



Building excellence in procurement:

Best practices and practical
steps for advancing



Integration

Together, for the change you need

Introduction

With the business environment and supply markets constantly evolving, company executives and their procurement leaders are always seeking innovative ways to update and adapt their organizations. In this context, ensuring continued competitiveness and future viability means keeping a finger on the pulse of evolving approaches to procurement and knowing when it's time to adjust this function to a new reality.

In the present report, we share our view on what excellence in procurement looks like today along

with practical steps for effectively advancing on this front. Our work with 100 different clients spanning dozens of industries and geographies across Europe, Latin America and the U.S. – addressing both strategic and operational topics – has taught us that companies at any level of maturity can take simple steps to start leveraging the benefits offered by a more strategic and cutting-edge procurement function.

The report is structured as follows:

PART 1



WHAT EXCELLENCE LOOKS LIKE TODAY



1. The evolution of the procurement function



2. Leading procurement practices
- i. Centralized/center-led & strategy-oriented organization
 - ii. Advanced strategic sourcing practices
 - iii. Strategic supplier management
 - iv. IT systems support

PART 2



HOW TO ADVANCE PROCUREMENT AT YOUR COMPANY



1. Start capturing value
- i. Building a wave plan
 - ii. Sourcing more strategically
→ Case study



2. Sustain value by transforming the procurement model
- i. The organization
→ Case study
 - ii. IT systems
 - iii. KPIs



3. Closing thoughts

What excellence looks like today

1. THE EVOLUTION OF THE PROCUREMENT FUNCTION

As the procurement area has undergone significant evolution over the years, business leaders are well advised to periodically reassess the ways their company procures its products and services. Originally just an operational area, procurement has developed into a key player in the business.

The first shift in the 1990s saw it move from a back-office area to having a broader role in achieving results through strategic sourcing. More recently, leaders have recognized that, beyond mere cost considerations, procurement can add value in more strategic ways, from risk management to supply chain innovation and sustainability.

This shift toward procurement assuming the role of a “business advisor” has been the result of a few key realizations:

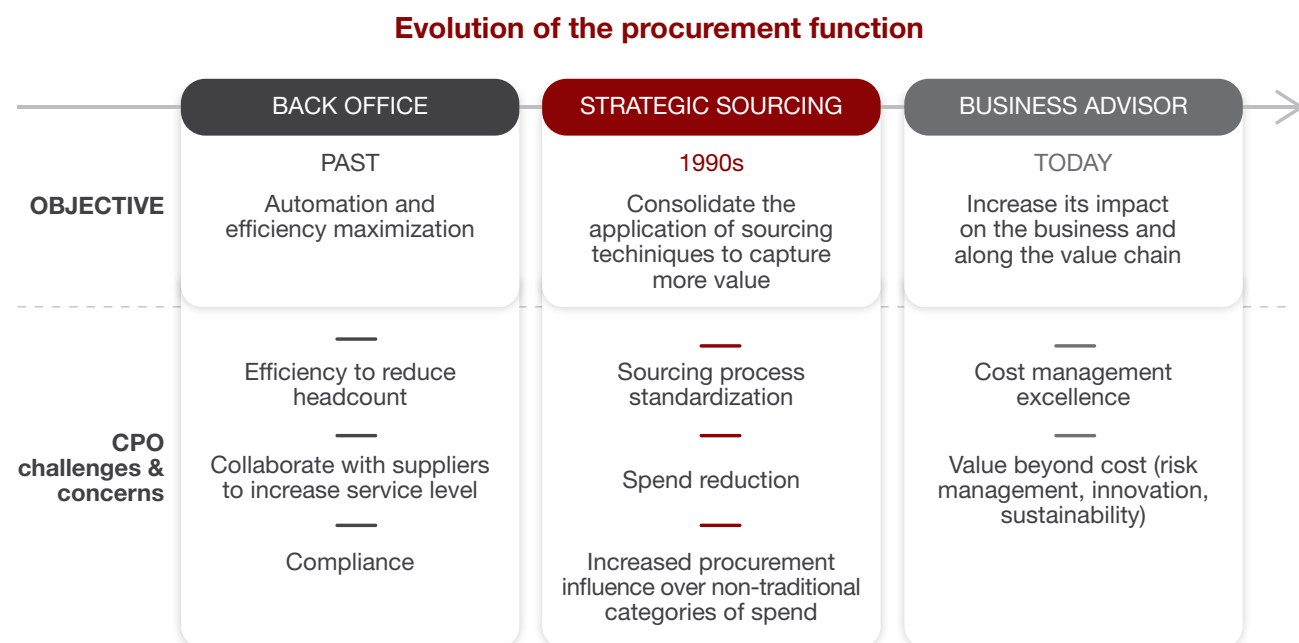
- Two-thirds of costs are driven by procured products and services: On average, 70% of all

business costs are directly connected to procurement through external spend, meaning minor gains in efficiency translate into huge impacts on the bottom line.

- Procurement can add value beyond just saving costs:** It is a key source of value creation through innovation and increased speed-to-market for new products.
- Supply chain risks are here to stay and require action:** Procurement is a proven asset for minimizing risk and establishing more resilient supply chains.

In this new reality, what sets the frontrunners apart from the rest of the pack in terms of best practices? In addition to having solid core processes in place, frontrunners excel along four key elements in their procurement model:

- the procurement organization
- sourcing practices
- supplier relationship management
- information technology



2. LEADING PROCUREMENT PRACTICES

i. Centralized/center-led & strategy-oriented organization

Leaders in procurement practices recognize this area’s huge potential for advancing the overall business strategy. With this in mind, they **provide space for procurement leaders and professionals to assume more strategic functions that are more connected to the core business.** In a general sense, this means seeing the value in procurement and placing it at the same level as other core areas of the business.

As outlined in the following, these leading procurement organizations share some similar characteristics:

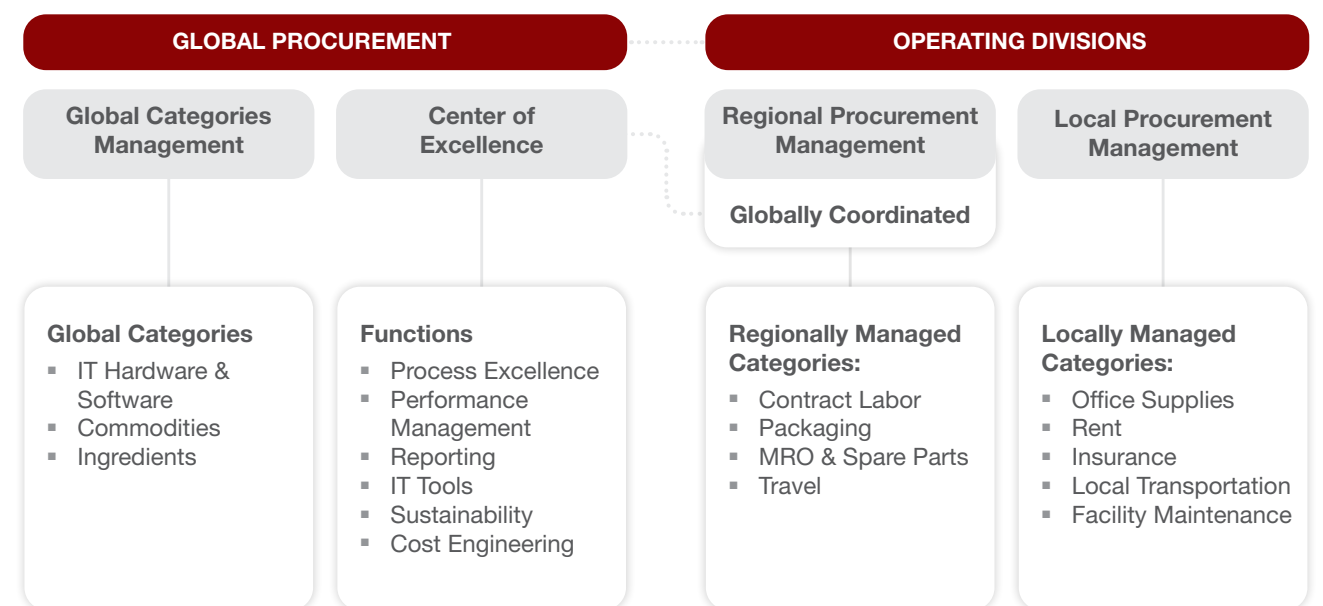
- Centralized and center-led teams, 75% of which focus on strategic tasks, plus a shared services center for transactional activities
- A voice in key strategy-related and executive-level decisions
- Professionals with a broader and more strategic skill set

BECOMING MORE CENTRALIZED/CENTER-LED

As shown in the example below, leading procurement organizations mirror the supply markets from which they source. Doing so allows companies to leverage the benefits offered by moving from local to regional/global sourcing organizations across more categories. Through this approach, we see:

- Direct and indirect materials and services sourced at a global level for categories with global supply markets (e.g. commodities, ingredients and IT software/hardware)
- Categories sourced at a local/regional level for local/regional supply markets with central leadership disseminating best practices
- Transactional P2P processes centralized in a shared business center to standardize and streamline processes
- A center of excellence in place serving as an enabler

Center-led procurement organization example





ACTING AS AN EXECUTIVE AREA

In the past, procurement would typically report to the head of supply or the head of finance. Recognizing the enormous value that procurement can offer – not just in terms of cost but also in supply resilience, innovation etc. – leading companies now have a chief procurement officer (CPO) in place who reports directly to the CEO. In this setup, the procurement area at these companies assumes the same standing as other key business areas such as finance or marketing.

