

Procurement's Cost Savings Playbook

An Executive's Guide to Sourcing Savings



Procurement Priorities shift in the last couple of years

Over the years, the priorities of procurement organizations have shifted due to various factors, including the global economic slowdown, the rise of e-commerce, and the growing emphasis on sustainability.

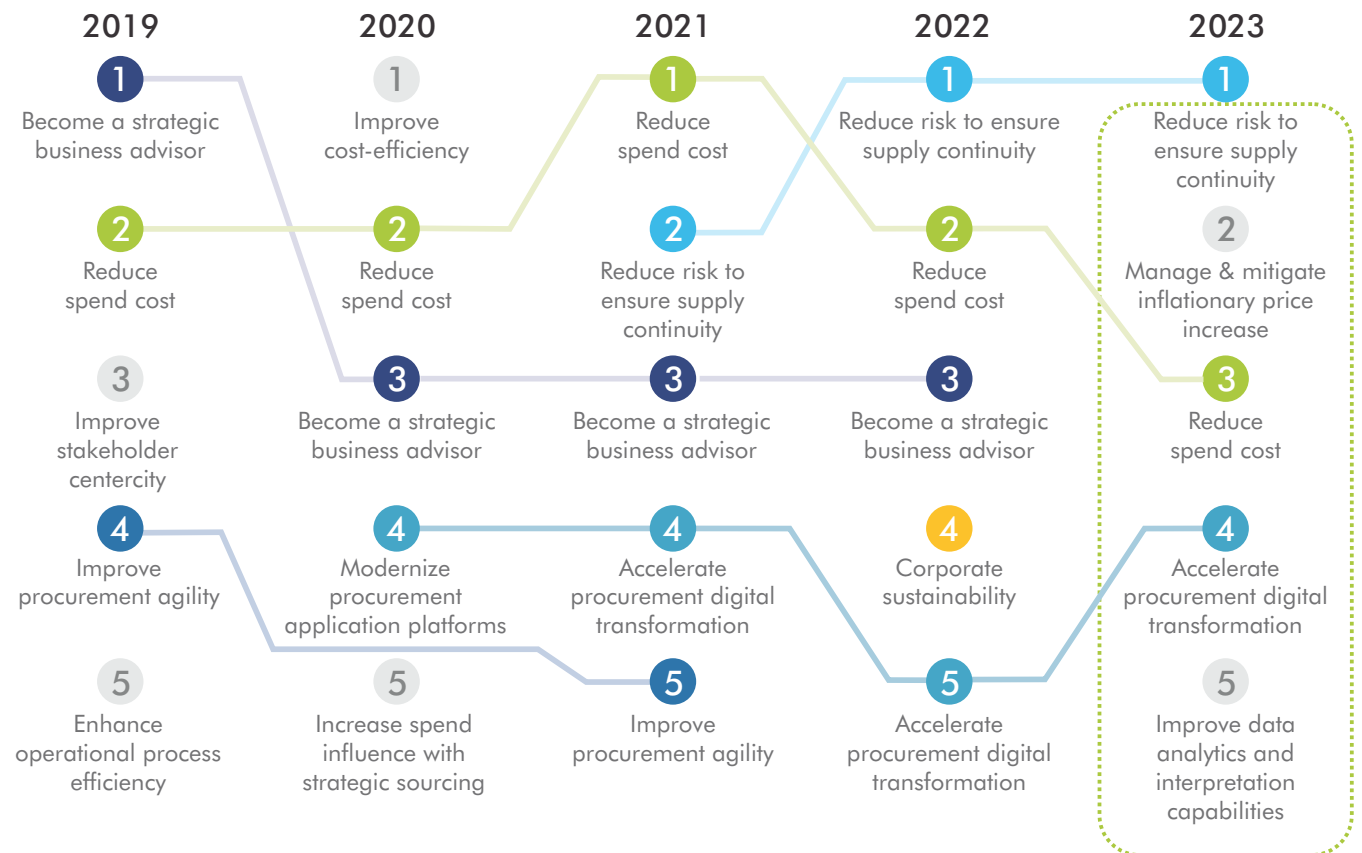
According to The Hackett Group's 2023 CPO Agenda (Fig.1), while ensuring supply chain continuity and reducing risks take precedence in 2023, **reducing spend costs, improving spend efficiency, and managing inflation have consistently ranked among the top three priorities.** The emphasis on cost reduction and inflation management proves crucial for procurement's long-term success and financial stability.

