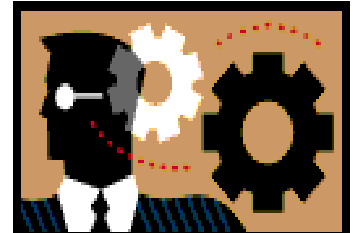




**Welcome to Transform**, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



## Show me the money:

*Organisations can discover the missing link to improving the bottom line through cost transparency and control*

A guide for CEO's, CFO's and CPO's to go beyond the data to secure bottom-line- savings

What's in it for you? Improved financial performance, greater control and reduced risk

Reading time: 15 minutes

### Introduction:



CFO's everywhere dream of being able to reduce cost by millions of dollars, not on a onetime basis, but to keep doing so to deliver additional year on year savings. However, during the last up-cycle, most CEOs focused on driving revenue growth as a means of increasing EPS (earnings per share) and often ignored or neglected the development of cost side capabilities.

This changed during the recent recession when procurement organisations everywhere were expected to deliver rapid and significant savings to help their organisations survive. Now, as we edge tentatively into the next up-cycle, CEO's & CFO's are keeping the pressure on CPO's and looking towards procurement to continue to deliver significant cost and value benefits.



For CPO's everywhere there is an increased focus on spend visibility. Spend visibility provides a window on savings, and spend analysis is the gateway to strategic sourcing that captures the targeted savings.

## Beyond Spend Visibility Towards Transparency

Insufficient visibility into spending is a global corporate pandemic, resulting in large scale inefficiencies and lost value. Achieving spend visibility can therefore provide significant competitive advantage to those companies that learn how to leverage it, especially in highly competitive industries. By using fact based intelligence, it enables companies to "out-maneuver" their competitors by leveraging supply markets to lower cost and access external sources of innovation that can drive growth. Unfortunately, organisations find the achievement of spend visibility difficult due to:

- Fragmented data across multiple ERP and accounting systems
- Accounting systems were never designed to support sourcing activities
- Business Warehouse data is typically tied to ERP system with the same accounting based hierarchies which are not appropriate to procurement and sourcing

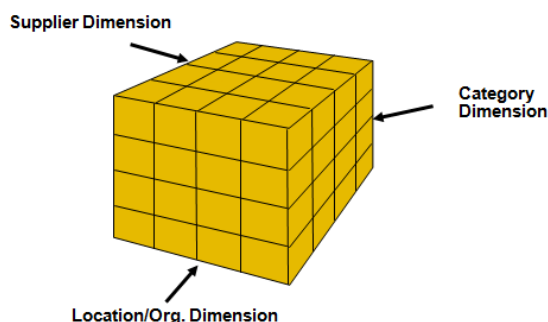
To overcome these difficulties, procurement needs systems and resources to convert disparate sources of data into practical supply market facing procurement intelligence.

### Fact based decision making:

Spend visibility provides three key stakeholder groups with valuable management information from which to make fact based decisions:

- Executive Leadership: to drive strategic direction
- Managers & Finance: to analyse spend data in specific areas of interest or monitor payments
- Procurement: who need to locate, drive, and monitor the next set of savings initiatives

**Fig 1: Spend Figures can be viewed at the intersection of any combination of cube dimensions**



For each group the same data must be converted to practical information, for example; executives require broad based information, while procurement needs greater detail to drive specific category sourcing decisions.

*“Spend visibility provides a window on savings, and spend analysis is the gateway to strategic sourcing that captures the targeted savings”*



## Spend Analysis

Spend analysis precedes strategic sourcing and creates the foundation for spend visibility, compliance, and control. It organises spend via defined dimensions (see Fig 1) to create a cube, such as category and supplier etc in order to:

- Develop a true category spend baseline
- Identify strategic sourcing opportunities
- Identify opportunities through increased compliance, maverick spend control and contract compliance etc

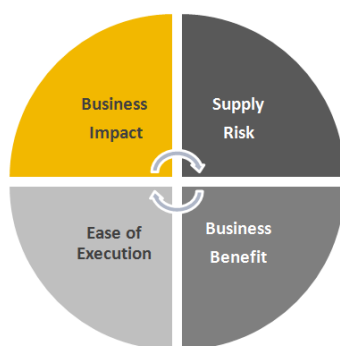
However, implementing spend analysis is not easy and takes significant effort and commitment in order to overcome the challenges, especially the first time spend analysis is attempted. Challenges over and above those already detailed include:

- Spend Knowledge: many organisations do not understand the challenges in dealing with fragmented data or don't have knowledge of supply markets to map spend across the organisation.
- Executive Support: is critical to obtain the necessary budget and resources.
- Advanced Analytical Capabilities: These are required to extract and cleans data to perform the spend analysis. It requires highly capable people skilled in the use of advanced analytical tools.

