THE FUTURE OF CORPORATE PROCUREMENT

A REPORT IN ASSOCIATION WITH CONFEX GROUP

FEBRUARY 09

CONTENTS PAGE

INTRODUCTION

As a group we recognise the need to capitalise on the business opportunities available in what is an increasingly tough and uncertain economic environment in which to operate.

Existing and potential clients are now managing reduced budgets, meeting spend has become increasingly more regulated and the need to achieve greater return on investment has increased. Unsurprisingly more and more companies are enforcing procurement polices and employing third party booking agents to manage this spend. So our traditional methods deployed to secure this ‘new business’ is fast becoming redundant.

As the objectives of these procurement and purchasing decision makers evolve to protect their companies in the current economic climate it is vital that we also adapt in line with them. By understanding what procurement teams throughout the UK look for when making their purchasing decisions we are more equipped to remain on a buyer’s preferred supplier list and maximise our potential to win and maintain business.

With no such information readily available about procurement trends and what indeed is important to them when making their purchasing decisions on behalf of their company, Macdonald Hotels and Resorts in association with Confex Group have produced the first in a series of focused studies in to the ‘Future in Corporate Procurement’.

Will CSR go out the window in favour of bottom line budgets? Will incentives and last minute offerings have any effect on the buying process? These are all important questions that as a supplier we should be asking ourselves if we wish to succeed.

Ruaridh Macdonald, Business Development Director, Macdonald Hotels and Resorts

INDUSTRY OVERVIEW

It is estimated that UK businesses spend £3 billion on events held in the UK with around 80 million people attending just over 1.5 million conferences and meetings each year.[1] *As a result the UK meetings and events industry provides one of the largest sources of revenue for the economy, valued at £22 billion, forming a significant segment (26%) of what is now widely known as 'business tourism'*[2].

With an annual estimated spend of £3 billion; many businesses are under increasing pressure to significantly reduce this expenditure for future events. In light of this, it is common practice for meeting spend across corporate departments to be regulated by procurement policies.

With 70% across Europe now enforcing proactive procurement strategies for their MICE spend,[3] *inevitably return on investment has become a crucial factor when allocating and spending company budgets. Especially when you consider that the UK economy in the fourth quarter of 2008 saw an increase in the number of compulsory liquidations and creditors' voluntary liquidations in total across England and Wales rise by 51.6% compared to the same period this time last year.*[4]

Subsequently, competition to win new business has become greater forcing the meetings and events industry to rapidly evolve and diversify its offerings to a wider audience. Though competition is tough there is still plenty of business out there to win. The 2012 Olympics and the more recent 'devaluing' of the pound, which has made the UK an increasingly attractive destination to the North American and European markets, make our business offerings cheaper than they were two years ago.

In light of this, it is increasingly apparent the meetings and events industry now needs to understand procurement 'methodology' to capitalise on these opportunities. By identifying what influences buyers when making their procurement decisions, the industry will become better equipped to understand what appeals most when procurement decisions are made, ensuring to adapt its business product and sales strategy to gain a competitive edge and ultimately clinch future business.

With increasing pressure to reduce company spend now is the time to understand these procurement and purchasing decision makers.

---

[1] September 2007, The National Meetings Challenge: Sustainable Business Tourism White Paper
[2] September 2008, The National Meetings Week White Paper 2008
[3] February 2008, HBI Meetings Industry Report
[4] February 2009, Official Insolvencies Statistics in the Forth Quarter 2008, www.insolvency.go.uk

MACDONALD
HOTELS & RESORTS

SUMMARY OF RESEARCH RESULTS

THE FUTURE OF CORPORATE PROCUREMENT

The research was carried out by an independent market research body, Opinium[5] putting questions to those involved in procurement making / significant purchasing decisions on behalf of their company. The sample size was 369 British procurement professionals and took place during January 2009. Results have been weighted to nationally representative criteria and have been presented as top line results for the UK and where appropriate a regional comparison has been drawn within this report. Please refer to the Result's Breakdown for these comparisons.

FINDINGS – ONE with budgets being squeezed, those in charge of procurement decisions on behalf of their company are increasingly looking to suppliers to save them money, and as a result suppliers are more likely than ever before to be asked to reduce their rates. Inevitably, budget was selected by 83% of purchasing decision makers as very important or important making it the most significant consideration when a procurement decision is made. This was followed closely by location with an 81% selection and travel costs with a 75% selection, both of which have a clear effect on budget.

