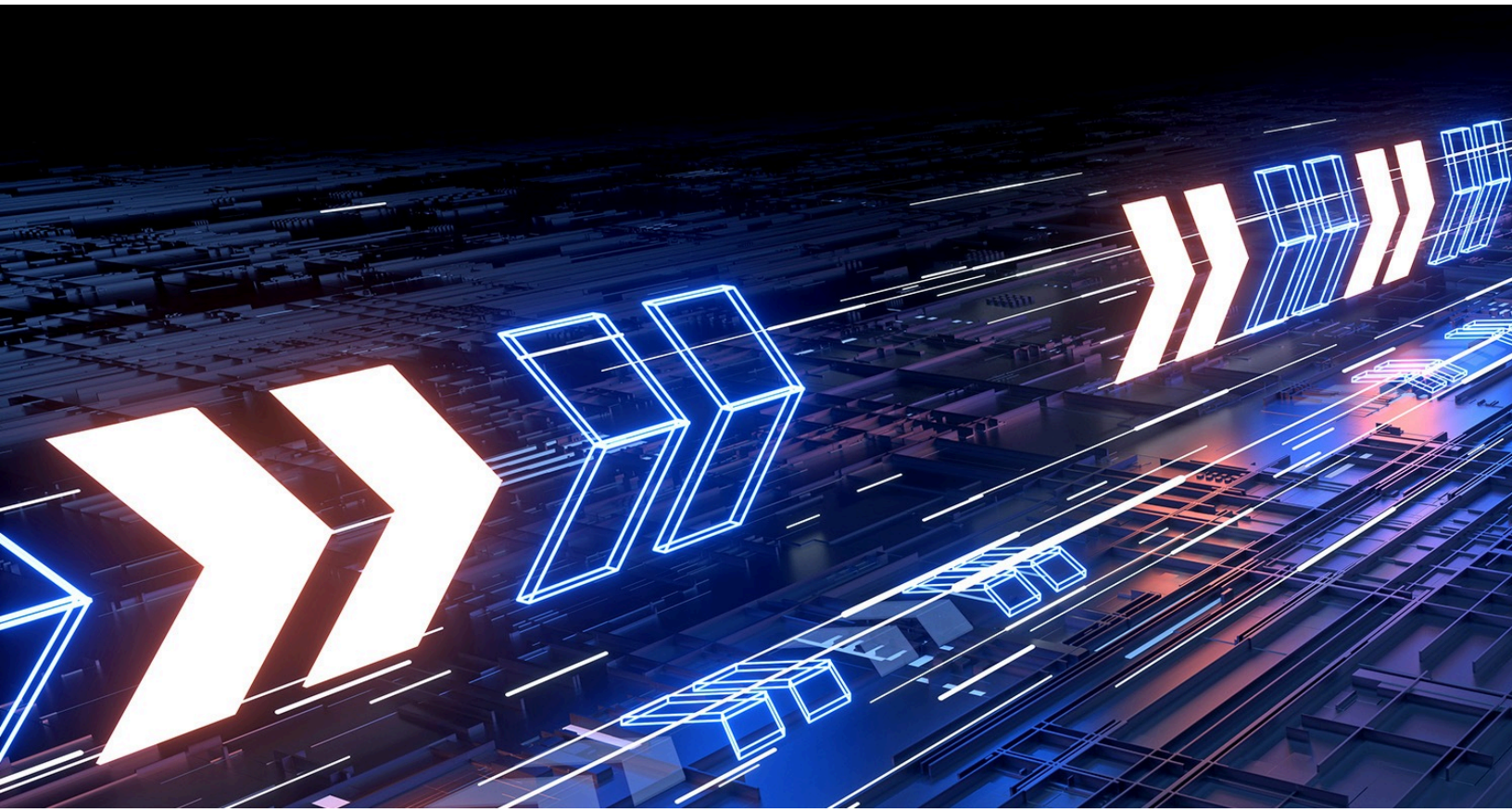
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McKinsey Transformation Practice

Aim higher and move faster for successful procurement-led transformation

Procurement can be the first around the track for business transformation efforts. Our research identifies the three areas that matter most in increasing the odds of success.

by David Pralong, Jennifer Spaulding Schmidt, and Teresa George with Cole Wirpel



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In today's volatile environment, transformation at scale is more critical than ever for leaders looking to achieve a lasting performance advantage. Our research shows that one way to gain and sustain that advantage is to upgrade the procurement function.

