ZYCUS™



SPEEDING UP PROCUREMENT SAVINGS WITHOUT THE FEAR OF CRASHING

INTRODUCTION

Wouldn't it be interesting to speed up your car and unleash your adrenaline without the fear of crashing? Quite an adventure and surely an absolute thrill, isn't it? But hey, we know that it is an impossible feat. If we are not in command of our speed, we won't be in a position to call it an adventure that's purely enjoyable.

In procurement too, we need to be in command of our savings. In this spree of savings, we can't lose sight of various risks that turn up unprecedented. So, how do we speed up our savings and yet be mindful of risks? In this whitepaper, we'll learn about:

- Defining Savings in Procurement
- Ways to Identify & Capture Savings
- How Risks Affect Procurement Savings
- Steps to Mitigate Risks that Affect Procurement Savings

DEFINING SAVINGS IN PROCUREMENT

Two concepts of savings that rule procurement are Cost savings & Cost avoidance that interchangeably aims to improve the bottom line of the company.

In a scenario where a buyer can save from a projected cost and put the money back in his budget and spend, we call it Cost Savings. In comparison to this, Cost Avoidance typically implies "Soft savings" made possible through controlling costs and considering "value-added" services.

If you are worried about Cost Savings in your organization, be assured that there are many organizations dealing with the same. According to Zycus' "Pulse of Procurement 2018" annual research report, 54% of procurement leaders prioritize Cost Savings as their key-focus area[1].

Cost saving methods and approaches also differ by spend categories. For example, if the current category cost is known and the new price is lower than the

[1] Source: Pulse of Procurement – 2018, Zycus

known price of the existing category, then the value is clear. But if we reverse the scenario, wherein the current category (a new product, service or technology) cost is not known, an organization must devise an approach to capture both cost savings and cost avoidance.

WAYS TO IDENTIFY & CAPTURE SAVINGS

In procurement, identifying and capturing savings from hidden opportunities is not a very difficult task. Here are 5 steps in which organizations can identify as well as act upon the opportunities in the categories that have less visibility within an organization because of historical mismanagement, usage of too many suppliers, and procurement of these categories at higher than benchmark prices.

Step 1: Mine Procurement Information

The good thing is organizations are now clever enough to come out of manual processes and opt for some digital procurement capabilities that improve decision making & efficiency (Fig 1). This is very helpful in identifying opportunities for cost savings and cost avoidance. But there's still a challenge as the ground reality informs of poor data quality which is often difficult to comprehend because of unfurnished data nomenclature, material coding, item description, etc. Thus, data that isn't uniformly classified will not provide sufficient insight until it is set right.

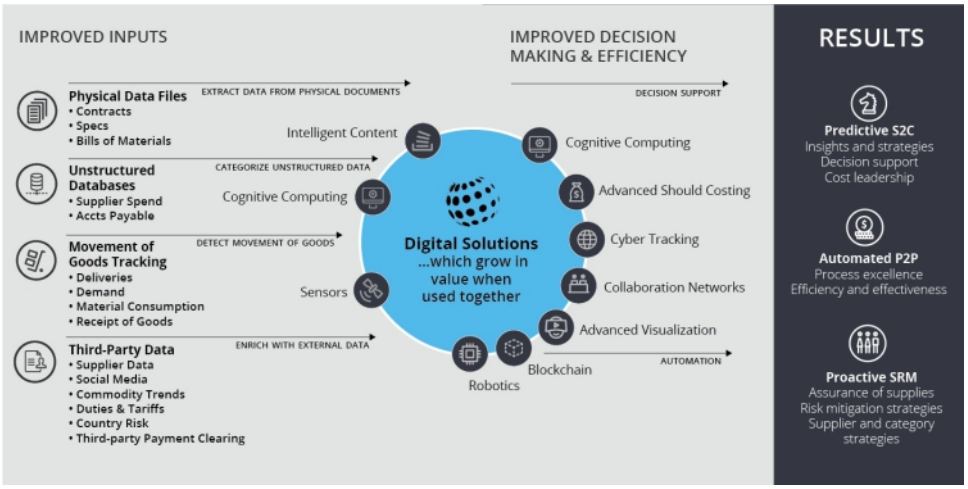


Fig 1. The Future of Procurement in the Age of Digital Supply Networks, 2017, Deloitte