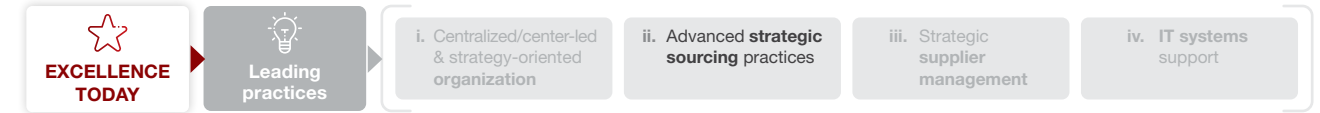
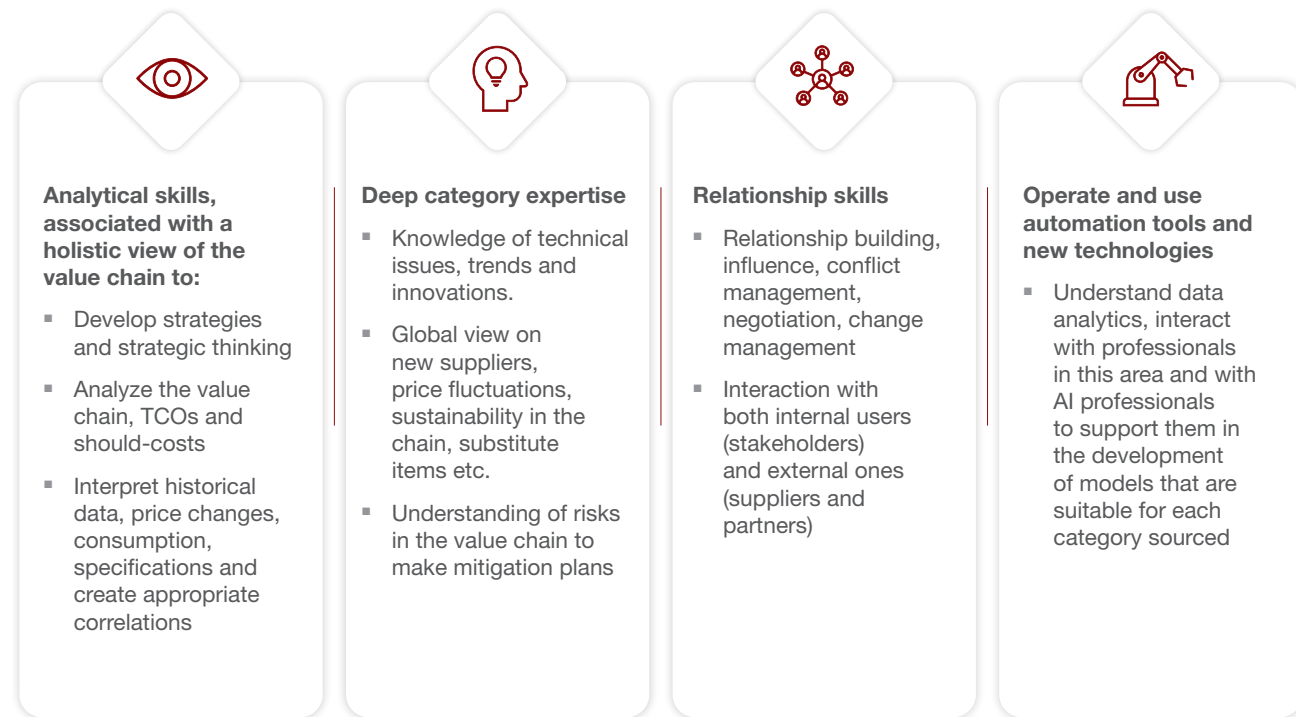
TARGETING BROADER SKILLS

With 75% of staff now expected to assume a strategic mindset and responsibilities, heads of procurement

and their team must hold a solid business vision, analytical skills, knowledge of the category and the ability to serve.

The position is no longer only about negotiating the best prices when sourcing. As an adviser of the business, the area is expected to drive added value from spend categories using analytical tools, demanding new and broader skill sets to: break down cost structures, analyze data, apply strategies, interact more with the business and user areas, leverage the supply market for innovation, promote supply resilience and more.

The leading procurement profile today



ii. Advanced strategic sourcing practices

Faced with rapidly shifting consumer demands, cost pressures, competition for resources and rising supply-chain complexity, companies are pursuing more advanced sourcing strategies to ensure the maximum degree of efficiency and resilience for their supply chains as well as to bring value to the business. Leading procurement areas are ahead of the charge on this front, striving to **gain more control and visibility over external spend and to drive continuous value across key categories**, both indirect and direct.

What we consistently see among frontrunners is:

- **Visibility** into close to 100% of annual spending
- **Influence** over >80% of total spending, achieving 5-6% in benefits annually in the targeted spending areas

- An ability to **quantify trade-offs and drive transformational value**

To achieve this, leading procurement professionals are adept at applying different techniques from a well-structured sourcing process that are chosen based on deep supply-market expertise. They likewise have the capabilities to handle cutting-edge analytics and optimization tools. With RFPs becoming a lot more open, transparent and, therefore, complex in terms of understanding the cost-structure of suppliers, tools are needed to analyze and optimize all the data now being handled.

Strategic Sourcing Methodology





iii. Strategic supplier management

Frontrunners recognize that up to 30% of procurement value can be derived from supplier relationship management (SRM), in addition to strategic sourcing. SRM segments the top 1% of suppliers in terms of spend and strategic value to achieve three main objectives:

- capture additional value across the integrated value chain – not only cost but also innovation
- support the company’s sustainability objectives
- increase supply resiliency

AN INTEGRATED VALUE CHAIN

When categories have been sourced several times, benefits tend to diminish. This leads procurement leaders to put greater focus on assessing cost-reduction initiatives across the integrated value chain in a more open-book manner with strategic suppliers. Additionally, leading companies recognize that suppliers can be an important source of innovation, to which the procurement area provides a link.

Leaders also respond to the fact that up to two-thirds of the cost of new products is locked in upon design. In response, these companies involve procurement from the beginning of the innovation and design process. In so doing, procurement can leverage suppliers to identify unnecessarily costly elements and potential better-fit alternatives. This allows leading companies to avoid locking in costly suppliers and materials during the innovation phase – and ultimately become more cost competitive when innovating.

A VIEW TO SUSTAINABILITY

Apart from leading by example to improve human and environmental impacts, we see top

organizations focus on sustainability to increase business performance. Adding a sustainability focus offers a more complete and long-term procurement strategy:

- Safeguarding an uninterrupted flow of raw materials and inputs
- Avoiding reputational issues in the supply chain
- Identifying which suppliers will be able to operate in the longer term

As a best practice, leading organizations recognize and leverage the value-adding opportunities that sustainability offers beyond mere risk avoidance – for top-line and bottom-line results as well as business continuity. More immediate benefits can reduce negative impacts such as costs and risk while longer-term opportunity lies in resilience and value generation, as outlined in the image on the following page.

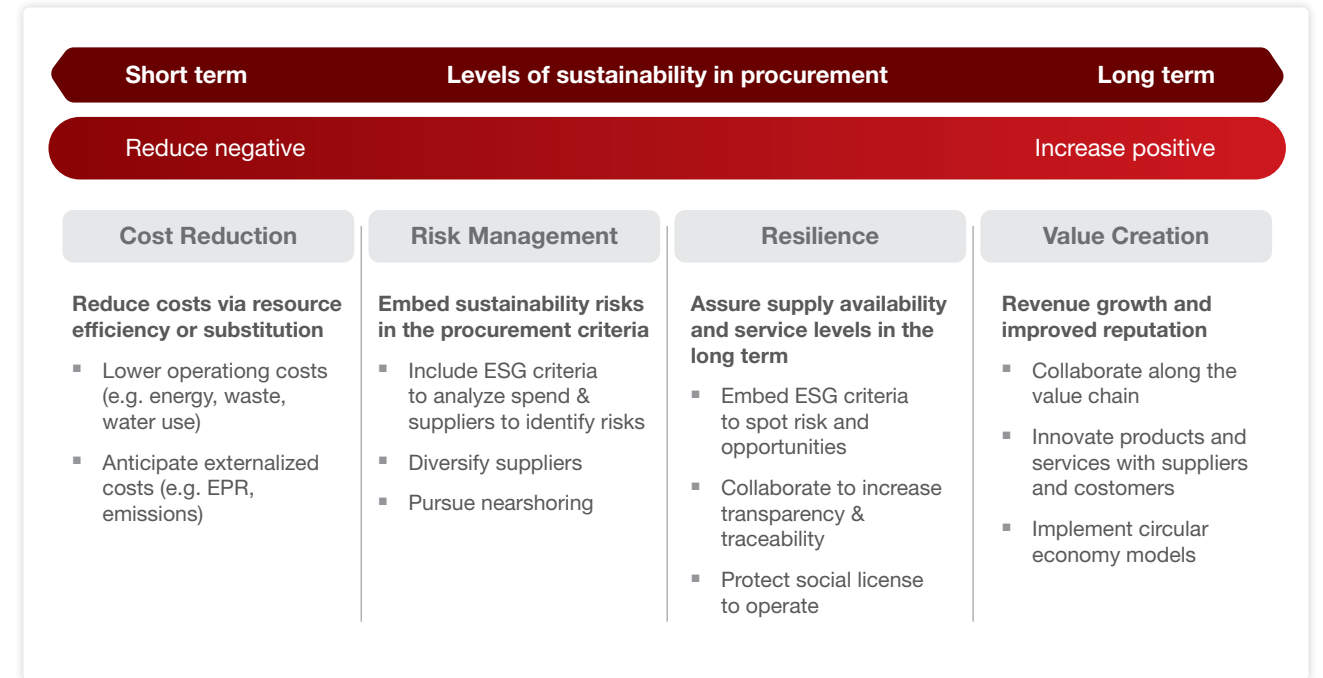
Real frontrunners effectively embed sustainability considerations in ways of working within the procurement organization, including:

- **Data collection:** Knowing what items are used, where opportunities lie in reducing the use of unsustainable materials and how to minimize negative externalities such as emissions
- **Alignment:** Making suppliers aware of new requirements
- **Management:** Actively helping suppliers fulfill requirements

These procurement professionals assume a strategic role in moving their company toward a more sustainable business model by pursuing circular economy approaches, closer cooperation with suppliers and KPIs focused on long-term performance.



Sustainability in procurement



MORE RESILIENT SUPPLIERS

With global instability a new normal for supply chains, companies need their procurement organizations to be targeting more than just cost reductions. Leading organizations have adopted strategies aimed at making their supply base more resilient and ensuring they have the inputs needed to produce, thereby avoiding impacts on performance and sales – a chronic issue for companies across industries. Some of the common bottlenecks targeted include:

- Low visibility over availability of critical raw materials
- Single sources of supply in critical categories
- Low levels of integrated planning with top suppliers

- Lack of supply risk management strategies for key suppliers

The best practices applied to this end include sourcing strategies that mitigate flaws in material supplies and business continuity plans that regularly monitor risks and design potential actions. The goal here is to increase supply options, offer better protection and monitor to prevent risks and react faster.

