

Savings Levers in Procurement

How to achieve short- and long-term savings?

21.05.2020 04.06.2020

AGENDA

1. Savings levers introduction
2. Value Engineering
3. Demand management

Where does the Procurement Department adds value

What every CEO wants to know about procurement organisation?

	Average*	Best in class*	Saving levers
Total Expenditures	100%	100%	<ul style="list-style-type: none"> Sourcing & nego Value engineering Process cost Cashflow Demand management
Spend Addressed by Procurement	60,2%	74,2%	
Savings yield	4,2%	8%	
Compliance	82,6%	93,4%	
Procurement Dept. Cost	0,98%	0,4%	

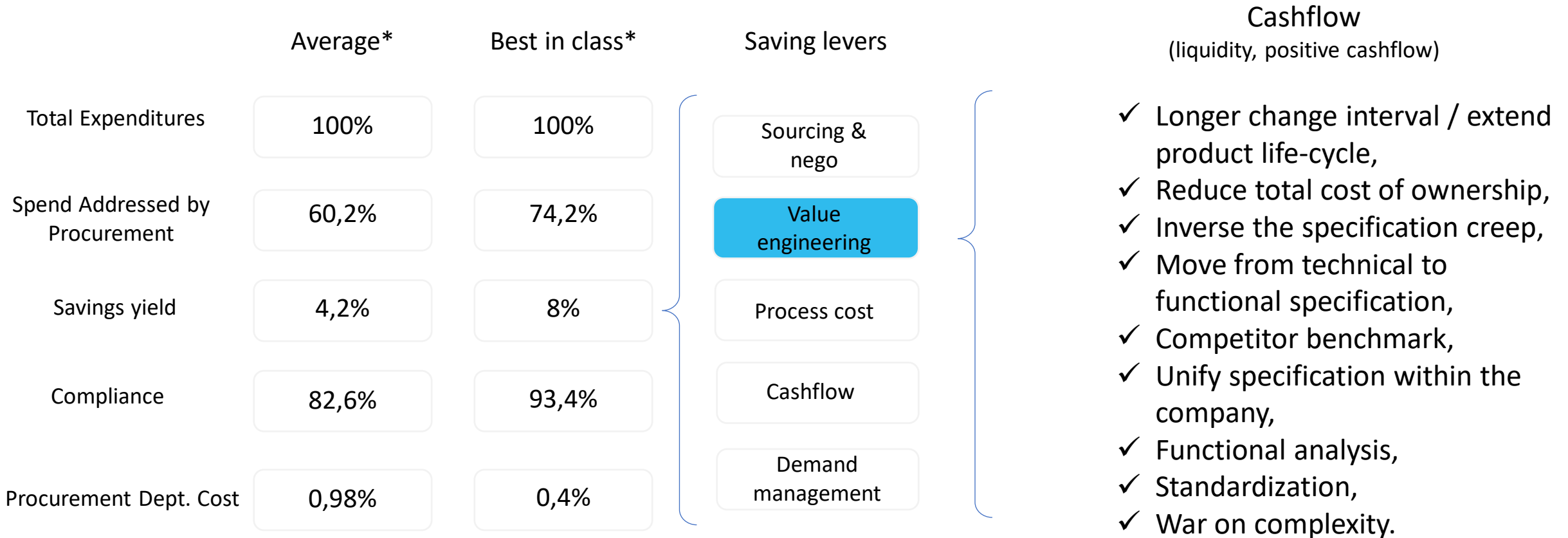
ROI on Procurement should be at around 6 to 8



