Ebook

The Top 6 Procurement KPIs

Potent metrics for boosting cost savings & efficiency

Table of contents

Setting the stage

Procurement under intense pressure to perform

Procurement teams are caught in the middle of an ongoing storm of climbing interest rates, global political instability, inflation and a host of other uncontrollable factors too numerous to list here. Despite these challenges, they're expected to produce year-over-year cost savings without jeopardizing supply continuity.

Not surprisingly, the top priorities of Procurement executives reflect those expectations. Controlling and reducing costs continues to be THE number one focus for Procurement departments.[1] Improving efficiency throughout the procurement process and mitigating supplier risk to ensure an uninterrupted flow of goods and services are also key concerns.

That's a tall order to fill even in the best of times. But now, Procurement leaders are being told to do more with less. In 2025, procurement workloads are projected to increase by 10%, while budgets will only grow by 1%.[2]

Combine that with the limitations of outdated tools and processes, as well as poor visibility into procurement performance, and it's clear Procurement teams will have to do a better job of streamlining their operations if they want to succeed in the face of so many challenges.

And that's exactly where effective key performance indicator (KPI) tracking can help.

Meet the moment with measurement

"Risk comes from not knowing what you're doing."

Warren Buffet

Remember from the previous page how procurement workloads have increased by 10%, but budgets only increased by 1%? Making up that 9% gap means identifying ways to be more efficient.

Trying to determine where your inefficiencies lie without any indicators to compare against is like trying to diagnose an internal injury without X-rays or MRI scans. You may have a general idea of what you could be doing better, but without hard data, it can be tough to pinpoint exactly what your issues are.

Measuring your team's current performance via KPIs spotlights areas of inefficiency so you can strategically target your improvement efforts. In addition, tracking KPIs can show the quantifiable results of your efforts — which can translate to more support (financial and otherwise) from organizational leadership.

Let's explore the best 6 KPIs for assessing procurement operations and stamping out inefficiencies.

01

Cost savings

Also referred to as "savings rate," this KPI measures how much money you save as a result of price negotiations, supplier consolidation, waste reduction and other cost saving initiatives.

Because cost savings is the most important procurement optimization initiative for today's supply chain leaders,[3] this KPI is absolutely essential for showing how your team is impacting the company's bottom line with quantifiable, hard money savings.

How to calculate it

The standard formula for cost savings is:

Initial proposed cost - actual cost = cost savings

For example, if you've traditionally paid $10,000 a year for a product, but negotiated the price down to $7,000 annually, you saved your company $3,000.

You can also calculate cost savings as a percentage:

Cost savings / initial proposed cost = cost savings percentage

Continuing the example from above, your $3,000 cost savings divided by the $10,000/year original cost gives you a cost savings percentage of 30%.

Cost savings can also be measured in other ways depending on the specific needs or preferences of your organization, such as:

- Compare the current year's spend with the previous year's.
- Compare the price you pay with the average market price for similar goods or services.

What's considered best-in-class?

World-class companies achieve a savings rate of just over 6%.[4] Additionally, organizations with top-tier procurement practices deliver nearly double the cost savings of median performers, while spending 21% less on procurement overall.[5]

How to improve it

Some of the most impactful strategies for saving money in the procurement process include:

- **Strategic sourcing:** using competitive bidding and market research to find stable suppliers with the best pricing and terms
- **Spend analysis:** examining purchasing data to identify areas of heavy spending, potential cost-saving opportunities and maverick spending
- **Contract negotiation:** regularly reviewing and renegotiating contracts to ensure optimal pricing and terms
- **Process automation:** automating repetitive, time-consuming tasks like purchase order (PO) generation and approvals to reduce admin costs
- **Supplier relationship management:** maintaining strong alliances with key vendors to capture preferential pricing and terms

Bringing your sourcing and procurement functions together into a centralized, AI-powered automation platform can help you do all that and more. From running eAuctions and RFPs all the way to automating PO approval workflows, an end-to-end solution creates savings and efficiencies in every step of the process.