Another best practice entails implementing a so-called category supply chain: an end-to-end chain designed to deliver attributes such as efficiency, flexibility and resilience for a specific set of categories.



iv. IT systems support

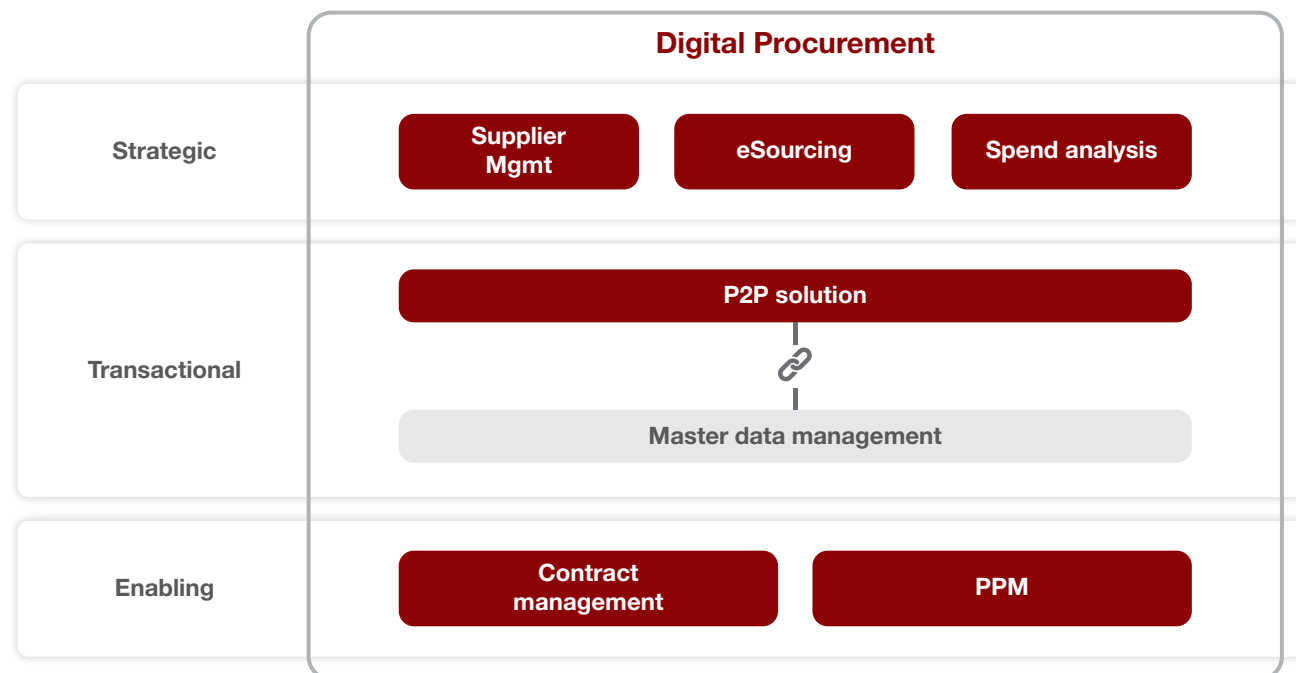
Leaders in procurement are also ahead of the game in data and technology solutions. They utilize systems to simplify and automate an increasing number of tasks and transfer transactional activities to user areas, allowing their procurement professionals to focus on strategy and add much more value to the business.

These frontrunners have systems in place that address three types of procurement processes: strategic, transactional and enabling, with cutting-edge organizations making use of digital solutions as well.

Strategic systems offer procurement professionals a basis for making more informed decisions and pursue strategic objectives. They allow for end-to-end management of the supplier base, offer detailed analyses of category spend and provide improved performance and automation when addressing tenders.

Transactional systems are the workhorse solutions that act as the basis for greater automation and productivity. They cover functions such as order management, requests, payments and other tasks that maintain procurement operations. These systems also promote process standardization and ensure that data is consolidated in one place for increased efficiency and subsequent use in spend analysis and strategy development.

Enabling systems empower procurement organizations to sustain gains in productivity, data flows and automation in the long term. They provide visibility and management of procurement in general with an overview of returns on investment in the area while also reducing risks and providing greater supply predictability through the standardization of contracting processes.



Digital solutions are another best practice we are seeing unlock the immense value held in procurement data – in line with the trends of data-driven and digital transformations across industries. Frontrunners in this area recognize that procurement handles enormous amounts of data flowing between a company and its suppliers. These new digital solutions paired with advanced analytics can advance the value added by procurement in numerous ways:

- reduce cycle times and optimize headcount through advanced automation of the P2P process (i.e. robotic process automation - RPA)
- support strategic procurement activities through higher-quality data and better modeling (i.e. automated clean-sheet cost model applications)
- refine category analytics for improved cost-variance, cost and forecast analysis
- instantly identify compliance issues with tools such as NLP (natural language processing)
- generate dashboards and identify opportunities for a wide range of categories concurrently, rather than working category by category

These systems are used by frontrunners in procurement to support advancements they've made towards lean and centralized organizations with greater involvement in the strategic elements of the overall business. The systems provide them with the high levels of automation, coherence between systems across the company and efficient data extraction needed to promote the overall business.

PURSuing YOUR OWN ADVANCEMENTS

A new reality has become clear: Procurement offers substantial value for the company, its business model and the bottom line. The best practices presented here from organizations that have achieved excellence in procurement are meant to serve as examples for other companies aspiring to advance their own practices. The second part of this report presents the steps involved in advancing your procurement organization, along with some real-life cases and the most common challenges we've seen while supporting clients on this journey.





How to advance procurement at your company

Regardless of whether your business is more or less mature in terms of the best practices outlined above, there is a clear, tried-and-tested path to achieving greater excellence. For business leaders unsure about how to approach this endeavor, experience shows that **advancing on the journey toward procurement excellence is accessible to organizations at any level of maturity.** Procurement excellence does not have to be a big-bang move: the path to success should be gradual, allowing your business to reap incremental yet significant benefits along the way.

Advancing towards excellence means addressing two pillars, the first of which fuels and sustains the latter:

- Start capturing value
- Sustain value by implementing support measures

CAPTURING VALUE THROUGH IMPROVED STRATEGIC SOURCING PRACTICES

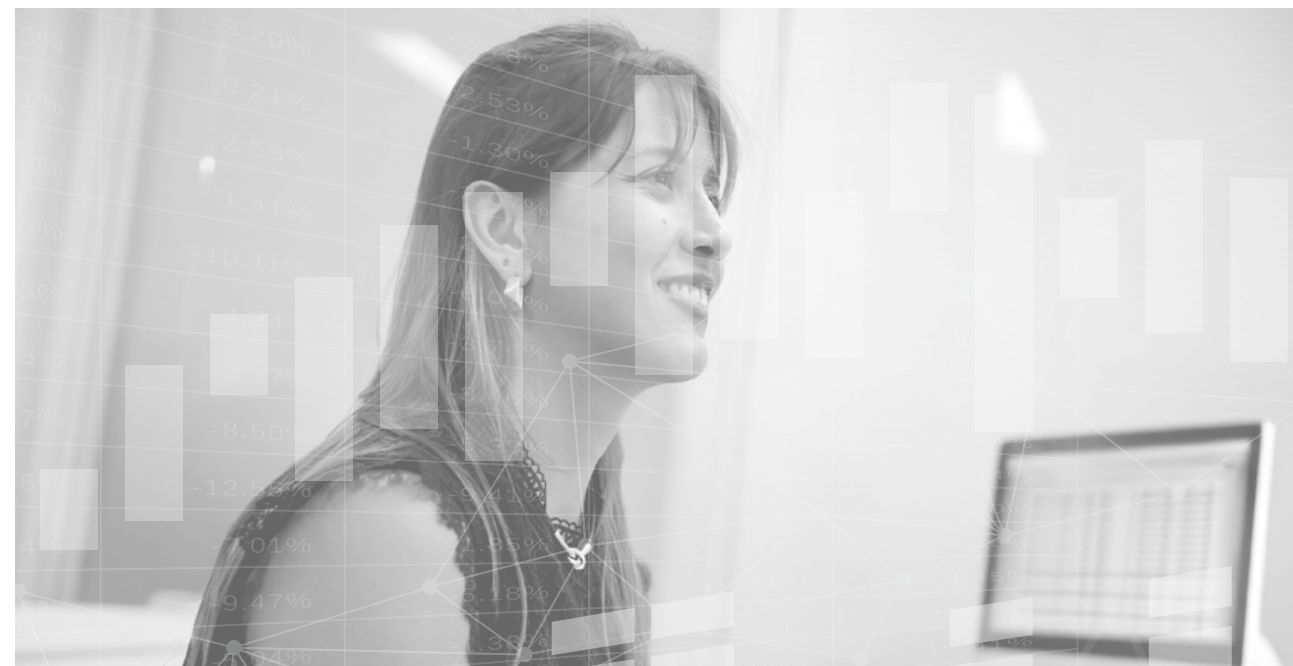
Companies have recognized that over 80% of the value created by the procurement function is derived from strategic sourcing. Doing this well means following a structured methodology as well as investing the time and resources to successfully

implement its various elements. When in doubt as to where to focus efforts first, the answer is sourcing practices: this will generate the initial savings and generate momentum for what's to come.

SUSTAINING VALUE BY TRANSFORMING THE PROCUREMENT MODEL

While piloting a few elements will offer quick wins across some categories based on the resources available, actually reaching the full 80% potential offered by strategic sourcing and capturing the rest demands systemic changes to sustain further advances. Introducing more advanced practices and tackling more complex categories will mean rethinking capabilities, systems to achieve more automation, the organization and more. The point is that savings shouldn't just be one-off for a few categories - they should be expanded and sustained for the future.

In the following sections, we outline practical steps and important considerations that can help business leaders start capturing value by improving strategic sourcing practices as well as sustaining benefits through key long-term changes to their procurement model.



