

KDD021 - Buyer Performance Measurement

Status	Approved
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Issue

Syensqo in Belgium cross-charges the global divisions approx 150M EUR (Tax savings of ~20M EUR) per year for the services of the global Buyer team.

This charge is based on a calculation of the strategic benefits this team brings to the divisions. The Buyer team views the market, chooses targets and negotiates better prices and payment terms on strategic contracts on behalf of other businesses in the Syensqo group. The benefit obtained through these actions is then cross-charged to the local market. As this leads to a fully consistent profit retribution across countries and is audited by tax authorities to ensure it is fair and realistic. The same benefits calculation also drives performance related pay for the Buyers and this helps justify the calculation with the tax authorities.

Currently the calculation is done in Convergence using manually entered and maintained data.

Convergence is a standalone tool and the data is estimates of savings from discounts achieved in negotiations, not actual supplier performance based on transactions in the ERP system.

Convergence is a highly customised system created by Syensqo out of Salesforce and so does not fit into the standard and simplified approach of the Sy-Way Project.

This document evaluates the opportunities

- to improve the buyer performance tool by using actual data and integrated tools to give a wider view of buyer performance
- to reduce manual tasks by automating the gathering of data and the calculation by taking data from S/4
- to enable the decommissioning of this customised standalone system

Recommendation

After evaluating the available options, **Option 3 is recommended:** leverage SAP S/4HANA's standard tools, KPIs and reporting capabilities to automate and integrate the Buyer Performance Calculation process. However, Syensqo should retain the current formula logic used in Convergence without modification at this stage.

This approach enables the organization to:

- Decommission the standalone Convergence platform, reducing reliance on customized legacy tools;
- Improve auditability by linking calculations directly to actual ERP transaction data;
- Automate manual processes, reducing effort and error risk in data entry and validation;
- Preserve internal alignment, as the current formula drives performance-based remuneration for the Buyer team and supports intercompany recharges.

By replicating the current logic in a custom-developed report within S/4HANA, the business maintains continuity, avoids disruption and gains the foundational capability to incorporate additional performance metrics in the future.

Background & Context

Syensqo Belgium manages a global procurement function that negotiates contracts — including pricing, payment terms, etc. — on behalf of other GBUs and legal entities within Syensqo.

The entity charges other Syensqo entities for these services based on a calculated “value” of performance. Their “value” of their performance and the work they do for the rest of the company is a complex calculation based on

- Cost Reductions agreed on any contracts (whether value based, volume discounts, rebates etc)- taking into account inflation etc
- Cash impact of any increased payment terms agreed
- Spend reduction due to volume reductions

The methodology used to determine this “value” must comply with tax regulations and is subject to periodic audits by tax authorities and therefore it requires a lot of manual effort and data entry - users have to actions they took to obtain the benefits and data has to be maintained at a commodity level.

No other metrics, such as actual performance, OTIF (On Time, In Full) delivery by suppliers against contracts, off-contract spend, etc. are tracked.

This value calculation is used to do two things

- The reduction is used to prove the business value that the Procurement Team are bringing to the global divisions and calculate a value to charge the divisions for the provisions of this service. This charge therefore has tax implications and may have to be justified to tax authorities.

- To calculate the Buyer Performance related pay to be paid to Buyer teams.

The calculated “value” is entered into a standalone tool within Convergence by the procurement team and is reviewed and approved by Finance Controllers. This data is stored in Convergence which has some weaknesses

- Its a standalone tool where the data has to be entered manually and does not integrate into any other tools
- It only estimates the value of the discounts by projecting the estimated savings from the new contracts rather than the actual savings achieved.
- Its does not take into account supplier performance (on time deliveries, correct quantities, quality adherence)
- It cannot extend its coverage and track future supplier performance on things like sustainability.

Below are the value creation measures and their calculation logic.

View	Measure Definition	Calculations
<i>COST</i>	•Price reduction compared to previous year	• Price (Current Year) – Price (Previous year) * Volume (Current Year) • Volume (Current Year projected) – Volume (Previous Year) * Price (Current Year)
<i>CASH</i>	•Increase of cash compared to last year	• Payments Days (Current year) – Payment Days (Previous year) * Spend (Current year projected) • Total Inventory value (Previous year) – Total Inventory Value (Current year)
<i>PERFORMANCE</i>	•Cost avoidance compared to last year •Cost avoidance on spot purchase •Cost avoidance non-CAPEX •Claims/take or pay/avoidance of contractual penalties	• Previous year weighted average price x Market Index – Current Year Price) x Volume (Current Year) •Average of qualified offers (>=3 bids) - Price negotiated * Volume (Current Year projected) • Minimum contribution generated - Extra cost * Tolling volume (Current Year projected) • Final number of days of payment term - Initial number of days of payment term * Spend (Current year projected)
<i>COST + CASH + PERFORMANCE</i>	•Sum of all above-mentioned rules & benefits	• Sum of all the benefits

Source of data and validity

The data that is entered into Convergence based on the contracts and the associated discounts/reductions that they have setup for the coming year; this is purely forecast data looking ahead for the expected discount, and does not look at the actual lowered prices paid on the POs created against the contract, nor does it look at supplier performance.

The data is entered manually by Procurement staff but is verified by Finance staff checking the expected discounts.

The current approach evaluates supplier performance on a limited metrics - how much they were able to save on the contracts they negotiated in the current year - and neglects other metrics which could provide a more comprehensive view of performance.