02

Spend under management

When spend is “under management,” it goes through the official procurement process. Spend under management (SUM) uses only suppliers the company has pre-negotiated (read: lower) prices with. It’s reviewed and approved by the appropriate budget managers before purchase. And because purchase orders are generated for all SUM, it improves invoice matching and reduces fraud for the accounts payable (AP) team.

How to calculate it

Anything purchased outside of the procurement process is known as maverick spend. To find your SUM number, subtract your maverick spend amount from your total procurement spend.

Total organizational spend – maverick spend = SUM

Say your company spent $50 million last year. Of that, $10 million was maverick spend — so your SUM is $40 million.

If you’re not sure what your maverick spend is, there’s another way you can find out what your SUM is.

Total spend managed by procurement / total organizational spend = percent SUM

If your company spent $50 million and procurement managed $40 million of that spend, your SUM percentage is 80%.
Hint: You can determine the total spend via procurement by adding up all the invoices that match with an approved PO.

What's considered best-in-class?

Every new dollar of spend placed under procurement's control can result in 6-12% savings,[4] so the higher your SUM, the better.

The average organization has 57.1% SUM. But best-in-class organizations achieve an impressive 91.5% SUM by competitively sourcing 23% more of their addressable spend, having 42% more of their suppliers set up for digital invoicing, payments and communication, and adopting key technologies at a much higher rate than their peers.[4]

How to improve it

Managing more of your spend relies on having strong procurement systems and processes in place and a clear view into your activities. An AI-powered source-to-pay (S2P) automation platform makes it easier to control spend by:

- Improving the supplier onboarding process so they're set up for seamless transactions
- Creating a frictionless purchasing experience for employees that discourages maverick spend
- Providing full visibility into procurement performance, including detailed analytics
- Supporting category management that groups similar goods and services together to optimize purchasing decisions

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03

Spend under contract

At first glance, this KPI seems like it's the same thing as spend under management — but there is a difference. Spend under management means purchases have gone through an approval process. Spend under contract (SUC) means any money spent has been previously negotiated by the Procurement team and able to be reviewed against supplier contract details.

In other words, SUC is the amount of spend put through pre-negotiated contracts that allow for lower prices and better payment terms.

How to calculate it

Start by adding up the total amount spent on goods or services that fall under the scope of a supplier contract. Then, divide that number by the company's total spend.

Total SUC / total company spend = percent SUC

What's considered best-in-class?

Not surprisingly, the ultimate goal for this KPI is 100% SUC. The more goods and services you buy under contract, the more money you save and the better your cashflow is.

World-class Procurement teams boast a rate of 74.9% spend that's contract compliant, compared to the average rate of 59.5%. That means top teams are 26% better at connecting their sourcing and procurement processes and ensuring users are purchasing through negotiated contracts.[6]

How to improve it

Boosting your SUC boils down to how well you can maintain your supplier contracts and enforce contract-only purchasing. Focusing on these three tactics can help you achieve that.

Contract management:

Analyze your spending patterns to identify where you can reduce costs through contract negotiation. Once contracts are locked in, monitor them regularly to ensure adherence, keep track of their expiration dates and review them regularly for opportunities to renegotiate better pricing and terms. A top-tier S2P solution can centralize, streamline and automate this work for you.

Source by category:

For spend categories that deliver the greatest value to the company, consider consolidating them and using competitive bidding and other strategic sourcing strategies to find the best suppliers and prices. An S2P platform that includes a robust eSourcing component makes this easy.

Source-to-pay software:

By completely integrating sourcing and procurement processes, an S2P solution provides the crystal clear visibility into total spend that's necessary for identifying areas of contract non-compliance. In addition, an easy procurement interface automatically gives users contracted goods and services options to choose from when buying.