1. START CAPTURING VALUE

i. Building a wave plan

Capturing value starts with improving sourcing practices in your procurement area. Yet, with so many categories sourced by the business, where should one start? To ensure a well-structured approach that delivers benefits as quickly and easily as possible, **efforts need to be prioritized before implementing improvements.**

This means asking yourself some key questions to assess how your procurement area is currently performing:

- How well does the organization follow a structured strategic sourcing methodology?
- How much time are your buyers spending in truly understanding category supply markets and tailoring sourcing strategies based on buyer-supplier power dynamics?
- Which categories would benefit most from improving this approach?

Beyond following a set of processes, sourcing strategically means applying strategies based on the specific characteristics of a given spend category. As such, the first step in the assessment involves **determining how well your business is currently tailoring its sourcing practices to its categories compared to benchmarks** and identifying ways to fill the gaps that exist. Once this is clear, you will

be in a position to **map all the spend categories utilized by your business and prioritize these into waves of implementation** – starting with those that are easiest to address and have the highest potential to capture value, while leaving categories that require more expertise and advanced procurement capabilities for later.

We call this first step a “wave chart assessment”, one that considers each of your spend categories based on two factors:

- **The potential for savings** (the y-axis): How much savings can be achieved by applying a tailored strategic sourcing methodology to a category?
- **The complexity of implementation** (the x-axis): How difficult will this be considering factors such as supply market complexity (e.g. the level of competition among suppliers), switching costs (e.g. available substitutes), relative bargaining power (versus suppliers vis-à-vis volumes, monopolies etc.) and more?

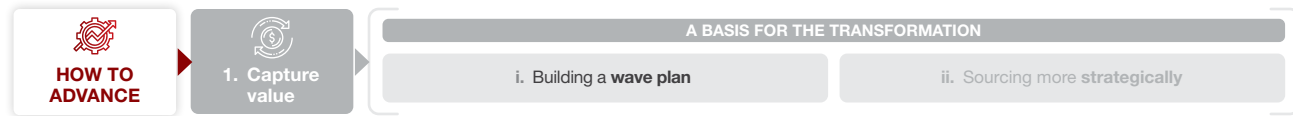
Note that this wave chart should encompass all areas of spend: direct materials, indirect materials, services and capital expenditures. Even categories that seem marginal to the business can represent low-hanging fruit to capture value quickly. Additionally, the assessment



Julian Lempp
Sr Director at Integration

One of the most important things we've learned from experience is **the need to go step by step.** When implementing such broad and profound changes to procurement and sourcing, the organization and its professionals can easily become overwhelmed.

Building a wave chart of priorities, going category by category, slowly developing this new mindset among the procurement professionals subject to this change – that's **key for ensuring effective implementation which will prove to be sustainable.**”



should focus on the 80-20% rule of top categories of spend, normally between 25-35 categories.

What are typical categories to expect from this assessment? **Wave 1 tends to predominantly cover indirect categories traditionally handled by user areas** – in which procurement has had little to no involvement. This often includes marketing categories (print, media, research), facilities (cleaning services, security, temporary labor), IT services (laptops, servers, hardware) and transportation.

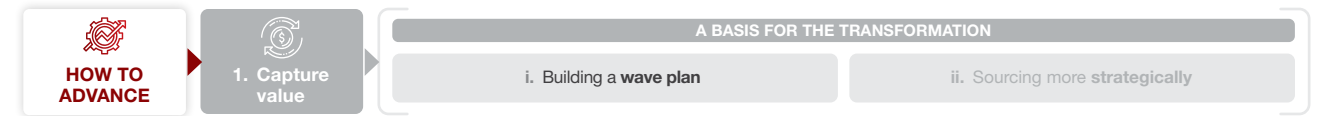
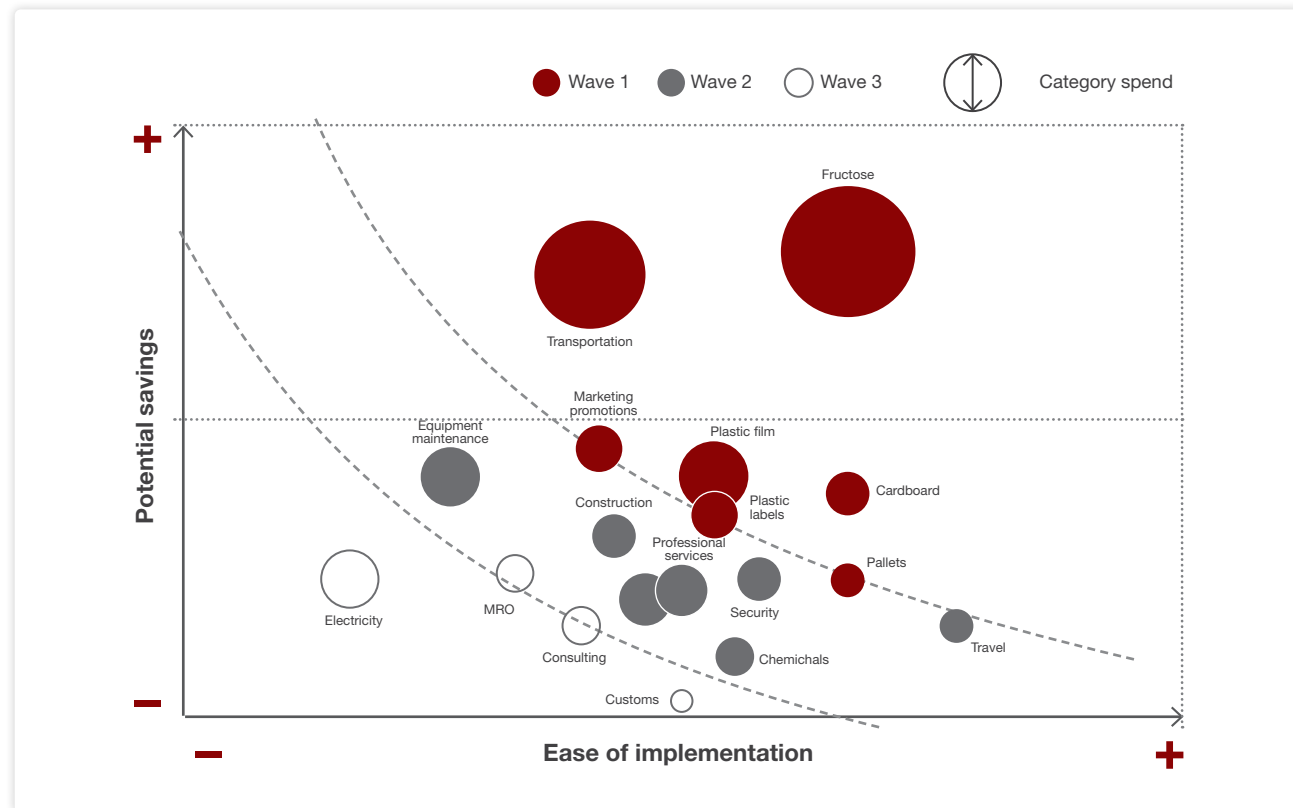
Involving procurement in indirect categories brings more structure and discipline into the sourcing process. While indirect spend is likely not as high as it is for your direct categories, this shift has the potential to unlock substantial savings. The marketing area, for example, may be an expert in the technical details of their categories, but the area is no expert in procurement practices such as creating RFIs, issuing

RFPs, negotiating with suppliers, defining tailored sourcing strategies etc.

Moreover, indirect categories are not as sensitive as direct materials and switching costs are also much lower – lending themselves to a wave 1 pilot during which your procurement organization is building capabilities and expertise.

While we usually see procurement involved in categories that are part of the business' core products and services, some direct categories may also enter into a wave 1. Candidates here include categories with contracts that are soon to end, those in which the same suppliers have been used for years and no structured efforts have been made recently to look for better alternatives or those where deeper category expertise has not been leveraged. The figure below shows a sample of categories in a typical wave chart at this stage.

Priorization Matrix



As mentioned earlier, **a big-bang approach is not necessary in order to start capturing value and savings**. When defining priorities on the wave chart, we recommend treating your first wave as a pilot covering just a few categories. This will allow you to achieve quick gains where possible – while concurrently identifying what works for the specific reality and nature of your business as well as which capacities will need to be developed before expanding to other categories.

The wave chart above created for a client in the beverage industry set numerous indirect categories as targets for the first wave of implementation, such as transportation, packaging materials and

marketing promotions. As one ingredient category was identified as holding high savings potential with low implementation complexity, it was likewise included in the first wave.

In essence, the wave chart is a transformation plan laying out how to implement a new way of working based on the strategic sourcing methodology. With the wave chart in hand, the business can start tackling the most accessible categories offering quick wins, **immediately capturing value to generate savings for the subsequent advancements** (in the organization, IT and KPIs) that will sustain value moving forward.





ii. Sourcing more strategically

With spend categories prioritized into waves of implementation, your procurement area can now start applying a structured strategic sourcing methodology to each. The overarching **objective is to standardize the way your organization sources spend categories. This is done by systematically applying strategic sourcing practices based on an analysis of your supply/buying dynamics.** The following pages provide an overview of the key elements of strategic sourcing as well as important considerations for where and how to apply them.

PAVING THE WAY TO BETTER SOURCING

As a structured methodology, strategic sourcing entails a variety of steps across three phases: planning, execution and follow-up, as shown in the overview on the next page. This starts with an analysis aimed at gaining a deep understanding of your business' internal category requirements as well as the reality of your supply markets. With this understanding clear, your organization will have a basis for developing tailored sourcing strategies by category.

While the objective of the wave assessment was to set priorities and know which categories to start with based on a general overview of category sizes and

savings potential versus ease of implementation, **this step provides guidance as to what to actually do with each category.** To effectively tailor strategic sourcing practices and capture value, a deep dive into each category and its respective supply market is critical – which is done during the planning phase.

THE PLANNING PHASE

The objective here is to hone in on and develop detailed sourcing strategies for selected categories. This is done by first gaining a deeper understanding of internal category requirements, your buying power and the external supply markets. Obtaining an understanding of the power balance between your organization as a buyer and that of the supplier will determine which of the available strategies will be most effective for a given category.

There are **eight key strategic sourcing actions** that can be taken to leverage value and savings. While their objective may seem apparent at face value, we've seen that companies starting out on the road toward excellence often find it challenging to determine how to use each one and when. Depending on the spend/supply relationship of a given category, there are specific combinations of strategies that will prove most effective.