We analyzed thousands of companies' transformation results across more than 340,000 transformation initiatives, which collectively represent more than $200 billion in value (see sidebar, "Scope of analysis"). We find that procurement value is a reliable predictor of a transformation's overall value. Procurement typically accounts for more than 20 percent of the total financial impact in a transformation program. Most important, we find that when procurement achieves its savings target, the company is nearly twice as likely to achieve its business-wide savings target.

Scope of analysis

'Transformation' means more than a single function's savings program, even an aspirational one. In our research, we centered our analysis on comprehensive transformations that met three criteria:

— *An integrated view of the cost base*. These transformations reached across many departments, well beyond procurement, and included strategic ecosystems, make-versus-buy decisions, budgeting practices, and policies.

— *Accelerated savings*. Each transformation in our data set involved a compression, or pull forward, of several years' worth of savings plans into a period of 18 to 24 months. For example, the companies in our analysis typically targeted 15 to 30 percent savings across two years versus a business-as-usual target of 3 to 5 percent per year.

— *A reimagined operating model*. The transformations we analyzed went beyond savings and reconsidered procurement's ways of working, encompassing process, technology, governance, and talent.

Our analysis draws primarily from anonymized data gathered via Wave by McKinsey, a program management platform that has tracked more than 340,000 initiatives at over 1,000 organizations. Collectively, the tracked initiatives reflect more than $200 billion in spend. Our research focused on 43 enterprise-wide transformation programs that yielded at least two years of statistically valid data.

What makes a company more likely to reach its procurement savings target? We have found three critical differences between the "procurement stars" that meet their targets and their peers. First, the stars raise their ambitions: The initiative pipelines that they build are more than 60 percent larger (measured by total value) than the initial transformation savings target. Second, they set a quick pace: They move fast and break through barriers to log victories in the first six months. Third, they proactively build skills to sustain the pace, ensuring that the company can continue its performance improvement for many consecutive quarters.

Stretch: Raising ambitions

Stretching beyond high expectations is especially important for a successful transformation: It's too easy for leaders to underestimate how much value leaks out of a planned pipeline of savings initiatives. Our analysis of enterprise-wide transformations finds that the average procurement savings pipeline loses one-third of its estimated value in the planning stages and another 20 percent in execution.

It's usually too late when procurement leaders notice this leakage and begin to refill the pipeline with more initiatives. Typically, these late additions recover only about 15 percent of the initial pipeline's projected value, leaving a substantial shortfall to the original savings target. Procurement stars counter this leakage by setting an initial target substantially larger than the result they aim to achieve (Exhibit 1).

Getting to a more ambitious pipeline isn't just a mathematical exercise but a process of creative and productive disruption. It requires procurement leaders to challenge category managers' assumptions about almost every aspect of their day-to-day work, with encouragement to tackle pockets of resistance, find new ways to collaborate, and make hard decisions.

Taking relatively simple measures, such as imposing below-baseline spending caps or top-down scrubs of significant expenses, sets a strong foundation by encouraging better resource prioritization. Formal cross-functional structures can improve coordination for larger and more complex areas of spend. For instance, a negotiation "win room" or nerve center can improve information gathering and boost negotiation skills by bringing specialized procurement data and expertise together to reveal new opportunities for savings. Additionally, a spend control tower can help leaders stay focused and aligned on removing nonessential and redundant spending.