04

Addressable spend that's sourced

This KPI measures how much of a company's procurement spending is directly controlled by the Procurement team AND is strategically sourced — meaning the Procurement team is always on the look out for better suppliers and actively negotiates to get the best value for necessary goods and services.

How to calculate it

First, let's define "addressable spend." It's the portion of a company's total spending the Procurement team can potentially influence or control through competitive sourcing and contract negotiations.

To calculate this KPI, divide the total amount of spend currently managed by Procurement (a.k.a. sourced spend) by total addressable spend.

Sourced spend / addressable spend = percent of addressable spend that's sourced

For example, if a company's sourced spend is $500,000 and its addressable spend is $700,000, the rate of addressable spend that's sourced is 71.4%.

What's considered best-in-class?

According to an Ardent Partners' 2024 study, the average Procurement team sources 44% of their addressable spend. World-class companies, however, source 60%.[6]

As inflation creeps ever higher, having more of your spend going through competitively-priced contracts translates to a very impactful level of savings.

How to improve it

Increasing the amount of addressable spend you manage comes down to proactively finding new opportunities for bringing spending under Procurement's purview. Doing so effectively starts with gaining better visibility over your company's current spent and analyzing it to identify:

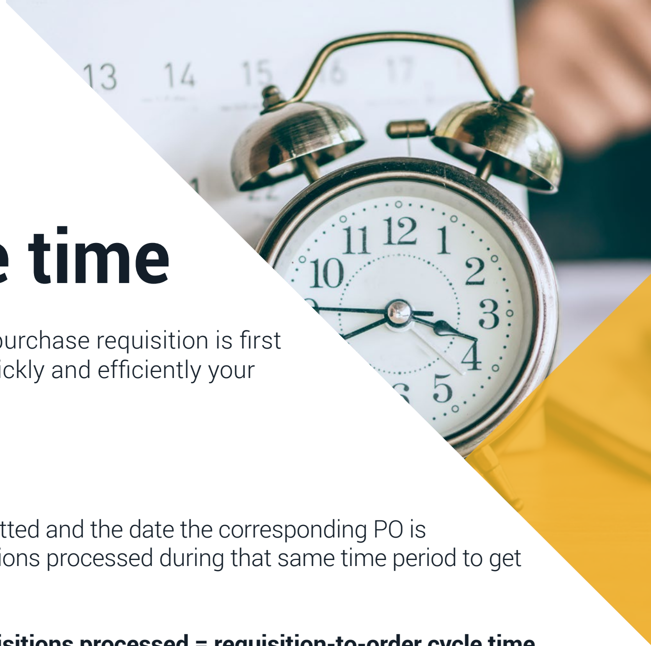
- Maverick spending that can be stopped using better process controls
- High-volume purchasing categories that could be strategically sourced for lower pricing
- Supplier contracts that could be renegotiated for better pricing and terms

An AI-powered sourcing and procurement platform is a powerful tool for doing just that. By centralizing your sourcing and procurement processes in one place and seamlessly integrating with your ERP environment, the right solution can give you complete visibility into your company's spend from a single pane of glass.

Plus, it can provide AI-driven analysis of spend activities and spotlight areas you can target to improve addressable spend under management.

05

Requisition-to-order cycle time



This KPI measures the average time it takes (in hours or days) from when a purchase requisition is first submitted to when the order is transferred to the supplier. It tells you how quickly and efficiently your internal processing and approval workflows are operating.

How to calculate it

Take the difference between the date a purchase requisition is submitted and the date the corresponding PO is generated. Then divide that time difference by the number of requisitions processed during that same time period to get your average cycle time per requisition.

(Date PO generated – date requisition submitted) / number of requisitions processed = requisition-to-order cycle time

Pro tip: Make sure you use the same time unit (days, hours, etc.) consistently throughout the calculation.

What's considered best-in-class?

A faster cycle time is always better. With supply chain uncertainties becoming the norm, shorter cycle times reduce costly delays in getting business-critical products and services. A faster, more efficient cycle time also frees up your team to focus on higher-value work such as building stronger supplier relationships that can result in more competitive pricing and contract terms for your company.