When implementing, it's important to **remember that this is a new methodology demanding new ways of working and thinking.** Your procurement professionals need to be convinced of the value this transformation will add and become the owners of the process.



Jaime Espinoza
Director at Integration

In our experience, it's essential to reinforce that the user areas are there to provide input – not lead the process on their own or go rogue. While not an expert on specific or technical needs, **procurement is there to constantly challenge the user areas and serve as the guardian of broader supply possibilities.**



Strategic Sourcing Methodology



The four strategies highlighted in the image below are used when you seek to **leverage your existing buying power** (the balance of power is in your favor):

EXPAND BASE OF SUPPLIERS

A more diverse and competitive supply base can be achieved by expanding the geographic basis from which you select suppliers as well as by actively evaluating new potential suppliers and considering the use of second-level suppliers.

EVALUATE COST DISAGGREGATION

Techniques here involve carrying out internal cost benchmarks with the aim of ungrouping prices, defining models for should-costs, comparing total costs among potential suppliers and being able to run competitive bidding.

LEVERAGE VOLUMES

Reduce the number of suppliers you work with to concentrate volumes, giving each more business to target better deals. This can be done by combining volumes across business units that use different suppliers for the same product/service.

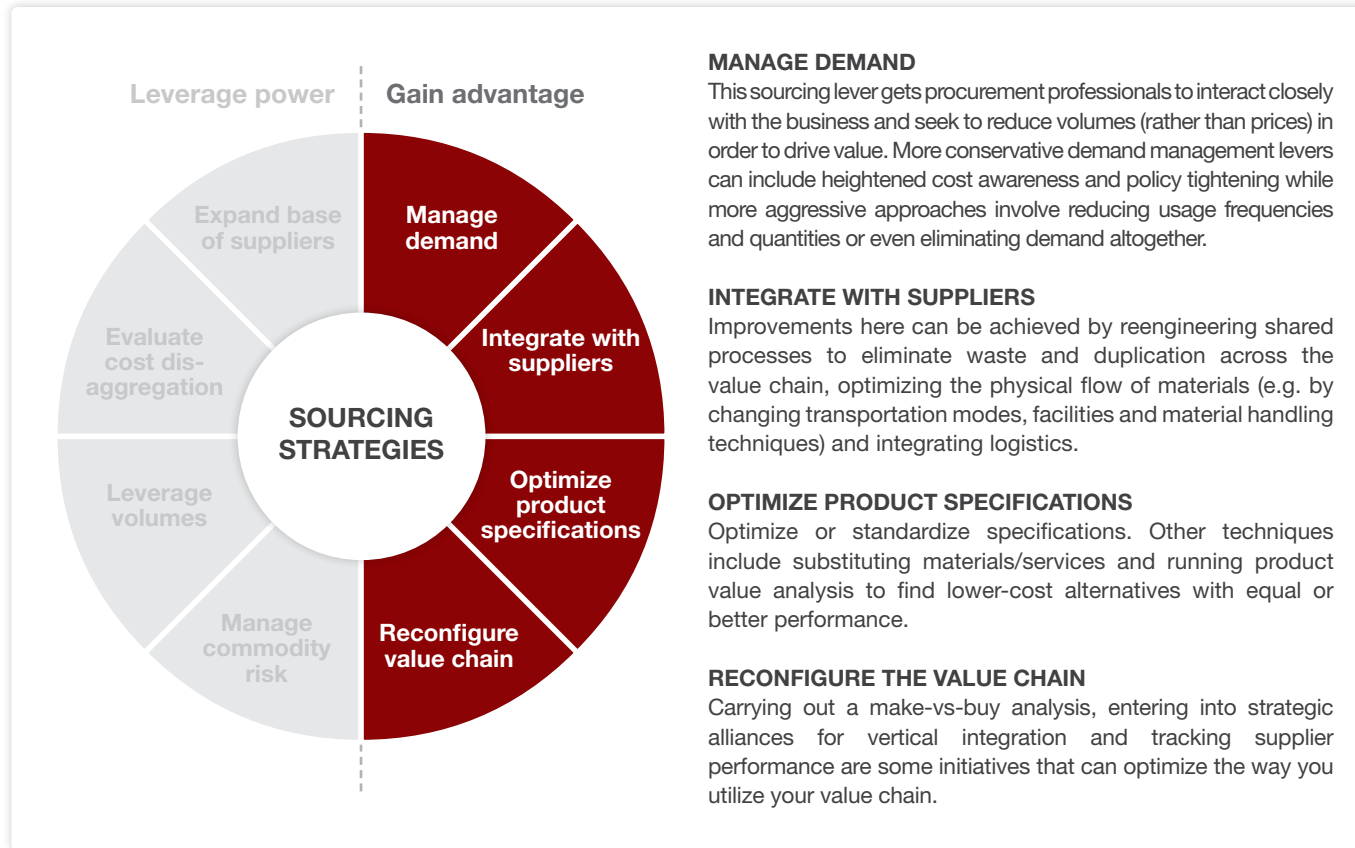
MANAGE COMMODITY RISKS

This strategy seeks to manage exposure to commodity volatility in a company's cost structure. This is done via governance structures – with procurement playing a key role – to assess volatility risks and define commodity actions, such as hedging, transferring risk to suppliers, locking in prices in specific value zones and pursuing soft and hard tolling initiatives.





Conversely, companies seeking to **gain an advantage over a stronger supplier** (the balance of power is not in your favor) should follow a different set of strategies, as highlighted in the image below.



In practice, a **mix of strategies** should be used for a given category to extract the most value. Some of the strategies will deliver results in the shorter term while others will only start bearing fruit in the medium term.

THE EXECUTION PHASE

With the best-fit sourcing strategies defined, your procurement area will now be ready to start implementing them step by step. While this phase involves multiple elements that can be leveraged as your organization starts advancing and building its strategic sourcing muscle, a couple of best practices are worth highlighting for the initial implementation phase.

RFP execution: Leading procurement organizations are developing much more open-ended requests for

proposals (RFPs). Through this approach, suppliers are granted greater freedom to provide quotes for the products and services for which they're more competitive. At the same time, these open-ended requests invite them to deliver quotes based on elements of their cost structure rather than just the overall product cost.

Open-ended RFPs grant your procurement professionals access to much more granular information and data that can be analyzed and optimized for sourcing strategically – allowing them to extract more value from the process. To do so, however, the professionals in your procurement area will require a different and broader set of capabilities with more analytical power – as we discuss in the following sections.



Negotiations: It's quite common to see procurement organizations that are less advanced conduct the negotiation process with suppliers on their own. Leading companies recognize that negotiating together with the company's user areas – having each side assuming distinct roles – is key to driving increased value.

In this joint approach to negotiations, procurement leads the discussion on topics such as prices and competitive positioning of the suppliers. User areas, on the other hand, play the leading role in clarifying

issues of quality and technical requirements. This concerted effort will bring formality into the process and put incumbent suppliers on their feet, realizing that there is a real threat as well as an opportunity of losing or winning business.

To provide a more concrete and tangible context for the steps we outline above, the following section presents a real-life case study. It illustrates the actions taken by a client to advance their procurement organization through strategic sourcing along with the impressive results they managed to achieve.





Case study

A client in the **consumer packaged goods segment** needed support to advance its procurement practices in an important category of spend: corrugated packaging. The company had few strategic sourcing practices in place, with its two regional business units essentially pursuing their own approaches – sharing only 37% of spend.

Apart from working separately with very similar suppliers over many years, the business units did not have a well-defined process in place to monitor and leverage information on product performance for the packaging products it was ordering – thereby missing out on significant opportunities for volume and specification optimization.

APPROACH

Through a structured sourcing methodology, several levers were applied to extract further value:

- **Exhaustive exploration of the supply market:** Identified new suppliers through an exhaustive RFI process, including those from overseas
- **Leverage volume:** Consolidated volume from both business units in fewer suppliers
- **Execute a cost-model RFP:** Gathered granular cost information on each supplier, for each product and its components (raw material costs, setup costs, conversion costs, logistics etc.)
- **Performance spec optimization:** Optimized over-spec'ed boxes
- **Structured RFP/negotiation process:** Set a clear approach to negotiations with a multi-functional team with specific roles

RESULTS

Hundreds of potential suppliers were approached with an RFI and screened, doubling the pool of candidates from 16 to 30. The base of suppliers was also expanded internationally to mirror supply markets, now including partners in the United States and Asia.

The new cost-model RFP allowed the client to **1) understand the suppliers' cost structure and use this to gain bargaining power, 2) leverage new innovation opportunities for packaging and 3) identify and eliminate significant cost variance between similar products.**

A new process using the packaging performance

index allowed the client to eliminate over-specifications for better cost and performance.

The structured approach to RFPs and negotiations led procurement to leverage expertise from user areas (such as manufacturing and QA), gaining a stronger position when negotiating – with more pressure on incumbent suppliers and flexibility in moving to new ones.