*based on AT Kearney 2014

Where does Procurement Department adds value

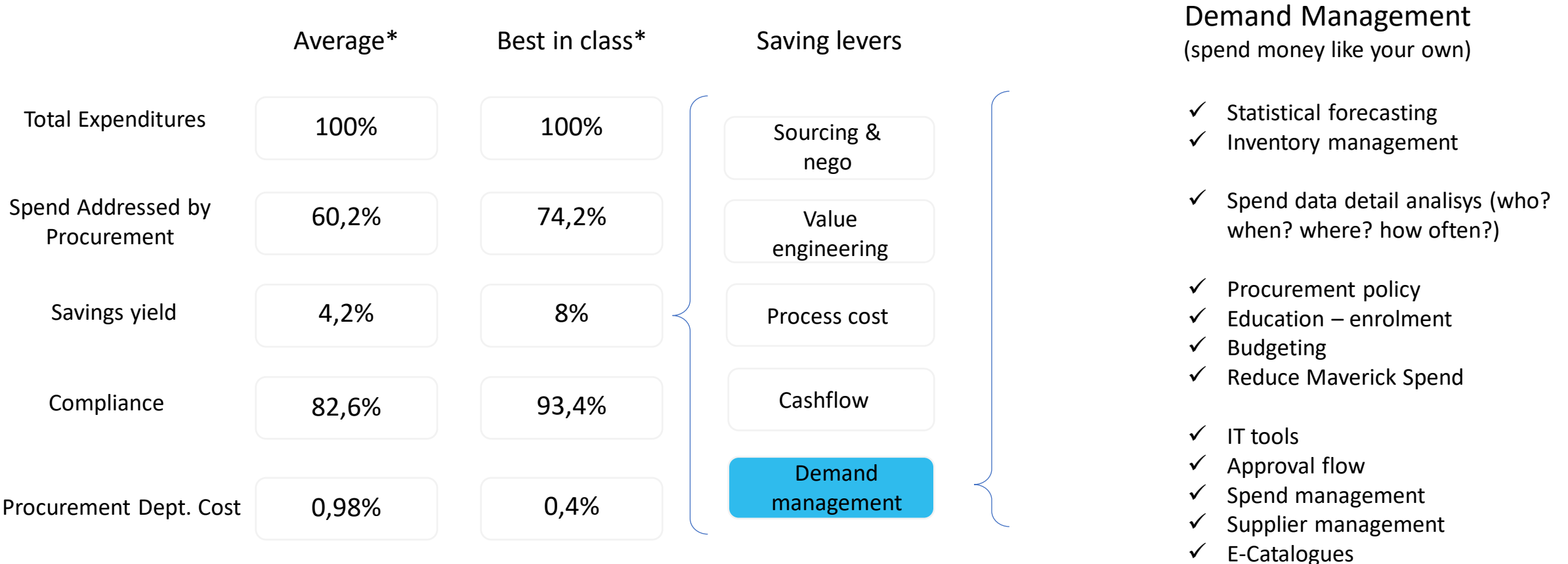
What every CEO wants to know about procurement organisation?



*based on AT Kearney 2014

Where does Procurement Department adds value

What every CEO wants to know about procurement organisation?



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AGENDA

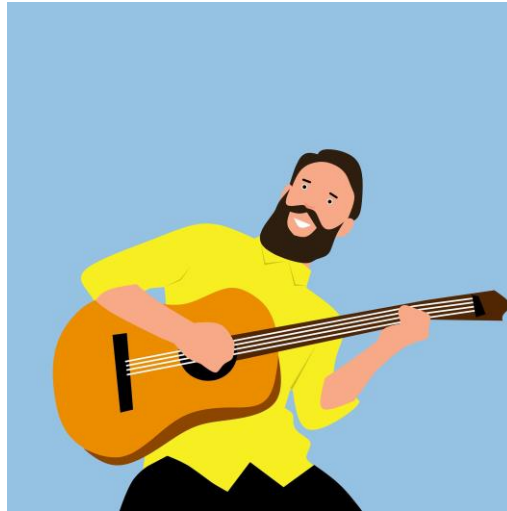
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Specification change: a bumpy road to savings

Before we start: diagnose the business case!