Step 2: Classify/Categorize Procurement Information

A clear description of what is bought, assigning it a correct category and providing supplier information helps in transforming raw data into actionable information. For example, in large organizations, purchase of an office laptop is categorized under "Office Supplies" in one location, it should be the same across other locations as well or a centralized data-entry operation has to be observed. Otherwise disparities arising from inaccurate categorization can convolute the cost saving harvesting process. Adopting a uniform code like United Nations Standard Products and Services Code (UNSPSC) can be a good start.

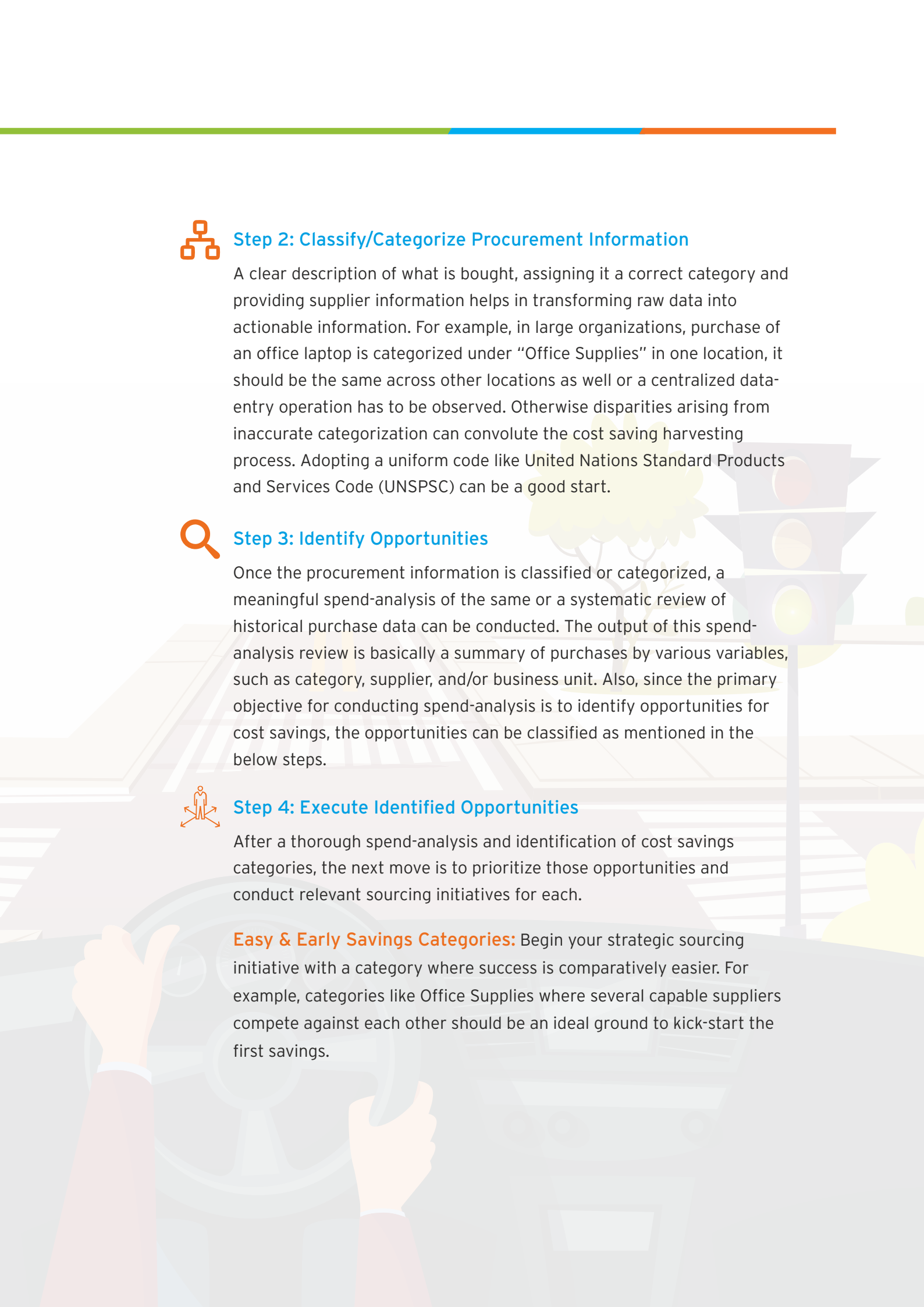
Step 3: Identify Opportunities

Once the procurement information is classified or categorized, a meaningful spend-analysis of the same or a systematic review of historical purchase data can be conducted. The output of this spend-analysis review is basically a summary of purchases by various variables, such as category, supplier, and/or business unit. Also, since the primary objective for conducting spend-analysis is to identify opportunities for cost savings, the opportunities can be classified as mentioned in the below steps.

Step 4: Execute Identified Opportunities

After a thorough spend-analysis and identification of cost savings categories, the next move is to prioritize those opportunities and conduct relevant sourcing initiatives for each.

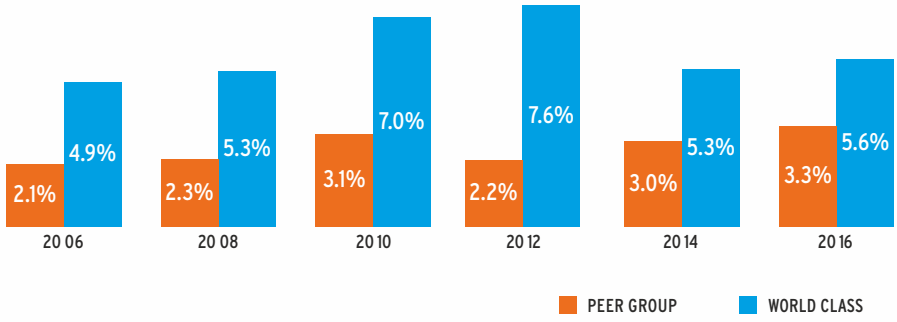
Easy & Early Savings Categories: Begin your strategic sourcing initiative with a category where success is comparatively easier. For example, categories like Office Supplies where several capable suppliers compete against each other should be an ideal ground to kick-start the first savings.