Once Spend Analysis has been successfully completed, there are a number of tangible actions that follow with regard to developing sourcing strategies. These actions include building category specific datasets, identifying areas for demand management, monitoring contract status, detecting fraud, and conducting an opportunity assessment.

***“To conduct a strategic level opportunity assessment, procurement personnel must understand their own organisations business strategy”***

Fig 2: The four dimensions of opportunity assessment



## Opportunity Assessment

To conduct a strategic level opportunity assessment, procurement personnel must understand their own organisations business strategy. Further, the senior executives must accept that sourcing:

- decisions are strategic and can drive significant organisational change and ;
- strategy should directly support long-term goals



With these conditions in place, in addition to financial information, an opportunity assessment should cover all of the non-financial information that is required for good business decision making such as:

- Governance around the process or category
- Degree of market difficulty
- Risk exposure to the business
- Important contract considerations
- Procurement management penetration
- Complexity and dynamics of the category business requirements

***“The sourcing strategy systematically identifies sourcing initiatives as an integral part of the business planning process”***

The opportunity assessment itself should be conducted around four primary dimensions (Fig 2).

All too often such a rigorous assessment is not conducted, which represents a major loss of value to shareholders and stakeholders alike. A rigorous opportunity assessment provides the critical information necessary for the prioritisation of sourcing programmes which create value via an effective sourcing strategy.

## **Sourcing Strategy**

A sourcing strategy answers, at board level, questions relating to strategic cost and risk management on two levels:

- Business Process Level : which processes should or could be outsourced to a service provider (or centralised internally via a shared services model) and those which should stay in house, based upon long term business objectives (Insource – outsource)
- Category Level: The priorities for sourcing or resourcing categories from external suppliers

The outputs are identified business processes that could better support business objectives by being sourced differently and an ongoing programme of sourcing activity for all categories of externally sourced spend.

The sourcing strategy systematically identifies sourcing initiatives as an integral part of the business planning process. It should address the business case, governance, change strategy, risks and opportunities and organisational readiness. The major benefits to this approach is to have a coherent plan for:



- Making the organisation more competitive
- Increased agility
- Integrating the core competencies of external suppliers in achieving business goals
- Supporting business growth
- Optimising cost

The impact, positive or negative, of a sourcing strategy on the organisation is significant and so must be carefully aligned to the achievement of business objectives.

### Developing a sourcing strategy?

In order to develop a successful sourcing strategy for a business process or category, procurement needs to understand the role and objectives of each in supporting business strategy. Procurement must also assimilate knowledge from external markets and bring these together to form a unified sourcing strategy, Fig 3. The sourcing strategy then defines in a series of mini business plans, how the business process and category strategy will meet the ongoing targets, goals and objectives of the business.

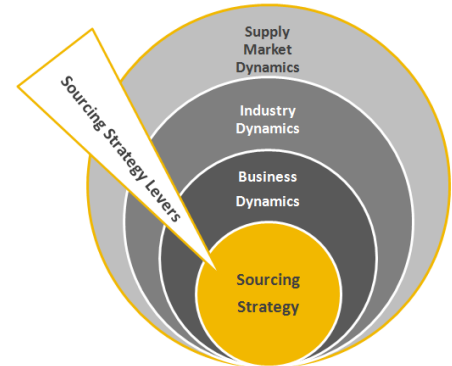
The sourcing strategy must therefore provide a core framework, yet be flexible enough to adapt to changing business demands. It must facilitate agility, led by business drivers and address real problems to deliver tangible business benefit from systematic strategic sourcing and supplier management initiatives.

### Strategic Sourcing - good for your business?

Savings in the range of 5 to 25%, and in some cases more are achieved by applying four key attributes:

- **Process Clarity:** provides the execution discipline to handle key sourcing decisions
- **Analytical Rigor:** provides fact-based information to determine company requirements, supply market capabilities, market engagement strategies, supplier selection methodologies and negotiation strategies to ensure maximum value is obtained from supply markets.
- **Total Costs Approach:** by going beyond price and addressing quality, service, delivery and all other components of total costs or value
- **Broad based Decision Making:** the decision to award a contract is not made by procurement in isolation. Decisions are cross-functional, and in the most advanced organisations subject to strict governance controls that ensure any contract award meets organisational goals.

Fig 3: Sourcing Strategy Dynamics





These four attributes highlight the primary distinctions between strategic sourcing and traditional purchasing and identify some of the underlying challenges faced during implementation.