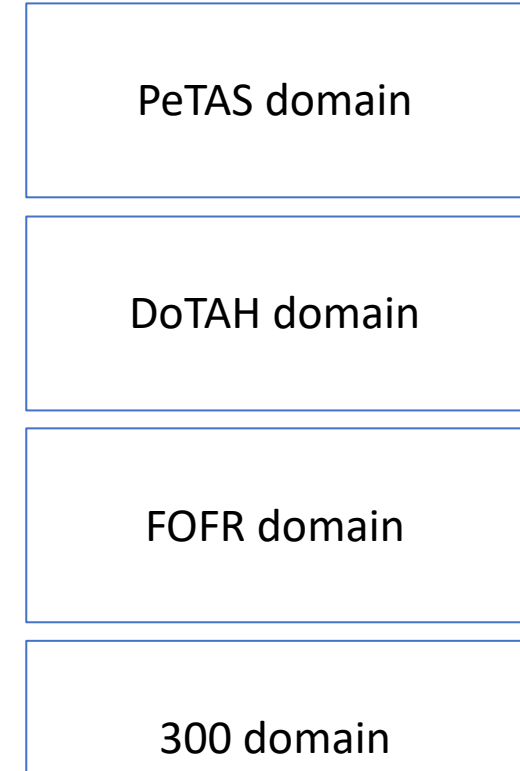
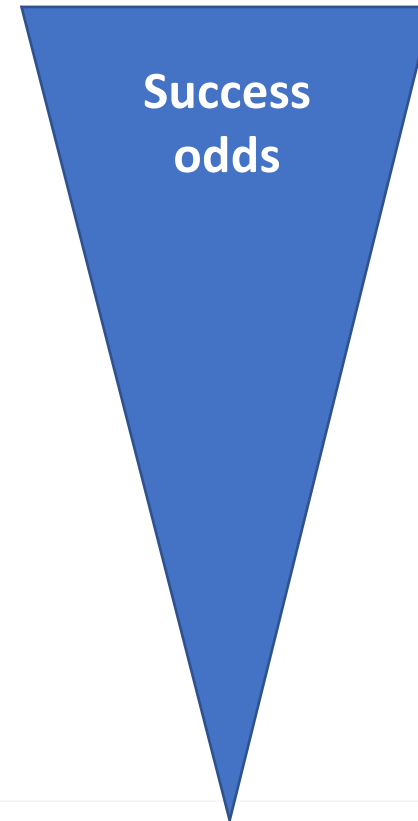
Factor		Which statement describes your current situation?	
Company	Status quo	Enhances	Disrupts
	Top management support	Declarative	Real
	Company risk appetite	Safe bets	Risk tolerant/seeking
	Previous experience with spec. Change	Horrible / Bad	Mixed / OK
Resources	Expected savings	1 %	70 %
	Time-frame	Here and now	We are not in a hurry
	Resources	Missing	Available
	Cross functional team	Inexistent / Inexperienced	Established / Expert level
	Processes	Inexistent	Established
People	Relationships at the project end	Friends	Enemies all around you
	Internal career prospects	Living coward	Dead hero

**Congratulations, if your answers occupy primarily the left side!
Use three levers to generate savings through specification management.**



**And God help you, if you crossed primarily the right side!
You are in for a life full of pain and suffering.**

Specification savings levers:
Longer change interval / extend product life-cycle,
Reduce total cost of ownership,
Inverse the specification creep,
Move from technical to functional specification,
Competitor benchmark,
Unify specification within the company,
Functional analysis,
Standardization,
War on complexity.