Late Savings Categories: Complex categories like health benefits, advertising, travel, and fleet services, etc. are hard grounds for savings realization which take time. While some of these categories may require a very careful consideration of supplier selection to avert any kind of risk, some will be pretty straightforward.

World class companies that use advanced sourcing solutions have a reputation of yielding higher cost-savings in comparison to the peer groups using comparatively primitive methods (Fig-2). An e-Sourcing tool is the cleverest way of reaping the maximum from each stage of sourcing that includes:

- Sourcing planning
- Event creation
- Supplier Evaluation and Award scenarios



Source: The Hackett Group, 2016

It is an e-sourcing solution that will help you reduce sourcing time, sourcing process complexities and increase the potential to generate savings from your current processes. An ideal e-sourcing application can be seamlessly integrated with a Spend-Analysis solution, thereby being a great spend-data value enabler.

Step 5: Calculate your Savings

The typical way of computing cost savings is to subtract the new price from the baseline price and multiply that difference by the current year's estimated quantity.

Cost Savings = (Baseline Price - New Price) x Estimated Quantity

This is generally a decent place to begin. However, there are some potential adjustments an organization may consider to tone up its cost savings.

- First, avoid predictions and provide savings calculations which are accurate and actual.
- Second, as quantities change from year-to-year, consider how cost savings is claimed. For example, if there is a 50% increase in your quantities from last year to the present, with pricing going down by only 5%, it implies that the organization is still buying more than last year. To report actual savings, change in quantity should be compromised with the change in prices.
- Calculate savings on a year-on-year basis by comparing average prices from the previous year with that of the current year and state the quantum of savings.