Significance and credibility of the tax reducing recharge to the global businesses

The calculation lets Syensqo charge a benefits based cost to the global divisions ensuring that they correctly calculate their full costs, ensuring local profits are correct and consistent with the tax they pay. This represents a significant amount (20M EUR) and is checked and validated by tax authorities, the most recent being Germany and France. If the Convergence tool is to be replaced it must be replaced with something that will be equally or more credible to the tax authorities and likely produce a similar benefit calculation to the historical average. Using actual SAP transaction data should help with the credibility but the nature of the calculation is complex

Future opportunity to widen the information used on the performance evaluation

There is other data available that could be used to widen the criteria of the performance measuring adding in factors in the future such as

- The SAP S/4HANA system holds data on actual Supplier Performance - on time deliveries, correct quantities, quality of materials
- The SAP S/4HANA system holds data on actual prices paid
- The wider market can be used to provide benchmark data on inflation and other factors that may cause price decreases
- Future requirements - sustainability ratings of suppliers, adherence to EHS standards

This would tie the benefit calculation/recharge, and the buyer performance pay to wider organisational goals.

Assumptions

- The Recharge Calculation to the Divisions will continue to be required, will have a tax impact, and thus need to be justifiable if questioned by tax authorities.
- The Recharge Calculation to the Divisions will continue to be used to drive performance-related pay of Buyers.
- Other reporting tools (eg tools like the Procurement Overview Fiori App) can replace the data used in the Convergence tool using live data from the S/4HANA system based on actual transactions against the contracts.
- The custom report built will be used both for Value creation and as an input to the Buyer performance pay

Constraints

None identified at the time of writing the document

Impacts

Process Changes

Manual calculation and entry of discounts achieved in a non-integrated system will be replaced with automated tools using actual data coming from SAP S/4HANA Reports/KPIs.

Change Management

Changing the mechanics of performance related pay could result in change management effort required within the organisation to change this approach to performance related pay .

Changes to the Cross Charge to Belgium from the global divisions may trigger queries from the local tax authorities.

Business Rules

All the data is consumed from the Source and cannot be manipulated i.e. the values are calculated based on the sourcing events and the payment terms based on the approved bids.

Options considered

SAP S/4HANA can provide this information based on transaction data – including wider supplier performance. Should we use this information to expand the remit of the report/process?

Option 1: Maintain the current process on Convergence

Maintain this As Is process on the current system – as its manually entered data that does not get integrated anywhere else it could have no impact on the S4 HANA implementation..

Advantages:

- No disruption to current operations or need for process changes.
- No potential conflict with staff re performance related pay changes.
- Consistent data approach for Tax Authorities with questions.

Disadvantages:

- Have to continue to maintain Convergence system.
- The performance data is not coming directly from system - so can be inaccurate.
- No monitoring expected performance against real performance data from actual transactions
- Continued effort of manual entry and validation

Option 2: Maintain the current process off system

Maintain this As Is process on spreadsheets to other tools – its manually entered data that does not get integrated anywhere and allows the retirement of Convergence..

Advantages:

- No disruption to current operations or need for process changes.
- No potential conflict with staff re performance related pay changes.
- Consistent data approach for Tax Authorities with questions.

Disadvantages:

- Have to maintain an off system process.
- The performance data is not coming directly from system - so can be inaccurate.
- No monitoring expected performance against real performance data from actual transactions
- Continued effort of manual entry and validation

Option 3: Use SAP Standard tools/KPIs/transactions to generate the report and calculations

SAP standard reports could be used to pull the actual spend data from the system along with actual supplier performance/evaluation. This would widen the remit of the calculation to cover not just anticipated discounts but actual spend reduction, quality and timeliness of delivery and adherence to any corporate standards such as recycling targets etc.

The following data can be pulled from standard Fiori Apps/KPIs and can be used to support the value creation entry by Buyers

- Prices actually paid as per the transactional data in the backend ERP system
- OTIF (On Time, In Full) performance
- % of deliveries failing quality checks
- Price changes against wider market conditions - eg inflation rates faced by benchmark competitors
- Adherence to EHS Requirements
- Sustainability factors - eg amount of waste/packaging recycled, CO2 emissions targets, traceability of recycling/waste

To capture the savings (as is produced from Convergence) would require a custom development

Advantages:

- Links Buyer performance and value of buyers to the company-to-company goals, supplier effectiveness and real pricing achieved not predicted
- Allows for expansion of factors for Buyer performance into new areas in the future (eg supplier policies for DEI, reduction in master data errors, performance in cost reduction against industry benchmarks)
- Could leverage better reporting tools in and integration with S/4HANA to drive business benefits
- No need for manual entry and validation of data

Disadvantages:

- To get a single tool to produce the calculation would require a custom development

Evaluation

Based on the evaluation of the options, it is recommended that the organization utilise improved reporting tools that integrate with the ERP system to add actual transaction data and other factors beyond simple contract price reduction into the Buyer Performance Calculations.

The change and effort will be in the change management area as this has the capacity to affect Buyers performance related pay – particularly the change from a forwarding looking approach running on Predicted Savings from Contract engagement to a backward looking approach looking at Actual Savings and real-world performance.

	Option 1 Maintain the current process on Convergence	Option 2 Maintain the current process off system	Option 3 Use SAP Standard tools/KPIs /transactions to generate the report and calculations
Data integrated with actual transactions, no manual entry	NO	NO	YES

Can Align Buyer performance to wider organisation goals (eg Sustainability)	NO	NO	YES
Measures actual supplier performance, not only discount	NO	NO	YES
Impact on Cross Charging and tax calculations	NO	NO	YES
Impact on performance related pay	NO	NO	YES

See also

There are other KDDs related to the use of the Convergence tool and the possible options to improve the processes using other tools

Doc Link
KDD033 - Procurement Contract Authoring
KDD002 - Procurement Contract Lifecycle Management

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Approved	 NARAHARI-ext, Bhargavi	State	changed state to Approved at 1:30 pm	v46
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