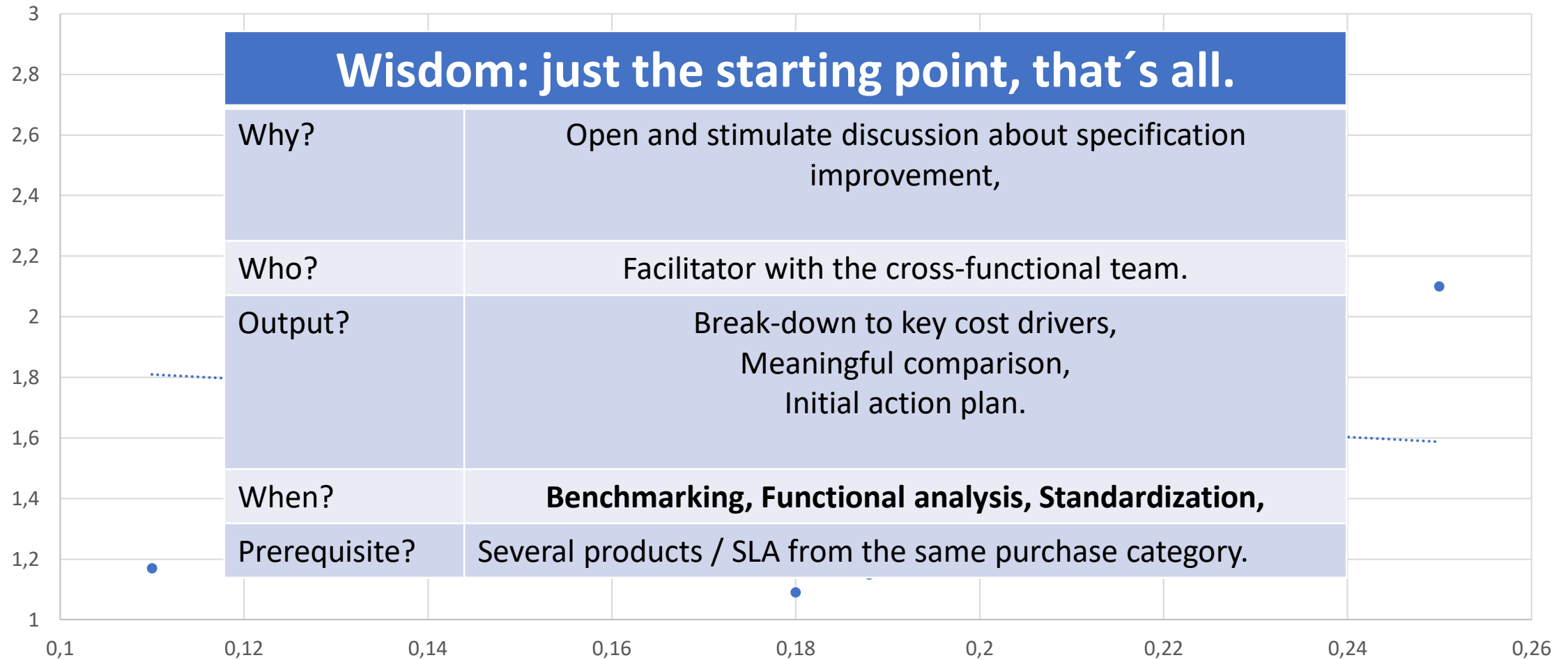


Digging deeper into specification improvement Levers that'll get you straight to hell!

- Price / Performance analysis
- Complexity index
- TCO driven conversation
- Orchestrate crisis



Madness: Tell me the price of each valve per kilo.



Madness: Range all products into the complexity index.

TOP quartile

Average

BOTTOM quartile

Wisdom: avoiding costs always beats reducing costs!

Why?	Attack the 70 % of product cost generated in design phase.
Who?	Cross-functional team and Supplier.
Output?	Complexity index, Quantified objectives, Action plan for each area,
When?	New product development (including ongoing value-add, value engineering activities)
Prerequisite?	Complexity index methodology and measures.

Madness: Impose guaranteed TCO related savings.

Wisdom: Leverage supplier skills through mutual carrot and stick for both.	
Why?	Continuous specification improvement through TCO lens.
Who?	Cross-functional team and Supplier.
Output?	Savings pipeline, Expert additional capacity, Guaranteed cost reduction / internal lever
When?	Existing product and process improvement.
Prerequisite?	Good understanding of TCO opportunities and TCO calculation methods.

TCO as a total acquisition price,	TCO focused on supplier costs,	TCO focused on our own internal costs,	TCO focused on the interface/ shared costs,	Make or Buy TCO,	TVO focused on optimizing the whole SC,
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Madness: A little crisis never killed nobody

Wisdom: some things will just never come true without a gentle push,

Why?	Because it is a
Who?	Procurement,
Output?	Panic, Emergency measures, Short-term over-cost,
When?	In moments of total desperation.
Prerequisite?	Highly competent buyer with senior management backing.

AGENDA

1. Savings levers introduction
2. Cashflow
3. Demand management

Demand management

How to achieve savings through demand management?

How much money do you spend without any control?

Direct?
Indirect?

Who are you buying from?
Where do you buy?
How often?
At what prices and conditions?
How do you know if you need those?
Are there any substitutes available?
Do we need this now?

....



Demand management

How to achieve savings through demand management?

Example:

Office stationeries – annual spend : 2 M EUR
E-auction savings: 32% (both price and turnover bonus)
Countries under contract: 9 (nine)
Number of vendors: 1 (one)

Problem:

- Its just stationeries, „penny money”
- I need it right now, can't wait to contact procurement, I am not sure of the which form do i need to fill in and where to find it
- Management only cares about the „big spend”
- Its faster to order online using corporate credit card
- I can see that online price is cheaper than our central procurement, our contracts are not good enough



Demand management

How to achieve savings through demand management?