The American Productivity & Quality Center found that top performers have a requisition-to-order cycle time of 5 hours. By comparison, businesses with poor procurement practices take about 48 hours. That's more than eight times longer![7]

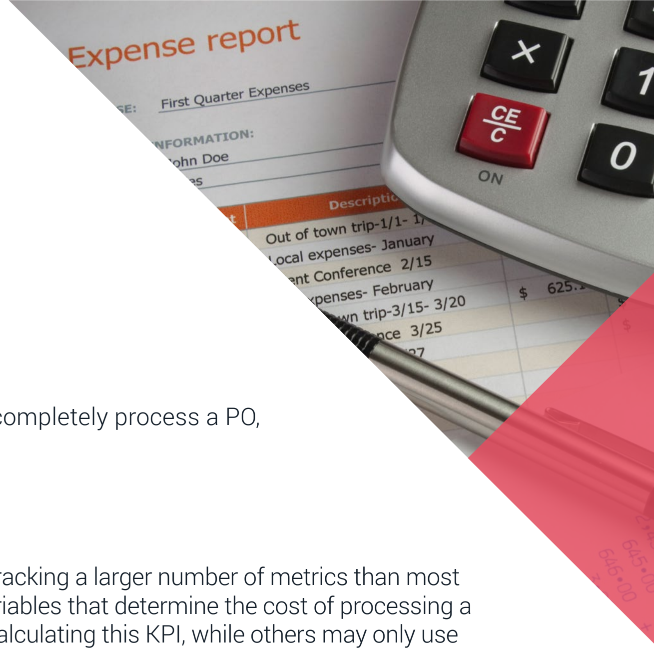
How to improve it

Optimizing and automating the procurement process can dramatically decrease the requisition-to-order cycle time by:

- Using hosted catalogs for goods and services with the greatest order volumes where users can easily create new requisitions
- Automatically creating POs for new requisitions
- Minimizing the number of approvers, automating the approval workflow and providing greater visibility into which approvers may be holding up the process

06

Cost to process a purchase order



This a measure of the total costs of all the tasks required to accurately and completely process a PO, from when it's created until the invoice is paid.

How to calculate it

This KPI can be a bit tricky for a couple of reasons. First, it involves tracking a larger number of metrics than most other procurement KPIs. Second, there's no one-size-fits-all list of variables that determine the cost of processing a PO. Some companies may consider direct and indirect costs when calculating this KPI, while others may only use direct costs and the time each order takes.

In general, however, this KPI includes the total time spent and the number of staff members directly or indirectly involved in each step of PO processing.

The formula goes like this:

Total cost of processing all POs in a period / number of POs processed in that period = avg. cost to process a PO

Pro tip: Keep these factors in mind when making your calculations:

- Labor costs: salaries of employees involved any stage of the PO process

- System costs: costs of using procurement software, including licensing and maintenance
- Paper costs: printing expenses
- Communication costs: costs associated with any necessary phone calls, emails, etc. during the process

What's considered best-in-class?

Obviously the goal with this KPI is to keep it as low as possible. But because the specific input costs of this KPI can vary from business to business and industry to industry, there's no hard and fast number that's considered the "perfect" PO processing cost.

The Center for Advanced Procurement Strategy places the average cost to process a PO at $527,[8] but that number might not be realistic for your industry. Your best bet is to compare your cost to those of businesses similar to yours in terms of industry, revenue, number of employees, etc.

How to improve it

It should be no surprise that the more manual your PO process is, the higher your cost to process them will be. Automating your process not only lowers your processing cost, but also improves accuracy and speed. How? By:

- Eliminating manual data entry by automatically populating the correct fields with the correct information
- Automatically routing POs to the right approvers and keeping POs moving through the workflow
- Sending POs directly to suppliers electronically

Automate your way to better procurement performance

As you've seen across all six KPIs featured in this ebook, automation can play a big part in improving your procurement processes and overall performance.