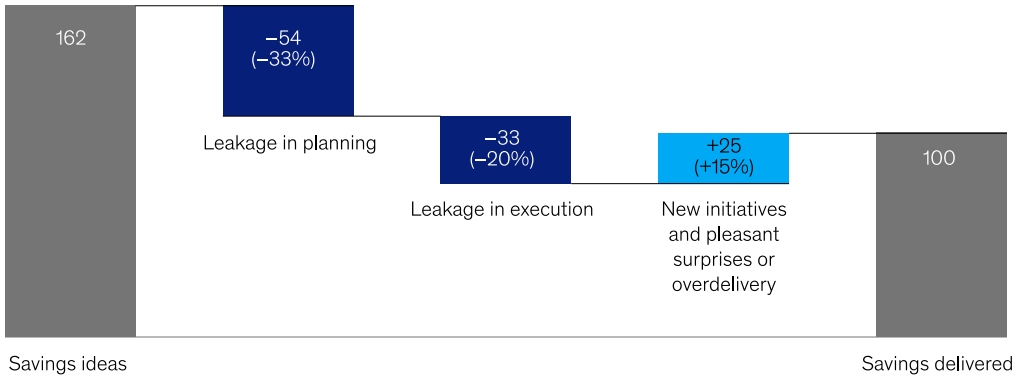
As an example case, a global real estate company had two categories—on-site maintenance and capital projects—that accounted for most of its external spending. Each required a distinct approach.

For on-site maintenance, leaders quickly discovered that local managers followed opposing strategies. Some relied entirely on third-party service providers, others hired their staff, and a few followed a mixed model, which proved to be the most expensive option. To achieve an ambitious goal of 20 percent savings, the chief procurement officer, category leaders, and property managers needed to align on a common strategy. Harmonizing location-level requirements and available service labor removed the ambiguity across sites and led to a segmented solution.

Exhibit 1

In procurement-led transformations, value leakage is inevitable—but firms can counter it by overproducing savings ideas.

Average evolution of procurement savings plans, index (100 = final savings delivered)



Source: Wave by McKinsey, comprising data from more than 1,000 transformations conducted in 2014–23; sample focused on 43 procurement-led enterprise transformations with at least 2 years of data.

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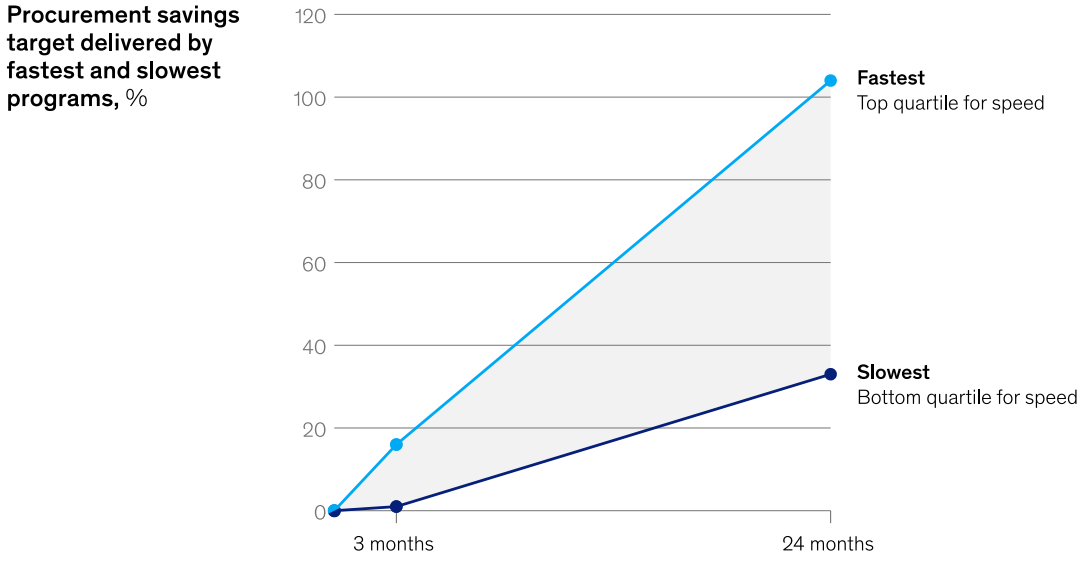
The capital project category faced a different, yet familiar, challenge: a highly independent stakeholder confident in the current process. However, the transformation imperative brought the leadership team together to rewire capital projects. Instead of working magic within historical constraints, the program empowered the team to make unprecedented changes, such as in material choices and renovation cycles. The outcome: from no planned savings to an enthusiastic commitment to achieve at least a 30 percent cost reduction.