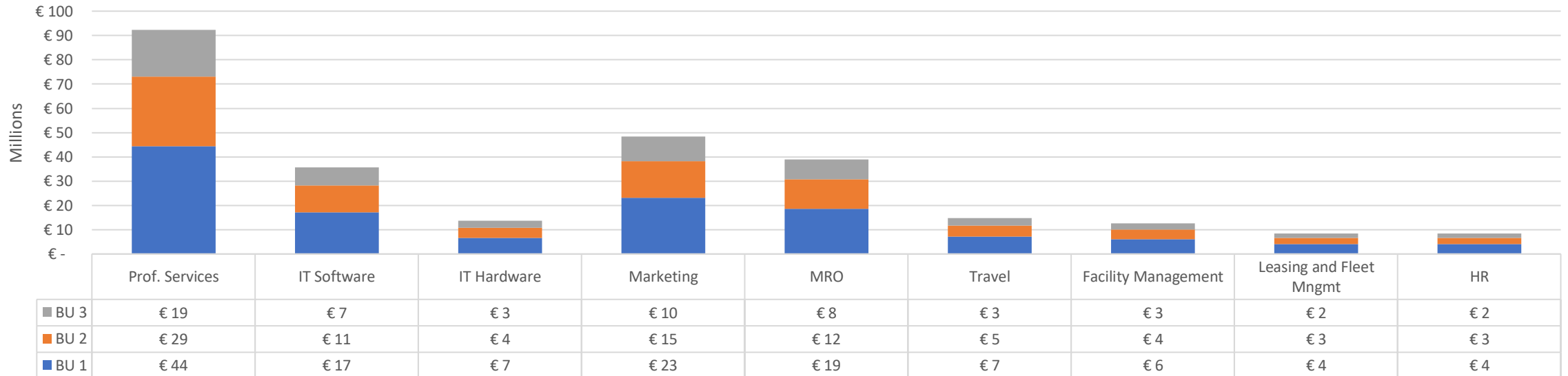
Solution in five steps

Demand management

How to achieve savings through demand management?

1. Get Budgeting proces under control:

- A) Identify budget and budget owners for each Business Units
- B) Budgeting per Procurement categories and link it to the Cost Centers
- C) Budget per spend categories to be linked to Business Unit P&L



Demand management

How to achieve savings through demand management?

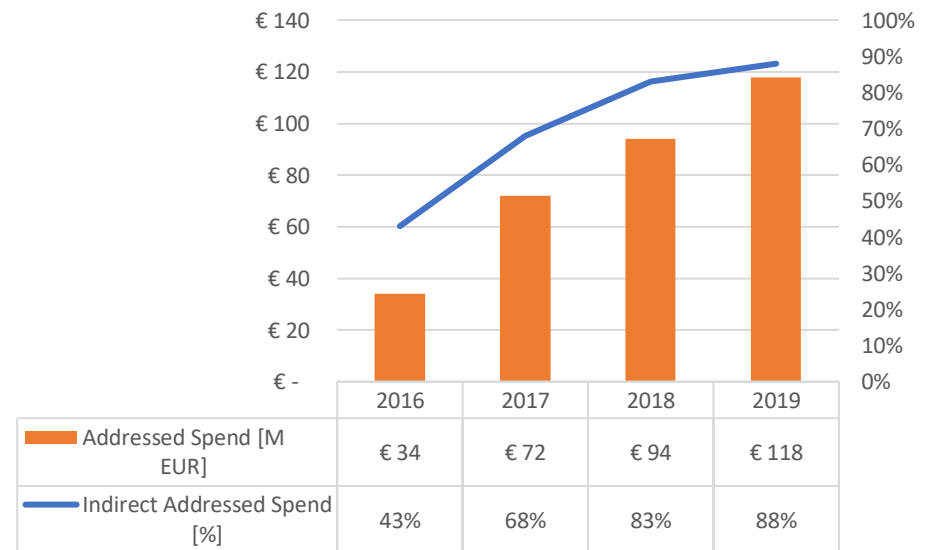
2. Create world-wide spend policy – make it clear and simple though:

- A) Create spend policy per each indirect sub-category
- B) Make sure to have it backed up by senior management – ideally CEO, CFO or CPO
- C) Set KPIs for both Indirect Procurement and BU (to take over spend under control)

RULES

Typical Categories	Spend Policy in place?
Travel	
IT Hardware	
Facility Management	
Fleet Management	
HR	
Admin	