From eliminating time-sucking manual tasks and reducing the inaccuracies that go along with them, to speeding up approvals and increasing transparency, procurement automation enables your team to spend more time on high-value strategic tasks, make data-driven decisions and reduce operating costs.

So if you'd like to see your procurement KPIs move in the right direction, it's time to seriously consider an automation solution. And who better to turn to than a company with 40 years of experience developing AI-driven automation for sourcing, procurement and AP?

Become a procurement powerhouse with Esker

Esker combines the speed and convenience of automation with the power of AI technologies (machine learning, deep learning, teaching, etc.). The result? A cohesive, digital platform for your sourcing, procurement and contract management functions that streamlines your processes and gives you superior visibility into your spending-related activities.

Let's explore what an AI-driven automation platform can do for you (and your KPIs).

Esker eSourcing

Optimize how you engage, select & negotiate with suppliers with Esker's eSourcing solution, Market Dojo

Advanced sourcing functionality

Perform all tender activities in one simple-to-use platform. Run RFIs, RFPs and RFQs. Manage event weighting, document uploads and advanced pricing tables. Capture everything you would in a traditional spreadsheet and more while transforming static, siloed information into centralized, compliant, collaborative, decision-ready data.

Auctions with automation

It's one of the most easy-to-use automated auction tools on the market. From simple lots to entire bills of materials, run open, ranked or Japanese forward and reverse auctions with our automated AI features and guided support. Be confident you're securing the best possible pricing.

Event cloning & templates

A simple template system means no lengthy setup times and consistent formats throughout all events. Replicate part or all of a previous event for rapid deployment.

Excel import & export

Enable participants to bid through spreadsheets thanks to Excel integration for event creation. Hosts can also export detailed summaries to produce post-event reports or import to other systems.

Multi-stage RFx & multi-scoring

Easy to configure participant inclusion and bid deadlines for every round, with optional visibility for real-time bid ranking. Run complex weighted events with multi-scoring, simply automate the process or allow users and groups to score for enhanced, collaborative outcomes.

Contract Management

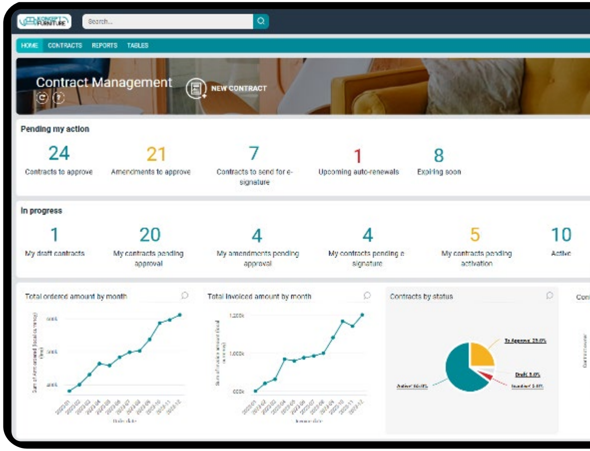
Automate the management of new and existing contracts via a central repository while driving savings with improved visibility and compliance.

Unlock business value from supplier contracts

- Electronic workflow speeds up review and approvals.
- Automated alerts reduce contract management burden on users.
- Connect contracts to procurement, sourcing and invoices to maximize value.
- Easily follow up on contract approval status.
- Quickly retrieve what you need with Esker's multi-criteria search engine.
- Never miss a renewal date thanks to automatic reminders.
- Terminate contracts that are no longer relevant to your business.

360-degree view and actions throughout the contracts lifecycle from creation to expiration and every stage in between.

- See all information related to a contract in one place.
- Store and follow up on supplier contracts.
- Empower stakeholders with the required visibility and control to manage spend.



Did you know?