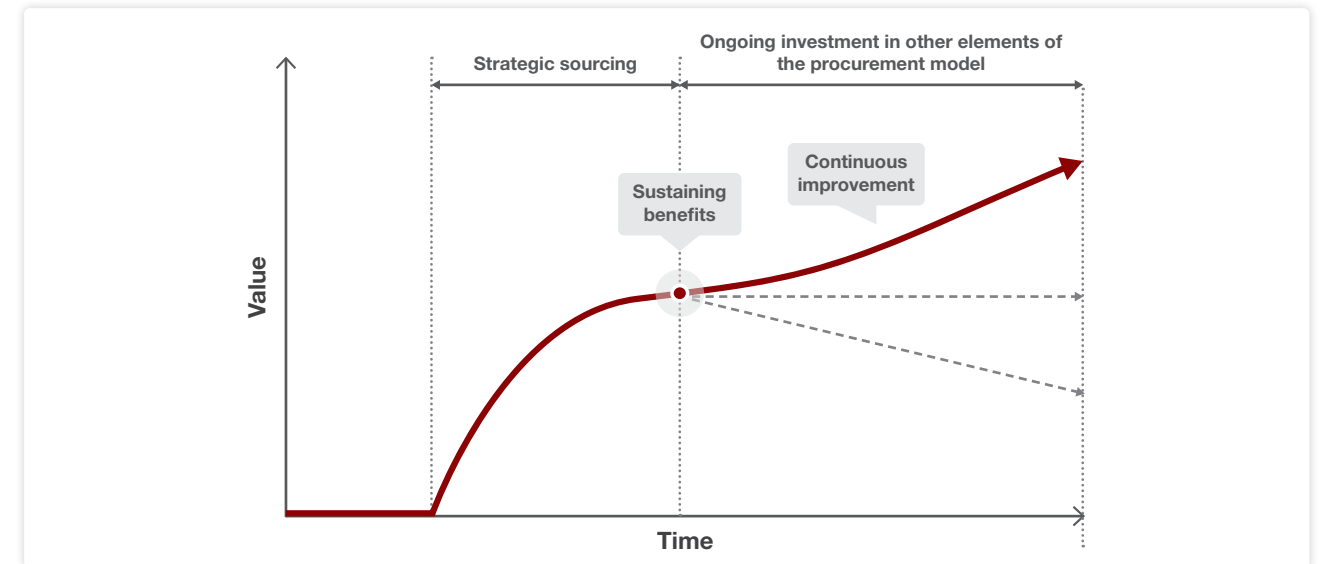
All of these advancements generated to **18% in cost reductions on a spend baseline of nearly 20 million USD.** Over half of these savings came from supplier negotiations and the remainder from optimized product specifications.

2. SUSTAIN VALUE BY TRANSFORMING THE PROCUREMENT MODEL

Advancing towards greater procurement excellence is most effective when businesses first focus on capturing value: to achieve savings, to introduce a more structured approach to sourcing, to gain experience (“build muscle”) and to ensure buy-in from stakeholders across

the organization. While applying these actions to some categories will generate quick wins for the business, in order to sustain value and to spread learnings and practices across all external spend, it's essential to start investing in other elements of your procurement model.

Sustaining value over time



Adopting an incremental approach to advancing procurement practices is proven to help businesses effectively implement more best practices over time. As a general approach, your transformation should address the seven elements of the procurement model presented below. While this also encompasses

changes to the strategic role of procurement and its efficiency levers, the following sections focus on the three enabling elements that are essential for sustaining the transformation: the organization, IT systems and performance management.

The procurement model

ROLE	EFFICIENCY LEVERS			VIABILITY ENABLERS		
Strategic role of procurement Define and align the role of the procurement area and set clear goals	Strategic sourcing Apply strategic sourcing to design and apply actions that optimize purchase cost	Processes and policies Manual Automated Unchecked Controlled Random Standardized	Supplier management Establish model for managing suppliers and processes to support your procurement strategy	Organization Create an organizational structure aligned with the strategy, with the required people and skills	IT systems Ensure process support with necessary systems (RTP, approval rules, master data, contract management etc.)	Performance management Monitor KPIs: cost-reduction metrics, service level, ESG impacts (vs. benchmarks) and define action plans



i. The organization

A key pillar for enabling and sustaining advancement in your procurement practices is making sure the organization is set up for success. Just as the procurement model should reflect the overall business strategy, **your organizational structure should also be in line with the procurement strategy**, with the people and skills needed to drive change. Perhaps more than any other element, adept and well-trained professionals with a strategic mindset will be the sustainers of the overall transformation. Several fronts need to be addressed to set the foundations:

- Aligning the organization to **mirror your supply markets**
- Starting to **separate strategic** from transactional areas
- Creating a **center of excellence** to centralize support processes
- **Implementing changes in phases** according to sourcing priorities defined in the wave assessment

MIRRORING SUPPLY MARKETS

One common characteristic among companies with less advanced procurement practices is that their professionals across the organization often make

purchases individually and in isolation – be it at the country or even down to the plant level. Apart from implying task and headcount redundancy, this fragmented status quo also means that the company loses out on the advantages of pooled buying power. The essence of a shift in mindset here entails **starting to organize and bundle procurement beyond internal areas** to target the benefits offered by greater volumes.

As many of your supply markets may very well be regional or even global in scope, your procurement organization should start to reflect this given reality. This requires your organization to assess and define which categories should be sourced locally, sourced regionally/centrally or coordinated by a central area. A **category allocation matrix** can be used to determine how the procurement organization should align to supply markets, using two factors as a basis: the geographical spread of the supply market (local, regional, global) and category commonality (among operations and divisions).

The matrix will result in categories that are clear candidates for central sourcing execution, others



that are local, and a mix of categories that require a certain level of coordination between central and local areas of the business. Even for local categories, such as transportation, many best practices exist

that can be shared across operations to promote savings and efficiency. This demands a centered approach for taking care of coordination and knowledge sharing.

Category allocation matrix

		Supply Market (How is the supply base spread geographically?)		
		Global	Regional	Local
Supply Market (How is the supply base spread geographically?)	Global	Centrally sourced with local coordination	Centrally sourced with divisional coordination	Centrally sourced
	Regional	Regionally sourced with local coordination	Regionally sourced	Regionally sourced with central support
	Local	Locally sourced	Locally sourced with divisional support	Locally sourced with central support
		Low	Medium	High
		Category Commonality of Countries/BUs (To what extent do requirements differ geographically or by BU?)		

One point to stress here is that the aim is not to become 100% centralized. There will almost always be a need to retain local teams for two reasons:

1. To source categories with a local supply base
2. To take care of local “fire fighting”: swiftly and precisely reacting to specific issues that will invariably arise and could paralyze operations

The benefits of moving toward this model of organization in a general sense are clear: greater efficiency, standardization of processes and greater bargaining power through pooled categories. There is, however, **one important element that must be kept in mind and balanced: service level**. Having

one centralized professional procuring an input will obviously reduce reaction time to any problems that could come up compared to five local professionals doing the same thing.

Here it is crucial to separate out categories that cannot suffer from a reduction in service level, such as primary materials, from those that are less essential to your business. While this doesn’t mean that important categories shouldn’t be centralized, it does mean that risks should be clearly laid out and that the organization has someone in place to quickly react should a problem occur.





SEPARATING THE STRATEGIC FROM THE TRANSACTIONAL

As the overarching goal of this transformation process is to add value to the business, one of the main ways to do so is having your professionals spend more time on what actually adds value – strategic tasks such as category analysis, negotiation and coordination – and less time on what doesn’t – transactional tasks such as issuing orders, following up with suppliers and invoicing.

Separating your strategic personnel from those with a more transactional profile entails identifying professionals who are more open to change, have a more strategic mindset in general and are capable of training others in the future is a good place to start. Questions to reflect on at this stage include:

- 1 Who has analytical skills to **assess complex product data**?
- 2 Who has a talent for **negotiation**?
- 3 Who has the potential to **train and lead others**?
- 4 Who is well suited to **back-office transactions**?

Once transactional activities have been separated from strategic ones and alignment is in place, focus can be put on generating further efficiency and continuous improvement of transactional tasks. **A common approach is centralizing these into a shared services center (SSC) rather than having them carried out in every country or division.** The key consideration here is volumetric: the more volume and commonality in a given category, the better suited it is for an SSC. Pooling tasks and minimizing redundancies will allow your organization to pay for the investments into the strategic resources that bring in most value.

In our experience, companies frequently face two challenges when going about this separation:

System support

Freeing up time for your organization to focus on strategic tasks requires automating the transactional P2P process and shifting some processes to the end user. This is not a short-term initiative and it requires significant investment.

Resistance

If everyone has been doing both transactional and strategic tasks, moving some professionals into purely transactional roles may result in dissatisfaction – which could demand change management actions during this transition.



ENSURING CONTINUITY WITH A CENTER OF EXCELLENCE

Advances in procurement excellence and new ways of doing things will need to be shared with other professionals across the organization. **Creating a center of excellence (CoE) to centralize support processes will ensure that the best practices being developed are maintained and deployed across the organization.** This area is responsible for formalizing these and for safeguarding uniformity in terms of scope, processes, training and implementing projects as a PMO – conversing with the entire global organization. It focuses on a variety of sub-functional areas, which generally include:

- **Training & professional development**
- **Supplier diversity**
- **Planning & budgeting**
- **Data analytics**
- **Policies & procedures**
- **SRM leadership**
- **e-Sourcing tools**
- **M&A and integration support**
- **Cost engineering**
- **Negotiation specialists**

The topics your CoE will start addressing should be based on the priorities that have been set for the organization. For example, when supporting a multi-national client in the consumer industry that was growing through acquisitions and seeking to

develop IT capabilities in sourcing processes, the decision reached together was to prioritize M&A and integration support, e-sourcing tools and data analytics. This will not necessarily entail creating an entirely new area or adding headcount: You can start by identifying top priorities and delegating this role to a member of the central procurement team.

MOVING IN WAVES

Finally, the next question is: Where do we start? With a wave plan already in place outlining the categories to be addressed first – based on category spend, ease of implementation and size of the prize – the changes to your organization outlined above should be carried out in phases according to this plan.