Addressable Spend KPI

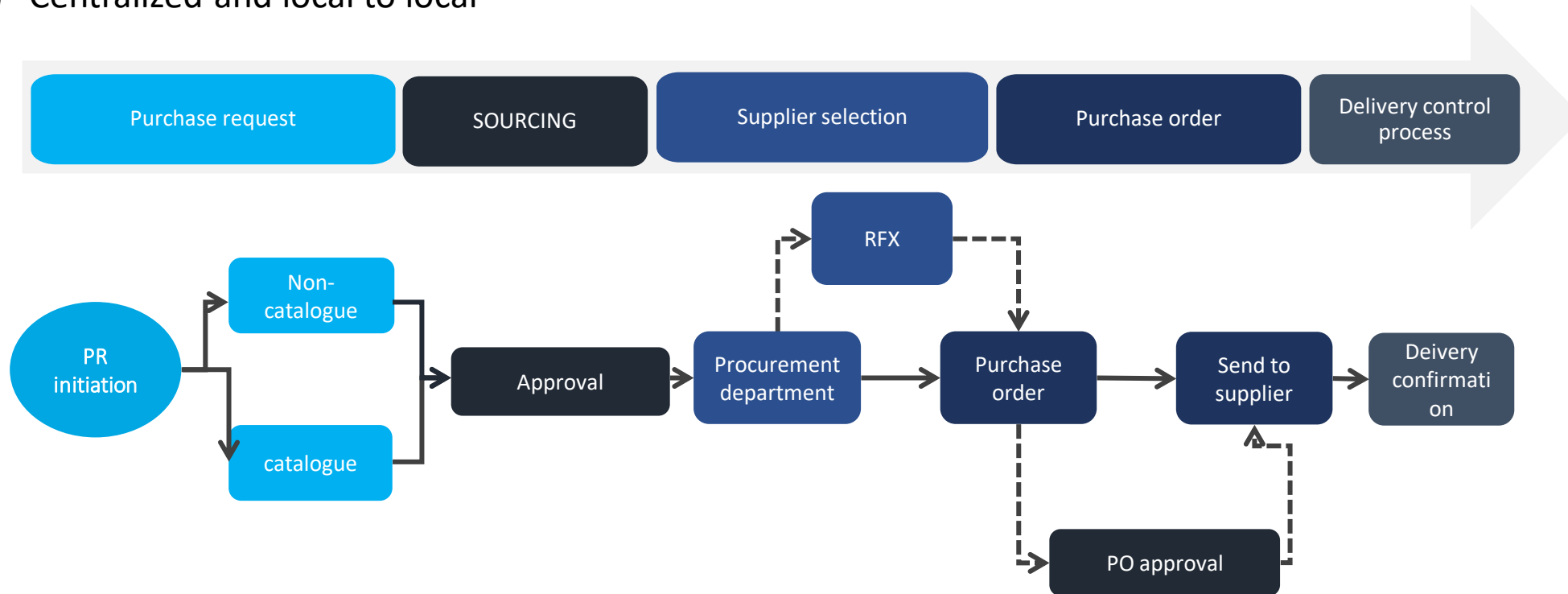


Demand management

How to achieve savings through demand management?

3. Create spend approval flow – make it simple though:

- A) Create spend approval flow
- B) Make sure it is simple and back it up with e-procurement software
- C) Centralized and local to local

