The ratio of the common stock price to the annual earnings per share. Companies/industries typically "enjoy" certain P/E ratios, therefore, increasing the E (earnings) often directly equates to a higher stock price.

The two "biggies," says Rudzki, are ROIC and EPS. Those two concepts drive C-level because they are what Wall Street and bankers are interested in. ROIC and EPS are the ultimate "report card" of senior management.

My suggestion would be to meet with your organization's CFO and collaborate on a program that will make sense from an enterprise wide

perspective. This kind of dialogue will also open up important avenues of communication that can only help to further both your profile and career.

(Note: If you would like further information on the research material I used for the article send me an e-mail @jhansen@procureinsights.com with "Finance Articles" in the subject line.)

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