



# KPI ENCYCLOPEDIA

A Comprehensive Collection of KPI Definitions for

# PROCUREMENT



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*Procurement KPI Encyclopedia*

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# Procurement

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## Procurement

### Procurement

Logistics Management

Strategic Sourcing

Vendor Compliance & Audit

Vendor Contract Management

Vendor Identification & Management

*The Procurement function purchases products or services (raw materials, components, large machinery, consulting services, etc.) from vendors to satisfy internal (inside the company) and external (customers) demand. After a need is identified, the Procurement Group is responsible for identifying a supplier, running them through the required audit and compliance processes, negotiating terms of payment and arranging any logistical concerns (shipping, delivery, installation, training, etc.).*



# Procurement

KPI Encyclopedia

## Cost

- **Total Expense: Procurement** – The total expense incurred by the Procurement Department over a certain period of time.
- **Total Expense per Procurement Employee** – The total expense incurred by the company over a certain period of time divided by the total number of Procurement employees.
- **Procurement Expense as a Percentage of Total Expense** – Total operating expense incurred by the Procurement Department divided by total, company-wide operating expense over the same period of time, as a percentage.
- **Procurement Expense as a Percentage of Total Revenue** – Total operating expense incurred by the Procurement Department divided by total revenue generated by the company over the same period of time, as a percentage.
- **Procurement Systems Expense as a Percentage of Total Procurement Expense** – Total Procurement systems-related expense (ERP, supply chain management systems, etc.) divided by total Procurement Department expense over the same period of time, as a percentage.

## Organizational

- **Total Employees: Procurement** – The total number of Procurement employees working for the company at a certain point in time.
- **Span of Control: Procurement** – The average number of Procurement employees reporting to each Procurement manager.
- **Management Levels: Procurement** – The total number of management levels, or layers, in the Procurement Department.
- **Organizational Structure: Procurement** – A yes/no metric indicating whether the Procurement function is centralized (all employees in a single location) or decentralized.
- **Procurement Headcount Ratio** – The number of company-wide employees divided by the total number of Procurement employees working for the company at the same point in time.

## Quality

- **Spend Under Management (SUM)** – The amount of company spending (direct, indirect and service-related spending) that is managed by the Procurement Department divided by total company-wide spend over the same period of time, as a percentage.

## Volume

- **Total Number of Suppliers Used** – The total number of suppliers used by the company to supply raw materials or direct supplies to customers and/or manufacturing plants.
- **Total Volume: Shipments Received** – The total number of shipments received from suppliers over a certain period of time.
- **Total Volume: Supplier Orders** – The total number of supplier orders processed by the Procurement Department over a certain period of time.



# Logistics Management

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## Procurement

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*The Logistics Management function works with suppliers to facilitate the efficient and timely delivery of purchased goods. They manage distribution channels and delivery methods to reduce “hidden” costs associated with purchasing, including the transportation and storage of purchased goods. Many times, companies use specialized third party logistics firms (brokers) to manage the flow of materials and reduce costs. Once goods arrive at company facilities, logistics staff members inspect the order to ensure completeness (check against purchase order) and quality, then send the invoice to the company’s Accounts Payable Department for payment.*



# Logistics Management

KPI Encyclopedia

## Cost

- **Carrying Cost of Inventory** – The total expense required to warehouse and ship the inventory of a specific product or material over a certain period of time. Carrying cost of inventory includes warehouse labor, insurance, tax, storage, depreciation and shipping or freight expenses.
- **Inventory Turns (Finished Goods Only)** – The total cost of finished goods sold divided by the average dollar value of finished goods on hand over the same period of time.
- **Imported Materials as a Percentage of Total Materials Used** – The total dollar amount of materials imported from outside the country where the manufacturing facility is located divided by total dollar amount of materials used in the production process over the same period of time, as a percentage.
- **Raw Materials Expense as a Percentage of COGS** – Total raw materials-related expense divided by the total cost of goods sold (COGS) over the same time period, as a percentage.

## Productivity

- **Inventory Turns** – An indication of how many times a company's inventory is sold and replaced over a period of time.

## Quality

- **Average Shelf Life** – The average number of days that components or materials remain in company storage facilities prior to use in the manufacturing or production process over a certain period of time.
- **Cycle Time: Supplier Order Delivery** – The number of business days required to complete a delivery of materials from company suppliers or vendors, from the time the order is placed until the materials are delivered.
- **Inventory Turns (Raw Materials Only)** – The total cost of goods sold (COGS) divided by the average dollar value of raw materials on hand over the same period of time.
- **Inventory Turns (Work-In-Process Only)** – The total cost of goods sold (COGS) divided by the average dollar value of work-in-process products on hand over the same period of time.
- **Inventory Turnover** – The average number of days required to sell and replace a company's inventory, from the time the inventory is replenished until it is depleted.
- **Customer Backorder Rate** – The total number of customer orders delayed in shipment due to the company being out of stock of the desired product divided by the total number of orders made over the same period of time.

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