FINDINGS – TWO the research indicates those factors that have a positive effect on a procurement decision makers' return on investment have become increasingly more important considerations when purchasing decisions are made. In light of this more 'ROI focused' procurement methodology there seems to be little importance now placed on those factors, which are generally classified as 'incentives'. Though these factors have their own merit they have little to no impact on increasing a procurement decision makers all-important ROI.

Interestingly the research also shows CSR policies, which were once an important factor in helping to win and retain business only six months ago, has now been relegated to the second least significant factor, below that of value of supplier relations with a 64% selection and length of planning time with a 63% selection.

Though CSR has become considerably less important in the grand scheme of purchasing decisions as highlighted in the research, it is worth noting that the findings also indicates optimistically that just under half (45%) of procurement decision makers still believe this is an important factor worth considering when making their purchasing decision on behalf of their company.

[5] Opinium is an online research panel with over 25 year experience backed with the world's most advanced online market research software, Panel+

.

With 53% of procurement decision makers believing CSR will become increasingly important in the next 24 months of which 31% believe this will be the case in the next 12 months, it is safe to assume that an active CSR policy will still have merit in a supplier's sales and marketing strategy for the next 12 – 24 months.

However, according to 47% of procurement decision makers, a CSR policy will have significantly less impact on their decision after 24 months, believing that this policy will have reached the level of importance that it would reach and remain static thereafter. 12% of these procurement decision makers believed CSR policies will never be important again.

The research indicates there is an obvious relationship between the decline in importance of factors like last minute offerings or incentives and the reduction of company budgets in recent months. Illustrating this point perfectly; the average time in which CSR would become increasingly more important is 15 months across all UK regions with the exception of London where the average was 18 months. Seemingly in sync with the procurement decision maker's average of 16 months before they predict their budgets increase.

FINDINGS – THREE with budget playing an obvious role in procurement 'methodology' it is important to recognise when if ever suppliers should shift focus away from providing 'best value products' to reinstating 'added value / incentives' offerings in to their marketing and sales strategy. The research showed almost half (40%) of procurement decision makers believe budgets will increase in the next 18 months, with 25% believing budgets will increase in the next 12 months. Reassuringly only 9% believed that budgets would not increase until after 30 months.

Currently, in order to win new business and retain existing ones, suppliers must adapt their business product, marketing and sales strategy to be centred on achieving good ROI for their clients. This is not to say that other factors will not help in clinching a new contract, but for the next 12 – 24 months it seems it will not be at the expense their client's ROI according to the findings.

The research indicates If ROI is guaranteed, then according to procurement decision makers, quality of service or product is considered the most appealing additional factor when making their purchasing decisions, with a 44% selection followed closely by added value at no extra cost with an 31% selection. Surprisingly, supplier relationships, award winning status and a dedicated contact were all ranked considerably less important with a less than 10% selection rate.

These three factors are likely to increase as procurement decision maker's budgets increase as indicated with CSR policies. Only when the economy stabilises and business begins to profit will procurement decision makers become less frugal with their budgets and place more value on factors like brand and reputation.

FINDINGS – FOUR it has been a difficult situation, as procurement decision makers seek to find the best ROI, suppliers find they are not able to be as flexible as they would like. The lack of confirmed bookings due to a considerable decrease in the length of planning time and an increase in the number of last minute bookings could be a reflection of this current trend for procurement decision makers looking to negotiate on price, and feeling they are in a strong position as suppliers compete for their business.

The research indicates for the moment almost half (46%) of procurement decision makers predict there will be little change in planning times in the next 12 – 24 months which will help ease some of the uncertainties a supplier faces when trying to forecast their own financial security. Only 19% of procurement decision makers predicted planning times would reduce, compared to 12% who predict an increase.

INDUSTRY COMMENTRY

Duncan Reid

Joss Croft

Jane Evans

Izania Downie

INDUSTRY COMMENTRY

"With the current news surrounding the economy, the fact that those in charge of purchasing decisions for their company are predicting a stabilisation period in the next 12-24 months can only be good news for the industry.

We are already seeing events being moved to later on in the year with traditional time lines for events shifting. Whilst we are aware that events are still being held, lead times have been noticeable short of late. With 46% of procurement decision makers believing that there will be little change to the length of planning time and an element of stabilisation, we can start to assume that confidence regarding the economy is growing.