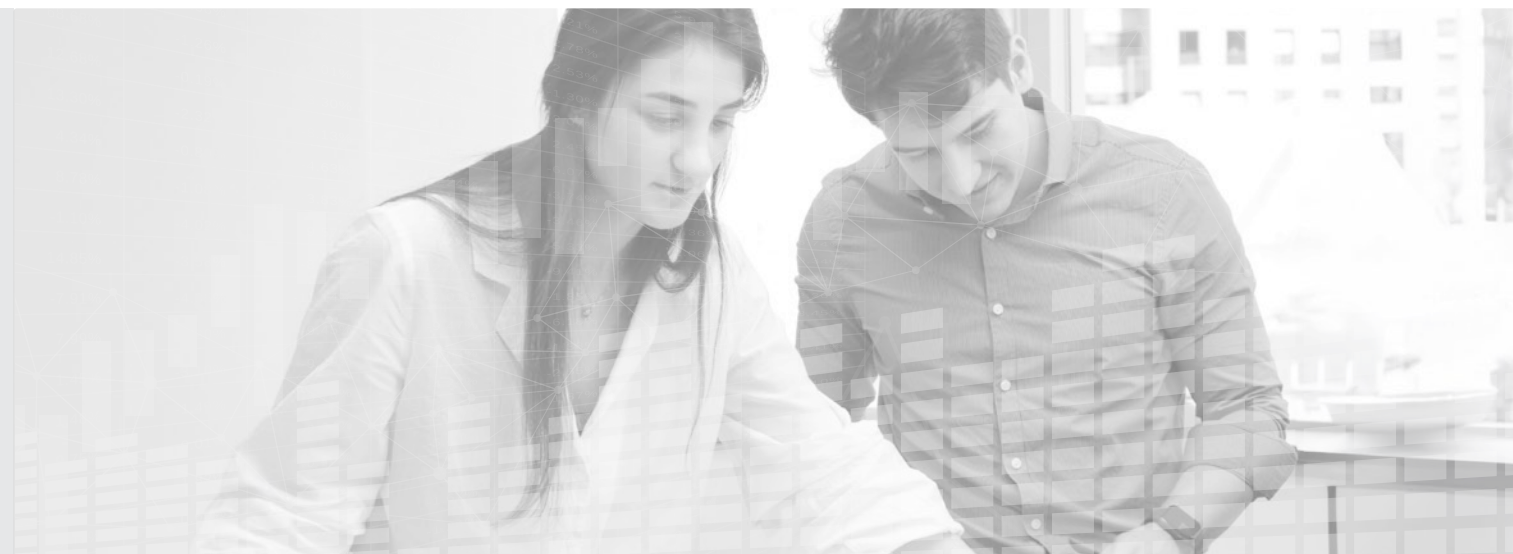
The wave assessment for the consumer client cited above revealed that, while their small central procurement organization didn’t have the bandwidth to conduct strategic sourcing processes in depth, further categories could be centralized to leverage volume regionally. With a lot of value still to be gained from addressing direct spend, the organizational transition plan included both direct (packaging and ingredients) and indirect (IT services) categories in the first phase. The second phase then continued to build on indirect categories such as manufacturing, logistics and point-of-sale equipment. These organizational changes matched the priorities set out in the initial wave assessment.



After transforming our procurement organization, we soon started to see high staff turnover. We realized that many people were lost by the changes: moving from transactional to strategic activities or being moved from familiar categories to new ones.

The solution for this was to clearly set out and share the career path for buyers within the procurement organization. Giving people this clarity went a long way in curbing turnover and sustaining the transformation path we were on.

Chief Procurement Officer
former retail-sector client





Case study

A client in the **civil construction industry** needed support in bringing greater efficiency and cost savings to its global procurement organization. The primary aim was to reorganize sourcing – spread across six countries and over ten business units – into centralized teams responsible for entire countries or continents, with fewer and

more focused local teams taking care of more sensitive categories. While the client wanted to design the leanest possible organizational structure, it would be critical for the business to maintain service levels across all operations while also respecting at times very different realities across the business units.

APPROACH

Several actions needed to be taken in order to design a suitable organizational structure for procurement and start implementing changes.

- Identify the level of each supplier market and similarities across the categories purchased by the different business units to leverage volume consolidation
- Carry out a complete review of the procurement organization structure to support centralization

initiatives clustered at the national or the continental level

- Determine which procurement processes (from issuing orders to following-up) can be moved to a shared services center
- Maintain the right balance between efficiency/standardization and service levels based on the reality of each category and operation

RESULTS

After designing a new procurement organization with buy-in and support from stakeholders across all operations, the project succeeded in increasing **centrally sourced spend from 20% to 42%**. This move allowed procurement to capture **overall savings of 3 to 6%**.

into a shared services center, allowing procurement to focus on more complex categories and strategic sourcing. Overall, the procurement **organization was reduced by 37%**, resulting in annual **savings of around 3 million USD**.

Concurrently, a **leaner organizational structure** was implemented, with more procurement professionals focused on strategic sourcing and less time spent on transactional activities. Numerous procurement processes were moved

To maintain the needed balance between efficiency and service level, small local teams were kept for critical categories such as primary materials and to take care of urgent measures that can only be resolved locally.



ii. IT systems

While changes to the procurement organization comprise the most fundamental element to start a transformation toward excellence, other factors likewise need to be addressed to ensure that changes are sustained and that advances are solidified. The two of the most essential in this regard are your IT systems and KPIs.

When attempting to develop their procurement practices, many companies often face a serious roadblock: There's simply no time or resources for procurement professionals to pursue a structured strategic sourcing process. Moreover, many organizations still do most procedural procurement tasks manually, investing valuable time into Excel tables rather than into value-adding strategic tasks. Introducing even a basic set of corresponding IT systems to ease the burden of operational needs is key for liberating tied-up resources.

The aim here is to **implement systems to simplify and automate an increasing number of tasks as well as transfer them directly to the user areas**, such as requests. This will free up the capacity of your procurement professionals to address strategic matters rather than operational ones that ultimately don't add all that much value. At the same time, systems will:

- remove complexity
- improve flows of information and
- boost efficiency, control, continuity and performance.

There are three categories of IT systems to support your procurement processes in this regard: transactional, strategic and enabling.

TRANSACTIONAL

Master data management (MDM) is a way to securely manage information including definitions,

storage, synchronization and the management of master data on items, materials and suppliers. The immediate advantages this system offers include better data quality, improved transparency on spend and protection of sensitive data. Companies often face a serious challenge when data has not been standardized, so it's important that professionals start placing value on managing master data for products and suppliers.

Purchase-to-pay (P2P) suites are systems for managing orders, incoming goods, consolidation, payments and other tasks necessary for maintaining procurement operations – such as automatically monitoring stocks and issuing delivery reminders. The immediate advantage of introducing this system is that it will allow the organization to automate transactional activities, decreasing the time your professionals spend on manual tasks.

STRATEGIC

Spend analysis collects and aggregates data regarding spend and offers key insights on purchases. Along with improving knowledge about spend per category – e.g. by comparing predicted/benchmark versus real spend – it allows for improved category management and reduces the likelihood of abnormal spending. As strategic decisions are based on an understanding of how much is being spent and on what, spend analysis is key for providing guidance on procurement and the supply chain.

E-sourcing is a platform for managing and executing strategic sourcing activities, providing efficiency gains by automating time-consuming tasks, e.g. issuing requests for information, gathering tenders, negotiating prices etc. The system generates value for procurement by improving knowledge about the supply base, offering superior results from sourcing



tenders, an improved basis for strategic decision-making and, ultimately, more savings.

Supplier relationship management (SRM) supports organizations in managing their supply base through supplier integration, qualification, segmentation and performance monitoring. Improved relations will promote strategic alliances that improve risk management as well as compliance. However, until a sufficient degree of maturity in procurement is achieved, it is advisable to keep SRM within the responsible category and the purchasers who have the specific expertise and negotiating abilities to manage it.

ENABLING

Procurement performance management (PPM) is a system for monitoring and supporting activities, initiatives and projects in the procurement area, providing metrics for your return on investment in the area as a whole. With this, higher-level analyses of project outcomes and benefits provided by the procurement area can be easily captured to drive future value-adding decisions and initiatives.

Contract management is a system that centralizes the creation, approval and editing of procurement contracts. Apart from providing time-saving automatization functions such as monitoring expiration dates, classifying and e-signing, it ensures alignment with the legal area, which is essential when centralizing tasks and categories while enforcing compliance. The benefits include reducing risk, gaining greater supply predictability and adding value beyond cost savings.

KNOWING WHEN AND HOW TO IMPLEMENT

In our experience, there are some common errors that should be avoided here. One is when businesses implement systems before the organization is ready. Organizations with less advanced strategic sourcing

practices should **give their professionals time to develop the new required skills and experience.** Only once a basic level of expertise and maturity have been reached will solutions such as e-sourcing start adding value.

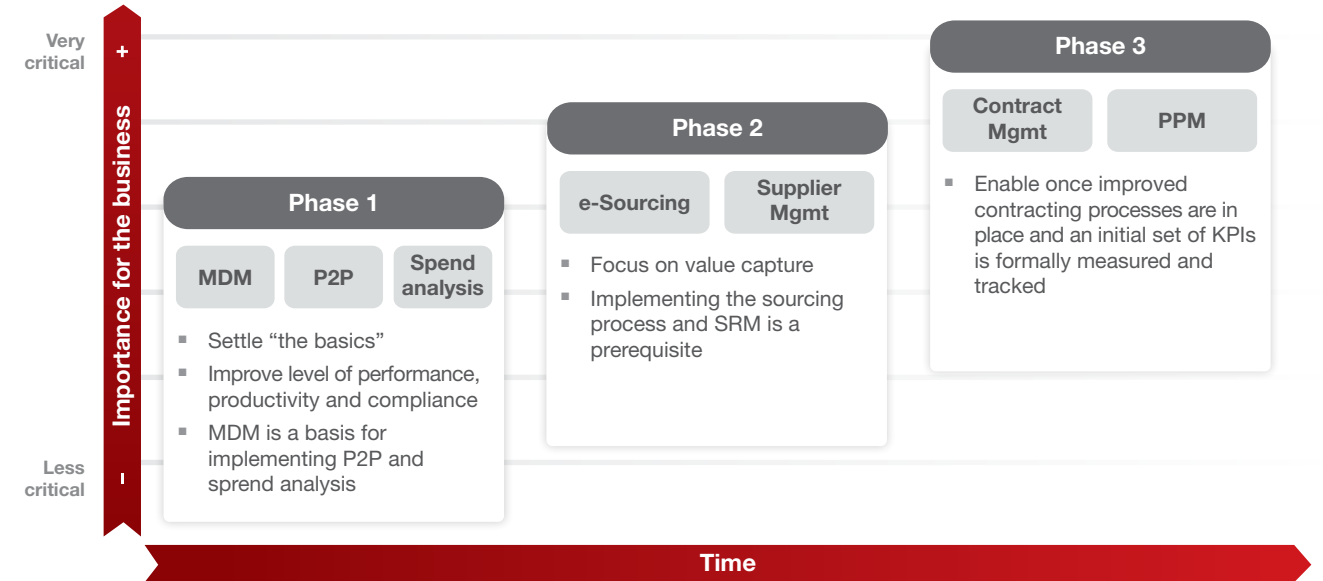
Another stumbling block has to do with knowing which solutions will be a good fit for your organization. One client needing to select a P2P system debated whether to go with a user-friendly suite preferred by the staff or one based on SAP – which was standard across the company globally. After opting for the more popular option in the first country selected for rollout, the client had a problem: the user-friendly solution underperformed in terms of compatibility and support in other operations, meaning leadership had to backtrack. Assessing how these new systems or modules will integrate with your existing systems and suppliers is an important consideration to bear in mind.