HOW RISKS AFFECT PROCUREMENT SAVINGS

Now that we know how to identify and capture savings in procurement, we must focus on the risk part of it. Lured by the savings projections, organizations often end up paying for goods/services only to realize later that they have invited home risks that are detrimental to the growth of business. Some of the supplier-related risks that affect savings in Procurement include:



1. Supplier's failure to secure trade finance results in additional costs of finding a new supplier
2. Compromise in quality leading to product recalls that affect sales and the top line
3. Gradual decline in supplier performance (cost, service, response time) increases production & delivery overheads
4. Supplier's failure in supporting new product/services delays delivery and impacts sales
5. Sudden increase in price, refusals of order, or even cancellation of existing contract to command new pricing are unjust costs to any organization
6. Lack of transparency in supplier practices to cover for violations of immigration law, sweatshop conditions, untenable tax evasion or environmental hazard incur litigation costs
7. Loss resulting from theft of sensitive/private data from supplier's end is certainly a financial damage

5 STEPS TO MITIGATE/MANAGE RISKS THAT AFFECT PROCUREMENT SAVINGS

Five foundational practices to mitigate/manage supplier risks that affect Procurement savings are as follows:

Cross-functionality of Risk Management encourages separate areas of an organization to assess and develop their own risk mitigation strategies to defend the company's overall savings objective. The resilience built in this scenario is stronger enough to defend the organization in the event of an exposure to unpredicted supplier risk.



Aligning Risk Management Activities is crucial to obtaining support from the business for the new or revised process. Whether it is safety, security or a business-continuity platform, the question to answer is 'What we are trying to save'? This helps businesses to express which operations and metrics the risk management activities need to be aligned with.

Leverage Supply Chain Intelligence to identify and categorize potential supplier induced risks that may affect your savings by their frequency and severity. Supply intelligence helps reckon, "Where and why is a business at risk and how high or likely is it?" In this scenario, both internal and external risks need to be factored in to prepare a complete documentation so that all key stakeholders are aware of the possibilities.

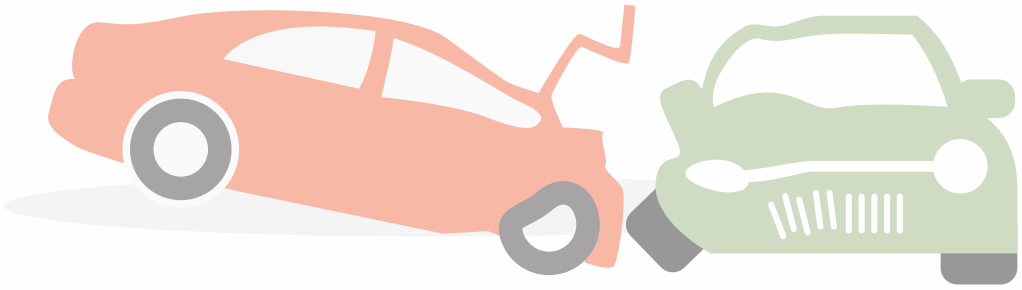
Risk Mitigation Preparedness & Contingency Planning is necessary to reduce the frequency and severity of impending risks. Being aware of risk position, associated costs, and timelines for recovery, the organization is able to guard its savings intention which includes cost avoidance too. For this, continued visibility to the issue and updating procurement's scorecard can help collective focus on risk management.

Track Progress of Changes Implemented & Benefits Realized: Given that the ultimate success of a risk management system is in helping an organization avoid/minimize risks and impact the top and the bottom lines and value of market shares, it is a recommended practice to keep a documentation of progress to further leverage it in continuing the momentum.



CONCLUSION

Overcoming lack of data uniformity to drive cost savings and avoidance is undeniably a gargantuan task. It gets more worrisome when unstudied risk-factors are hanging lose overhead. But with the right implementation of technology and by following the above steps in identifying & capturing procurement savings with dexterous control over supplier risk management, procurement will be in the right speed to win the bottom line for its organization without any fear of midway crashing.



About us

Zycus is a leading global provider of complete Source-to-Pay suite of procurement performance solutions. Our comprehensive product portfolio includes applications for both the strategic and the operational aspects of procurement - eProcurement, eInvoicing, Spend Analysis, eSourcing, Contract Management, Supplier Management, Financial Savings Management, Project Management and Request Management Our spirit of innovation and our passion to help procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotives, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.



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