Certainly for the beginning of the year purchasing decision makers will still be making their choices with caution and hesitation but as the research shows, more events will take place."

Duncan Reid, Portfolio Director, Confex Group

"With the dynamics of the UK industry constantly changing, it is important we get into the minds of those responsible for the procurement of meetings and events. This year is an important one for the UK industry as we capitalise on our increase in value, promote our creative industries and underline the outstanding business tourism product we have in the UK. By understanding buyer motivation at the moment and in the future we can direct our marketing, sales and products to meet the needs of these buyers."

Joss Croft, Head of Business Visits and Events, VisitBritain

INDUSTRY COMMENTRY

It is heartening to see a large percentage of corporate procurement professionals forecasting budget increases within 12 months, a message which is consistent with that we are hearing from other sectors; it’s a slow return to economic normality but it is a clear indication of a return. As an industry this means that now more than ever it is critical that we do not damage our future by price cutting; instead of slashing prices add value and make sure that you are offering a quality product.”

Jane Evans, MIA, Chief Executive

“In the current climate the financial considerations are almost certainly going to outweigh the added value and softer factors in decision making. The decision to run an event should always be based on commercial realities in terms of what value does this activity bring to the business and what are the objectives of the activity? However, when business is booming, companies can start to overlook these commercial realities and spend far more easily on added extras.”

Izania Downie, Eventia Chief Executive Officer

MACDONALD
HOTELS & RESORTS

STATISTICAL BREAKDOWN OF EACH QUESTION

Opinium Market Research Results Available on Request

STATISTICAL BREAKDOWN FOR QUESTION ONE

- HOW SIGNIFICANT ARE THE FOLLOWING FACTORS; CSR, BUDGETS, LENGTH OF PLANNING TIME, LAST MINUTE OFFERINGS, VALUE OF SUPPLIER RELATIONS, LOCATION AND TRAVEL COSTSWHEN MAKING PROCUREMENT / PURCHASING DECISIONS ON BEHALF OF YOUR COMPANY?

Budget and location were identified as the most important factors followed closely by travel costs when procurement decisions are made across the UK.

- LISTED IN ORDER OF IMPORTANCE WITH % INDICATION OF THOSE PROCUREMENT / PURCHASING DECISION MAKERS WHO SELECTED ‘very important or important’.

1st Budget – 83%

2nd Location – 81%

3rd Travel cost – 75%

4th Value of supplier relationships – 64%

5th Length of planning time – 63%

6th CSR policy – 53%

7th Last minute offerings and incentives – 44%

- REGIONAL FOCUS RESULTS BREAKDOW.

Overall budgets are identified as the most significant factor for those making procurement decisions across the UK.

- Procurement decision makers across the UK regions identified budget as the most significant factor when making procurement decisions on behalf of their company as above 75%.

- When comparing responses across the UK regions, budget is the most significant factor for those who make procurement decisions on behalf of their company in Scotland and Northern Ireland, with 88% of

procurement decision makers citing it as very important or important. Whilst only 76% of procurement decision makers in the North East, North West, Yorkshire and the Humber selected very important or important.

Overall location is identified as second most significant factor for those making procurement decisions across the UK.

- Procurement decision makers across the UK regions identified location as the most significant factor when making procurement decisions on behalf of their company as above 73%.

- When comparing responses across the UK regions, location is the most significant factor for those who make procurement decisions on behalf of their company in the East of England and the South East outside of London, with 86% of procurement decision makers citing it as very important or important, followed closely by Scotland and Northern Ireland with 85% and London with 84%. Whilst only 73% of procurement decision makers in the North East, the North West, Yorkshire and the Humber selected very important or important.

Overall travel cost is identified as third most significant factor for those making procurement decisions across the UK.

- When comparing responses across the UK regions, travel costs is the most significant factor for those who make procurement decisions on behalf of their company in the East of England and the South East outside of London, with 76% of procurement decision makers citing it as very important or important. Followed closely by Scotland and Northern Ireland, the North East, the North West, Yorkshire and the Humber, the Midlands including the East and West and finally London all with 75%. Whilst only 71% of procurement decision makers in the Wales and the South West selected very important or important.

Overall value of supplier relations is identified as the forth most significant factor for those making procurement decisions across the UK.

- Procurement decision makers across the UK regions identified value of supplier relations as the most significant factor when making procurement decisions on behalf of their company as above 53%.