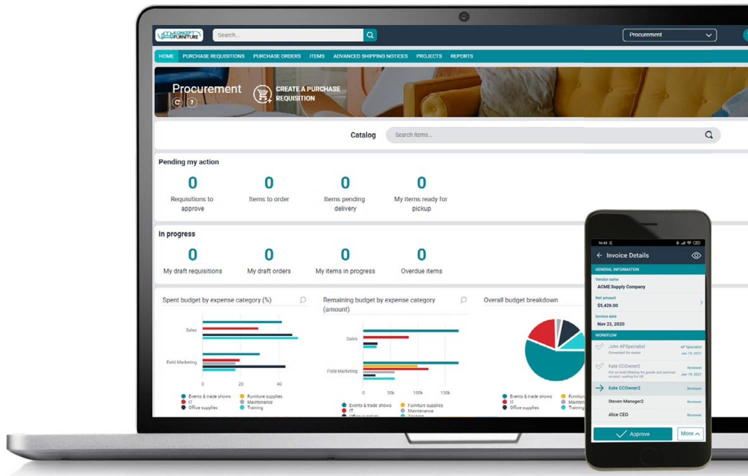
1 in 2 companies plan to invest in improving or deploying a contract lifecycle management tool in the next three years.

22% already have an advanced tool.[9]

Esker Procurement

Your dream procurement experience

Esker's cloud-based procurement software optimizes spend requests and goods/services ordering. What does that mean? Every spend request gets the required authorization and every invoice is matched with a PO. And, with its simple interface, getting users to adopt it is ridiculously easy.



- Improved budget controls and follow-up via real-time analytics
- More accurate and streamlined cashflow management
- Increased fraud prevention, compliance and discounts

Track & search spend with ease

Spreadsheets are good for a lot of things, but performing real-time budget follow-up isn't one of them. That's where Esker can help. Every transaction — from initial request to the receipt of goods or services — is tracked, enabling full reporting on requisitions, items purchased, orders processed and payments made.

Dashboards with built-in KPIs

Esker's procurement software includes customizable, user-friendly dashboards to:

Manage daily tasks and organize priorities.

Monitor productivity and reward top performers.

Spot problems and opportunities as soon as they arise.

Unifying Procurement & Finance with a source-to-pay solution

Digitizing and automating procurement actions is great. But you know what's better? Digitizing and automating the entire S2P cycle. Implementing an AI-driven S2P automation solution removes silos between Finance and Procurement, allowing them to more effectively work together to achieve their shared goals.

When Finance and Procurement are siloed, they can actually work against each other. For example:

- Sourcing teams negotiate great deals on paper but that value leaks due to non-compliance in purchasing and payment processes
- Finance sees sourcing savings and says "time for some budget cuts," alienating budget holders from working with Sourcing
- Sourcing's claims of savings don't match the bottom line numbers, leading Finance to doubt and challenge their methodologies
- Finance targets for payment terms and inventory get lost in supplier negotiations, leading to less optimized working capital
- Both groups focus more on transactional efficiency and less on potential gains in strategic value from suppliers

It seems a little silly that two departments with such similar priorities would be so at odds. After all, they both want to:

- Improve visibility, forecasting and analytics across all spend activities.
- Reduce costs and increase cashflow.
- Ensure long-term, sustainable supply continuity.
- Drive operational efficiency and digital transformation.

Obviously, collaboration between Finance and Procurement is key to achieving operational excellence and delivering value to the organization as a whole. To do so, they need to remove point solutions and move to a single platform that can manage the entire S2P process.

Esker's S2P suite is all-in-one process management automation solution. It equips your Finance and Procurement teams with AI-driven technologies that unlock new levels of productivity, visibility, collaboration, cost savings and profitability across your entire business.

Visit our website to learn more.

Case study — logitech

As a Swiss company with a 40-year history of innovation and quality, Logitech designs software-enabled computer hardware solutions for working, creating, gaming and streaming. Its products are available in nearly every country and it ships more than 3.5 million items each week.