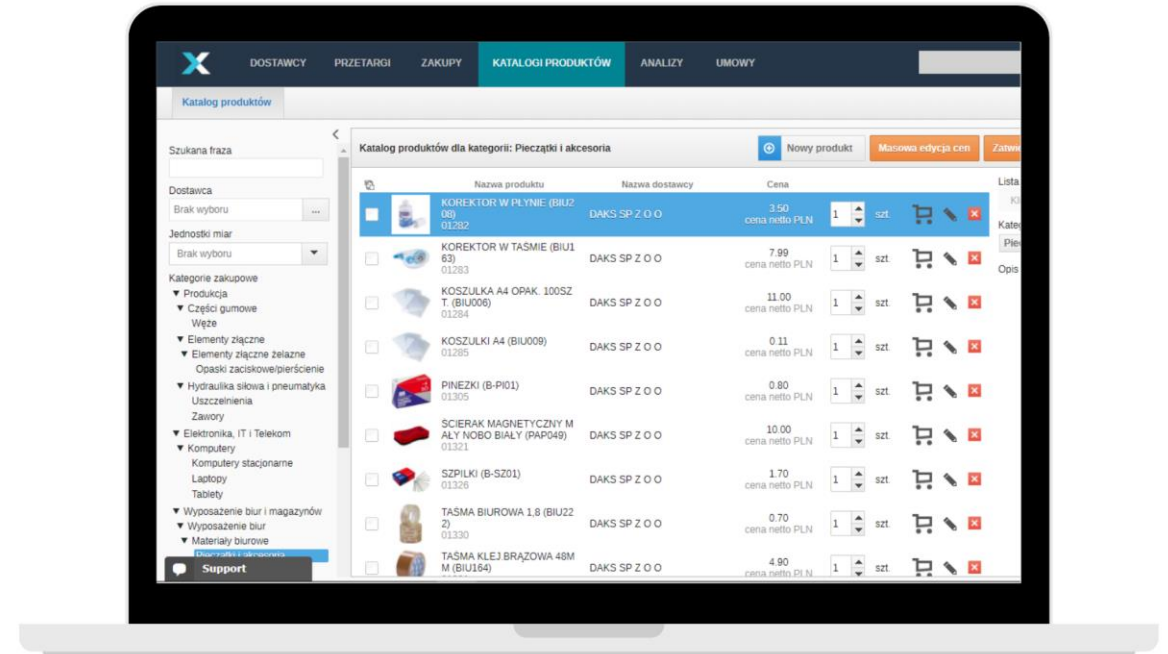
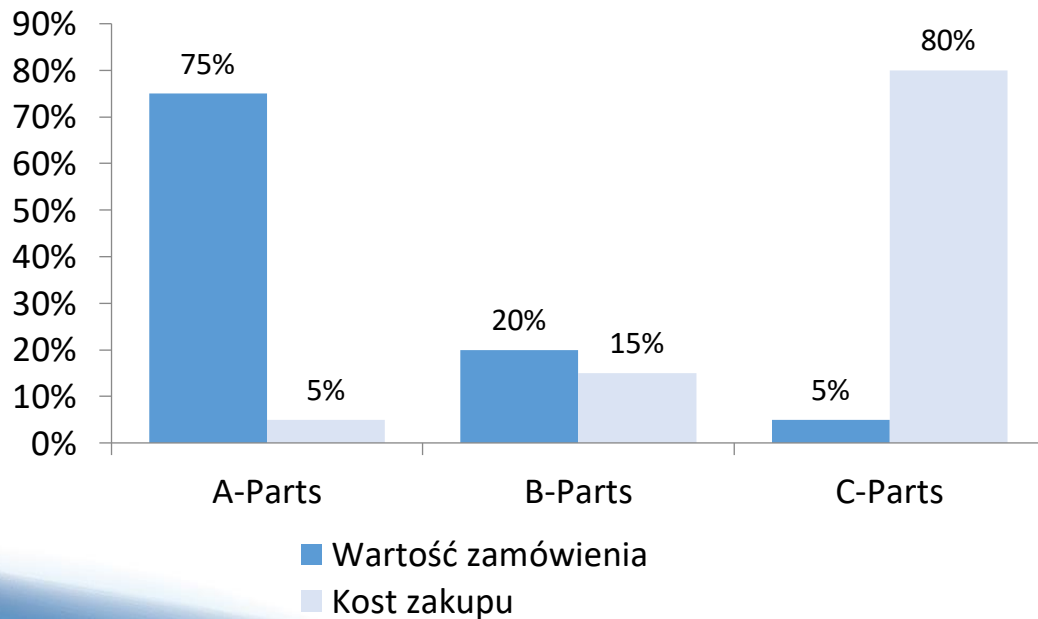


Demand management

How to achieve savings through demand management?

4. Use IT software for spend control, use eCatalogue:

- A) Use eProcurement to control expenditures
- B) Use eCatalogues to make it user friendly and control spend
- C) Make a clear policy on maverick invoices approval flow
- D) Control transactional costs



Demand management

How to achieve savings through demand management?

5. Make sure it is taken serious:

- A) Have a buckup from high management
- B) Have a continous reporting system in place
- C) Report KPIs and saving numbers

Demand management

How to achieve savings through demand management?

Where does the savings coming from:

- Savings in unit costs and volume as shared KPIs of indirect procurement and demand stakeholders
- Savings confirmed by demand stakeholders
- Savings taken into account systematically in course of the budgeting process
- Budgets agreed between indirect procurement, demand stakeholders and finance & controlling

THANK YOU!

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