- When comparing responses across the UK regions, value of supplier relations is the most significant factor for those who make procurement decisions on behalf of their company in the East of England and the South East outside of

London, with 70% of procurement decision makers citing it as very important or important, followed closely by Wales and the South West with 68%. Whilst only 54% of procurement decision makers in London selected very important or important.

Overall length of planning time is identified as the fifth most significant factor for those making procurement decisions across the UK.

- Procurement decision makers across the UK regions identified length of planning time as the most significant factor when making procurement decisions on behalf of their company as above 53%.

- When comparing these responses across the UK regions, length of planning time is the most significant factor for those who make procurement decisions on behalf of their company in Scotland and Northern Ireland. Whilst only 54% of procurement decision makers in the North East, the North West, Yorkshire and the Humber selected very important or important.

Overall CSR policies are identified as the sixth most significant factor for those making procurement decisions across the UK.

- Procurement decision makers across the UK regions identified CSR policies as the most significant factor when making procurement decisions on behalf of their company as above 44%.

- When comparing these responses across the UK regions, CSR policies are the most significant factor for those who make procurement decisions on behalf of their company in Wales and the South West. Whilst only 45% of procurement decision makers in London and the North East, the North West, Yorkshire and the Humber selected very important or important.

Overall last minute offerings / incentives are identified as the least significant factor for those making procurement decisions across the UK.

- Procurement decision makers across the UK regions identified last minute offerings as the least significant factor when making procurement decisions on behalf of their company as above 33%.

- When comparing responses across the UK regions, last minute offerings / incentives are the most significant factor for those who make procurement decisions on behalf of their company in Wales and the South West, the North East, the North West, Yorkshire and the Humber with 49%. Whilst only 35% of procurement decision makers in London selected very important or important.

STATISTICAL BREAKDOWN FOR QUESTION TWO

- DO PROCUREMENT DECISION MAKERS SEE CSR (corporate social responsibility) BECOMING AN INCREASINGLY IMPORTANT FACTOR WHEN MAKING THEIR PURCHASING DECISIONS OVER THE NEXT…?

- 62% of procurement decision makers believe that CSR will become more important sometime in the future, with 31% believing this will happen in the next 12 months.

- Over half, 53% of procurement decision makers believe CSR will become more important in the next 24 months and 47% of procurement making decision makers believing CSR will have reached the level of importance that it will reach and stay static thereafter.

- 12 % of procurement decision makers believing that CSR will never become an increasingly important factor when purchasing decisions are made.

RESULT'S BREAKDOW OF 'average' FOUND.

On average procurement decision makers believe that CSR will become an increasingly important factor in 15 months time when making their purchasing decisions, and rapidly reducing in importance after 18 months.

- When comparing the average found, procurement decision makers aged 18-34 were the most optimistic citing in 14 months time CSR will become an increasingly important factor when make purchasing decisions. The least optimistic procurement decision makers were 55 and over citing an average of 19 months before seeing CSR become an increasingly important factor when making purchasing decisions.

REGIONAL FOCUS RESULT'S BREAKDOWN BASED ON THE 'average' FOUND.

- When comparing the average found, procurement decision makers across the UK citied in 15 – 16 months time CSR will become an increasingly important factor when make purchasing decisions with the exception of London citing an average of 18 months before seeing CSR become an increasingly important factor when making purchasing decisions.

STATISTICAL BREAKDOWN FOR QUESTION THREE

- ## WHEN DO PROCUREMENT DECISION MAKERS FORESEE THEIR BUDGETS INCREASE?

- Almost half, 40%, of procurement decision makers believe budgets will increase in the next 18 months, with 25% of these procurement decision makers believing budgets will increase in the next 12 months.

- Only 9% believing that budgets will not increase until after 30 months

RESULT’S BREAKDOWN OF ‘average’ FOUND.

- On average procurement decision makers believe budgets would increase in18 months (by July 2010) time when making their purchasing decisions.

- Male procurement decision makers were found to be the most optimistic, believing budgets would increase in 17 months time compared their female counterparts who believed budgets would increase in 19 months time.

REGIONAL FOCUS RESULT’S BREAKDOWN BASED ON THE ‘average’ FOUND.

- When comparing the ‘average’ found, procurement decision makers across the UK citied in 1 ½ years time budgets would increase with the exception of the Midlands including the East and West, citing budgets would not increase until 20 months time.