Before automation

After years of outsourcing its procurement process, Logitech decided to bring it in house. However, its small internal team had no proper sourcing technology in place and struggled to manage spend and data. As a result, eSourcing and RFP work was inefficient and time consuming. A solution was needed that would enable Logitech to conduct more RFPs more quickly that it could use as needed without significant start-up costs or training requirements.

After automation

With Market Dojo, Esker's automated eSourcing solution, Logitech saw a complete transformation of its sourcing function almost immediately. Their team went from running one or two complex RFPs at once using spreadsheets and emails to managing handfuls of RFPs at a time.

Having previously struggled to run time-efficient RFPs with sufficient ROI, automated eSourcing means the team can impact more areas of the business with effective returns. As well as working on a greater number of events, the quicker turnaround times also enabled the team to modify their previous spend limits. In just one compliance tender using Esker, Logitech generated an impressive £300k saving, cutting their total spend in the category by one-third.

"We could start getting involved in an extended range of projects that we wouldn't have before. With the eAuctions, we've seen that it's not only an efficiency play, but we're seeing very good results in pricing that I don't think we could have dreamed of in the traditional way of running RFPs"

David Latten | Head of Global Indirect Procurement | Logitech

logitech

Conclusion

Procurement is no longer just the group that buys the stuff the company needs so that others can drive value and profitability for the business. It is itself a value driver and business enabler.

Being able to measure, report on and improve procurement KPIs shows your corporate leadership just how essential your work is to the ongoing success of the organization. And leaving behind outdated methods and tools for modern automation solutions can help your Procurement team reach new heights of efficiency and value creation.

Analyst firm & peer recognitions

Gartner

Esker named a Challenger in **2025 Gartner® Magic Quadrant™ for Source-to-Pay Suites**.

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Esker (Market Dojo) recognized as a Representative Suite Solution Vendor in the **2025 Gartner® Market Guide for Sourcing Applications**.

Ardent Partners

Esker recognized as a Market Leader in **Ardent Partners 2023 ePayables Technology Advisor** for the third consecutive year.

IDC

Esker named a Leader in the **IDC MarketScape: Worldwide Accounts Payable Automation Software 2024 Vendor Assessment** in both Large Enterprise and Midmarket.

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Esker named a Leader in the **IDC MarketScape: European Compliant E-invoicing 2024**.

Forrester

Esker recognized as a Leader in **The Forrester Wave™: Accounts Payable Invoice Automation, Q3 2024**.

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Esker listed in **The Forrester Wave™: Supplier Value Management Platforms, Q3 2024**.

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5. Procurement Renews Focus On Cost Reduction as its Top Priority, The Hackett Group, February 2024

6. Procurement Metrics That Matter in 2024, Ardent Partners, June 2024

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8. Metrics of Supply Management, Center for Advanced Procurement Strategy, 2022

9. PwC Global Digital Procurement Survey, 5th edition, 2024

Additional resources

- Maximizing Financial Impact: Building the Business Case for Source-to-Pay Automation
- 7 Ways eSourcing Can Save Time & Money
- Case study: CommerceHub

Hi, we're Esker

Founded in 1985, Esker is the global authority in AI-powered business solutions for the Office of the CFO. Leveraging the latest in automation technologies, Esker's Source-to-Pay and Order-to-Cash solutions optimize working capital and cashflow, enhance decision-making, and drive better collaboration and human-to-human relationships with customers, suppliers and employees.

40

years of experience with 20+ years focused on cloud solutions

1,100+

employees serving 1.12M users & 3,000+ customers worldwide

15

global locations with headquarters in Lyon, France, & Madison, WI

€205.3

million in revenue in 2024

Business success is best when shared

At Esker, we believe the only way to create real, meaningful change is through positive-sum growth. This means achieving business success that doesn't come at the expense of any individual, department or company — everyone wins! That's why our AI-driven technology is designed to empower every stakeholder while promoting long-term value creation.

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