### **Implementing the Strategic Sourcing Mandate**

A highly visible and active commitment by senior executives is mandatory for success. Without it, little will change, sustainable results will not accrue and disillusionment will rapidly set in, both in the wider organisation and amongst procurement staff. The necessary executive commitment must cover at least the following:

- Mandating procurement accountabilities that support the *'desired state'* model, objective analysis and recommendations for the organisation as a whole, eliminating *'no go areas'*.
- Investing in high-quality, sourcing talent to manage and lead the programme.
- Actively supporting compliance with sourcing contracts and terms.
- Visibly endorsing the strategic sourcing programme in employee and management meetings, company publications and, where appropriate, external media.

Also, the ability to craft a change plan that drives change at a pace that the organisation can readily digest, gain cross-functional credibility through early successes or even injecting a catalyst for change by utilising experienced external consulting can be an important factor in securing momentum for change.

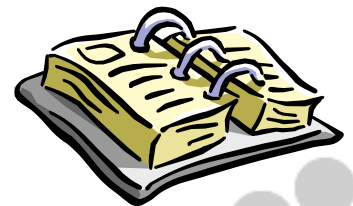
### **Implementation Roadmap**

When an organisation commits to implementing a strategic sourcing change programme, there is a *'window of opportunity'* for those leading the change. This window will close in six months or less unless the senior executive sees a roadmap for change and the functional heads have a clear understanding of the benefits to their respective functions. This roadmap must be ratified by the executive as the vehicle for change.

Visit the **Buying Magician Blog**: [Don't let the tail wag the dog](#)

### **From the Negotiating Table into the Bank**

To effectively [capture savings](#) you need to be able to measure the results achieved against the original plan. This requires commitment, which without, you are unlikely to fully understand why savings were or were not achieved, or maximise their capture. To address this the most sophisticated organisations:

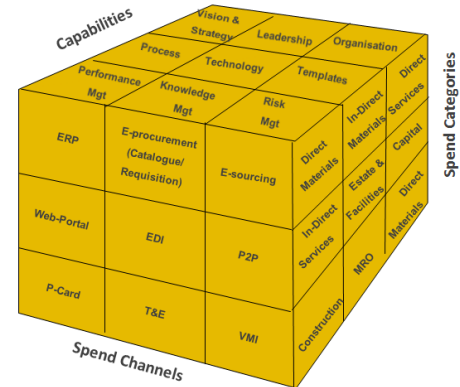




- Measure results achieved and identify the areas of leakage
- Implementing compliance measures that are easy to track/review
- Set savings targets integrated into managers performance review

Effective performance management and tracking systems enable variances to be categorised to changes in; volumes, what was purchased, and the suppliers you said you would purchase from. Take corrective action to stop leakage or ensure financial results and expectations are realistic and explainable from the use of fact based information. Only by developing the capabilities to effectively control the channels applied to each category of spend can an organisation maximise savings capture, Fig 4, and ensure negotiated savings move from the negotiating table and into the bank.

**Fig 4: Organisational capabilities drive savings capture**



## Conclusion

The power of strategic sourcing is compelling. For some organisations the impact of a 10% reduction in the cost of goods and services is the equivalent of increasing revenues by 25%. Unfortunately, many of the benefits don't show up in the bottom line due to 'leakage'. This occurs because the capabilities necessary to convert contracted savings into realized savings are not developed.

Whilst savings is a major benefit, it is not the only benefit from strategic spend management. It also provides a focus for operational excellence via improvements in internal and external compliance, process efficiency, reduced inventory & cycle times, faster delivery, higher quality and increased innovation.

It provides a systematic, approach to managing cost strategically especially when applied as part of developing a core organisational capability in supply management (SMCC). It is the means to deliver the year on year savings so desired and sought after by CFO's everywhere, and does so with little risk and quick results. Such capabilities, increasingly differentiate those organisations able to compete effectively and remain in charge of their own destiny from those who will fall prey to more agile, able competitors.

## For More Information

Purchasing Practice Inc can work with your organisation to develop a strategic procurement capability that will add value and positively affect your top and bottom line. [www.purchasingpractice.com](http://www.purchasingpractice.com)



**purchasingpractice**  
Corporate procurement made simple

## **Purchasing Practice –Corporate Procurement made Simple**



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

**We can help your organization “make change happen” in procurement. Our services include:**

**Transformation Management:** We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

**Spend Analysis:** We provide spend transparency to our customers as part of our broader service offering, and this data can then be utilized to perform an opportunity assessment on the mapped data, pointing out potential areas for savings.

**Opportunity Assessment:** By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

**Sourcing Management:** Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

**Category Management:** We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

**Supplier Relationship Management:** We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

**Mergers & Acquisitions:** We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

**Private Equity:** Working across your portfolio of companies we will drive value from procurement across business units

**Interim Procurement Solutions:** We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

Call us on 001 778 988 1052 (North America) or on +44(0) 1525 403862 (UK) or alternatively email us at [info@purchasingpractice.com](mailto:info@purchasingpractice.com) to schedule a consultation.

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