Speed: Setting a quick pace

Speed is also critical to a successful procurement transformation. To understand this, we evaluated transformation programs according to how much impact they achieved in their first six months. On average, companies in the fastest quartile captured at least 16 percent of their financial target in the first three months (Exhibit 2). Two years in, all the fast starters achieved their targets, and some overachieved.

Exhibit 2

Successful procurement-led transformations move at full speed.



Source: Wave by McKinsey, comprising data from more than 1,000 transformations conducted in 2014–23; sample focused on 43 procurement-led enterprise transformations with at least 2 years of data.

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Moving too slowly, by contrast, has long-term consequences. Not a single program in the slowest quartile achieved its two-year savings target.

The experiences of one global chemical manufacturer illustrate some practical steps that companies can take to ensure that their procurement transformations take flight. First, the company implemented a comprehensive impact-tracking platform that allowed leaders to see across all transformation initiatives and detect issues early when initiatives ran into internal barriers or fell behind their financial targets. A central transformation office, led by the CEO and CFO, monitored the platform at the enterprise level and championed the procurement function's work as central to the broader transformation program.

In parallel, a dedicated team from across procurement rapidly developed advanced should-cost models and cleansheets to break down suppliers' costs in detail. For the most critical inputs, specialists synthesized the models into "best alternative to negotiated agreement" frameworks, which described the essential price and delivery terms that any supplier had to meet to qualify for negotiations.

The negotiations produced $30 million in run-rate savings, or 20 percent of the two-year transformation program's procurement target, in six weeks. More important, however, were the longer-term effects. The modeling exercise, for example, revealed high unit costs, poor-quality market analyses, and inaccurate risk assessments—all issues that the department could start addressing immediately under a renewed culture of continuous improvement.

Skill: Building capabilities to sustain the pace

Continuous performance and speed require stamina and skill. Even organizations that take procurement seriously often have some soft spots. For example, an auto supplier may equate its procurement capabilities with its management of core commodity sourcing. A media company may focus heavily on a narrow set of categories, such as marketing spend. However, pronounced strengths in a few areas can give procurement leaders a false impression of the function's overall strategic sourcing capabilities.

Cross-category capability-building efforts that span hard and soft skills help everyone perform like a well-trained athlete—and show up in transformation results. Procurement transformations with proactive capability-building efforts across teams outperform those that squeeze more out of the same team. Our analysis finds that with dedicated training, a well-run transformation finishes more than half of its procurement projects on time or early. This number drops to one-third for programs without dedicated upskilling programs.

A global medical-device manufacturer illustrates the returns from investing in new skills. The procurement team was well versed in the applicable sourcing levers for the company's core categories, such as essential alloys and active ingredients. But the company realized that it was spending $100 million on packaging each year, working with more than 40 packaging suppliers and 5,000 package variants. Procurement leaders responded by training the team on new models, with specialists quickly harnessing cleansheets and novel paper indexes to deepen their insights—and identify design opportunities for top SKUs. When a new supplier had to be qualified, the team also pioneered innovative approaches for line trials, minimizing delays while increasing supplier flexibility and reducing cost.

We have seen similar examples, such as at a retailer where procurement training modules and negotiation role-playing helped increase private-label margins by ten percentage points. A global construction and building services company with over $10 billion in annual spending launched a procurement academy to train 1,000 field staff in various technical skills. This yielded several hundred initiatives that the company could deliver simultaneously within 18 months.

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With dedicated training, a well-run transformation finishes more than half of its procurement projects on time or early.

Research into the mechanics of transformations shows that transforming procurement has a halo effect on the rest of the organization. The resulting improvements that people can see every day (such as better-quality raw materials, more reliable supply partners, and elimination of shadow sourcing) pave the way for the company's overall success. The multiplier effect of procurement-led changes is worth focusing on and fighting for—it's a matter of getting out of the starting blocks.

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