Regardless of whether you have some or none of these systems in place already, **the same advice applies here as elsewhere: implement in phases.** Those that can be implemented in a short period of time and are critical for the business in terms of 1) potential to free up time for investment into strategic matters and 2) indispensable as a basis for subsequent systems and automation should be tackled first.

One client in the retail sector was faced with a high number of isolated P2P systems providing low-quality information and relied heavily on support from the IT area. The top priority was therefore to improve efficiency and automation across the procurement area while limiting reliance on professionals from IT. To achieve this, the client was advised to implement relevant systems in the three phases shown below, focusing first on the transactional basics such as MDM and P2P and slowly adding strategic levers such as spend analysis.



Procurement organization transition plan



The overall goal is to **incrementally put systems into place and start moving up the automation ladder to sustain value creation and support the broader changes** being introduced. At the same time, advancements in IT should start leveraging some of the newer digital technologies mentioned in the first section - especially as these become more widespread and decisive for ensuring a well-performing procurement area. Apart from more

cutting-edge features such as deep data analysis that can be used when the organization has matured, digital solutions can provide significant improvements in automation.

Taken together, the right systems and digital technologies will help support moves towards achieving a lean and centralized organization that's more involved in strategic elements of the business.





iii. KPIs

Besides serving as a point of motivation for your procurement professionals by quantifying advances, setting the right key performance indicators to measure the impact of your transformation towards procurement excellence is critical for a number of reasons:

- It ensures buy-in from other areas across the company
- It allows you to know where to adjust priorities and investments
- It concretely shows value-add to the business in terms of cost, service and more

In our experience, **one basic motto should apply when setting KPIs for your procurement transformation: keep them simple and pragmatic.** As a best practice, we recommended starting out with indicators that can be tracked and measured manually while your procurement professionals gain know-how and your systems are being developed. Advancements can proceed on a step-by-step basis, starting out with just a few clear-cut indicators that abide by the following criteria:

- Can this indicator be readily understood by professionals both within and outside of the procurement area, as well as by our internal clients?

- Does this indicator have buy-in from the finance area, measuring, for example, true savings instead of merely cost avoidance?

When we ask CEOs what they consider to be the main benefits offered by the procurement area, apart from the obvious advantage of cost savings, service to the business has also become increasingly top of mind. In line with the overall goal of boosting the relevance of the procurement area, we recommend that your indicators show the benefits of investments into procurement excellence beyond just cost. For this, procurement needs to evaluate performance using indicators that directly relate to the company's financial results:

- How much spend is procurement really involved in?
- How much is procurement controlling to ensure supplier compliance?
- How often is procurement going to the market to gather bids?
- How much is being saved for each of the categories actively addressed?

This is also why it's key to have alignment and buy-in from the finance area, ensuring each metric is robust and relevant to the business. To make these indicators



even more quantifiable and justify further investments, another best practice involves comparing the benefits to the total cost generated by the procurement area in terms of personnel, infrastructure, development etc., reflecting the efficiency of the area as a whole to the financial results delivered. This will also promote a longer-term mindset among procurement leaders of being results-driven, establishing priorities based on improved results and developing the organization in a more targeted manner.

As you progress, the organization can add metrics that measure value-add offered by procurement in a more integrated manner, e.g. by addressing service, supply resilience and innovation.

While the set of KPIs that's most appropriate for your particular business and context will vary, companies across the board measure the following cost-focused metrics:

- price reductions vs. previous prices
- savings vs. indexed prices
- spend controls

More advanced procurement organizations also consider the following metrics, which also include service-level considerations:

- total cost of ownership

- supply-chain security and cost reduction
- area and supplier service levels
- contributions to innovation
- impact on the company's overall results

A few high-level questions can provide guidance in selecting an appropriate set of indicators when starting out:

- Are the metrics used transparent and easy to understand by different areas of the company?
- Are they designed to increase the value procurement adds to the business – beyond merely cost savings?
- Have they been developed and aligned with stakeholder areas to generate credibility across the organization?
- Are the objectives of these KPIs known within the procurement area as a whole and shared with key areas of the business/internal clients?

For a retail client without any automated procurement KPIs or ability to improve performance based on cost and service data, the main objective was to recalibrate and centralize the indicators being measured individually by different user areas. The set of six simple indicators shown below were developed so that the organization could start measuring the value being generated by internal procurement, covering cost reductions as well as service level.

6 simple indicators for a retail client

		Metric	Description
Cost reduction	1	Total savings	Overall savings obtained by internal purchasing
	2	Price reductions	Savings % versus former prices
	3	Demand reduction	Savings obtained by reducing demand
Service	4	Managed spend	% of total spend managed by internal purchasing
	5	Contracted spend	% of total spend currently under contract
	6	Supplier compliance	% of orders delivered without delay



Everyone was convinced by the proposed changes initially, but then we started to lose buy-in. The reason for this is that the area wasn't being monitored well and didn't need to show results. This led many buyers to eventually stop following the structured methodology we had implemented.

If the results aren't being measured, if they aren't being praised, if they're not part of people's incentives, the transformation gets off track. **Once we started measuring results, selling the positive impacts to other areas and rewarding people for this, we were able to sustain the efforts we had initially put in.**

Chief Procurement Officer
former retail-sector client



3. CLOSING THOUGHTS

Looking ahead

Through this report, we hope to have provided greater clarity on what leading companies are doing to achieve excellence in procurement as well as what aspiring companies can do to advance. There are two key messages that are worth highlighting:

1. Procurement has evolved beyond its transactional roots and now holds the potential to provide virtually any business a range of benefits, from reducing costs to innovating and being sustainable
2. There is a clear and practical way forward that companies at any level can pursue to leverage these benefits and start transforming their procurement practices

While reaching greater excellence in procurement may require companies to address a variety of changes, experience shows that the most effective way forward is through a gradual, step-by-step

approach based on a structured methodology – allowing wins made along the way to generate momentum across the organization.

As in any other transformation, making improvements to an existing procurement model, sustaining new ways of working and generating results will depend on the people involved. This makes it imperative to align areas that interact with procurement throughout the journey and ensure transparency regarding the goals of the transformation.

Most importantly, success will lie in achieving buy-in from your procurement professionals and keeping them motivated by sharing results and achievements, setting the right incentives and providing clarity on their career progression.



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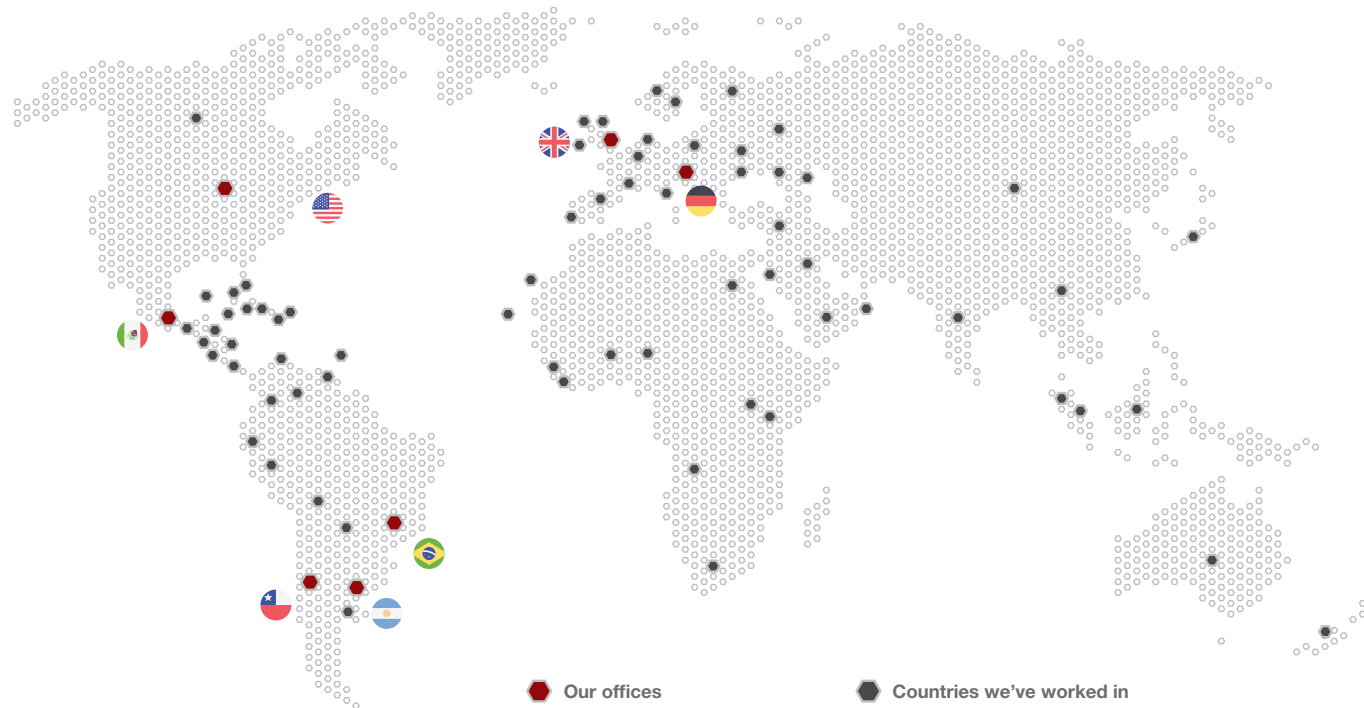


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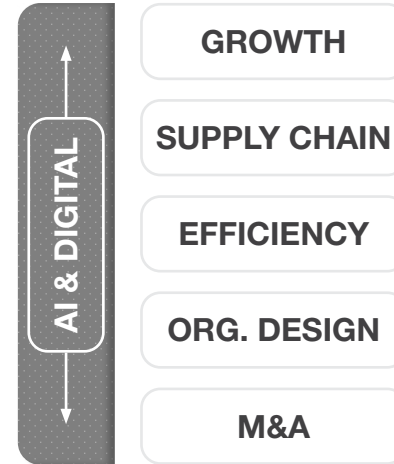
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