STATISTICAL BREAKDOWN FOR QUESTION FOUR

- IN LIGHT OF THE CURRENT ECONOMIC CLIMATE HOW HAVE PROCUREMENT DECISIONS MAKERS PLANNING TIMES CHANGED WHEN MAKING PURCHASING DECISIONS IN THE NEXT 12 – 24 MONTHS?

- 46% of procurement decision makers predict there will be little change in planning times in the next 12 – 24 months.

- 19% of procurement decision makers predict planning times will be reduced, compared to 12% who predict an increase.

- 13% of male procurement decision makers predict planning times would increase compared to 24% of their female counterparts who believed planning times would reduce.

REGIONAL FOCUS RESULT'S BREAKDOWN.

- Scotland and Northern Ireland (42%), Midlands including the East and West (40%) and Wales and the South West (39%) had the highest percentage of procurement decision makers believing there would be little change to planning times.

- The East of England and the South East outside of London were the least optimistic with 26% of procurement decision makers believing planning times will be reduced.

STATISTICAL BREAKDOWN FOR QUESTION FIVE

- WHAT DO PROCUREMENT DECISIONS MAKERS BELIEVE ARE THE MOST IMPORTANT ADDITIONAL FACTORS COMPANIES SHOULD OFFER IN ORDER TO WIN THEIR BUSINESS IN THE NEXT 12 – 24 MONTHS?

Procurement decision makers across the UK believe that ‘quality of service’ and ‘added value at no extra cost’ is the most important additional factors a company should offer in order to win their business.

RANKED IN ORDER OF IMPORTANCE %

1st Quality of product / service – 44%

2nd Added value at no additional cost – 31%

3rd Reputation / brand – 13%

4th Relationships – 6%

5th Award winning status – 4%

6th Dedicated contact – 2%`

REGIONAL FOCUS RESULT’S BREAKDOWN.

- Overall procurement decision makers across the UK ranked ‘quality of service / product’ as the most important additional factor a company should offer in order to win their business.

- When comparing response across the UK regions the largest percentage of procurement decision makers who ranked ‘quality of service first were those in Scotland and Northern Ireland with a 66% selection.

- Whilst those in the North East, the North West, Yorkshire and the Humber consider ‘quality of service / product’ considerably less important with only 35% of procurement decision makers ranking the factor first.

Overall procurement decision makers across the UK ranked ‘added value at no additional cost’ as the second most important additional factors a company should offer in order to win their business.

- When comparing response across the UK regions the largest percentage of procurement decision makers who ranked ‘added value at no additional cost’ first were those in the North East, the North West, Yorkshire and the Humber and the Midlands including the East and West with a 39% selection.

- Whilst those in Scotland and Northern Ireland consider ‘added value at no additional cost’ considerably less important with only 9% of procurement decision makers ranking the factor first.

Overall procurement decision makers across the UK ranked ‘reputation / brand’ as the third most important additional factor a company should offer in order to win their business.

- When comparing response across the UK regions the largest percentage of procurement decision makers who ranked ‘reputation / brand’ first were those in Scotland and Northern Ireland with 16% followed closely by London with an 11% selection.

- Whilst those in Wales and the South West consider ‘reputation / brand’ considerably less important with only 4% of procurement decision makers ranking the factor first.

Overall procurement decision makers across the UK ranked ‘relationships’ as the forth most important additional factor a company should offer in order to win their business.

- When comparing response across the UK regions the largest percentage of procurement decision makers who ranked ‘relationships’ first were those in East of England and the South East outside of London with an 11% selection.

- Whilst those in London consider ‘relationships’ considerably less important with only 2% of procurement decision makers ranking the factor first.

Overall procurement decision makers across the UK ranked ‘award winning status’ as the fifth most important additional factors a company should offer in order to win their business.

- When comparing response across the UK regions the largest percentage of procurement decision makers who ranked ‘award winning status’ first were those in Wales and the South West with a 7% selection.

- Whilst those in the East of England and the South East outside of London, Scotland and Northern Ireland considering ‘award winning status’ considerably less important with only 2% of procurement decision makers ranking the factor first.

Overall procurement decision makers across the UK ranked ‘dedicated contact’ as the fifth most important additional factor a company should offer in order to win their business.

- When comparing response across the UK regions the largest percentage of procurement decision makers who ranked ‘dedicated contact’ first were those in Wales and the South West with 5% followed closely by those in London with a 4% selection.

- Whilst those in the East of England and the South East outside of London consider ‘dedicated contact’ considerably less important with only 1% of procurement decision makers ranking the factor first.