These changing priorities reflect the evolving landscape of procurement, with a stronger focus on **strategic sourcing, risk management, and value creation.**

Procurement organizations that can adapt to these changes will be well-positioned to thrive in the future. As the industry continues to respond to dynamic challenges and opportunities, aligning strategies with these key priorities will enable organizations to remain competitive and achieve sustainable growth.



Fig. 1: Procurement Priorities Shift to Address Exigent Issues



Source: The Hackett Group, The CPO Agenda 2023

Procurement's Time to Shine

The current economic climate is challenging for businesses of all sizes. Rising prices, supply chain disruptions, and labor shortages put pressure on organizations' bottom lines.

In these challenging times, procurement can play a critical role in helping businesses save money and protect their margins. By leveraging their sourcing, negotiation, and risk management expertise, procurement professionals can identify opportunities to reduce costs and improve efficiency.

47% of respondents do not know or measure their procurement function's return on investment (ROI).

Source: 2023 Transformational Procurement Priorities Dictate 2023 - ISM & Zycus Poll Survey



- What sourcing methods yield the best results?
- How to build a pipeline of sourcing projects to achieve aggressive savings targets?
- What tools and techniques can you deploy to ensure that Finance and the organization acknowledge the savings delivered?



Procurement's Value Proposition: Cost Savings



Most CPOs want to be viewed as a Trusted Business Advisor focusing on Value Management- not just tactical buying. However, when it comes to pitching procurement's value, it inevitably comes down to showing them the cost savings. But where do you start?

1. Define:

Cost savings is a powerful KPI for demonstrating the value of procurement to the business. On average, companies achieve about 3.5-3.8% of cost reduction and about 2.2- 2.8% of cost avoidance as a % of total managed spends depending on the sector. While there are multiple metrics that support savings, we particularly like to emphasize the following two:

A. Contract compliance: Measures compliant sourcing and is measured as-

$$\frac{\text{Managed Spend on Contract with Approved Supplier}}{\% \text{ Total Spend Under Management}}$$

B. Return on investment (ROI): A simple way to communicate the value your supply management group delivers to stakeholders.

$$\frac{\text{ROI} = \text{cost savings (reduction + avoidance)}}{\text{Supply management operating expenses}}$$

2. Identify:

Analyzing the spend sits at the foundation of cost savings. It helps companies dig deeper into their spend data and gain visibility on how their procurement is functioning. Tracking and managing spend enables organizations to identify areas where they can negotiate better deals with suppliers or find more cost-effective alternatives.

3. Communicate:

According to the Kelly School of Business Survey 2022, **only 27% of CFOs consider that procurement has a positive effect on enterprise profitability.** This notion is majorly because of a lack of collaboration on savings tracking, thus leading to a considerable procurement and finance disconnect. Procurement is primarily judged by the savings it generates through different projects. There is a lack of quantifiable impact on the company's bottom line, simply because of the difficulty in proving the tangibility of the savings to Finance.

\$6.5million

is the average cost savings (reduction + avoidance) per strategic supply management employee.

Source: The Metrics of Supply Management- CAPS Research, 2022

4 Steps to Savings Realization

Realizing savings is crucial for financial success, as it reduces costs, boosts efficiency, and enables organizational growth. Here is a four-step guide to realizing savings for your organization. Get the visibility you need to make better buying decisions, adapt to new challenges that drive profitability, and simplify purchasing for greater savings.

1 Identify the most compelling categories for strategic sourcing

Savings Start with Spend Analysis

According to CAPS Research's The Metrics of Supply Management , 2022, 21% of Industrial & High Tech company revenues go to indirect purchases. These indirect purchases often have less visibility but offer the greatest potential for cost savings.

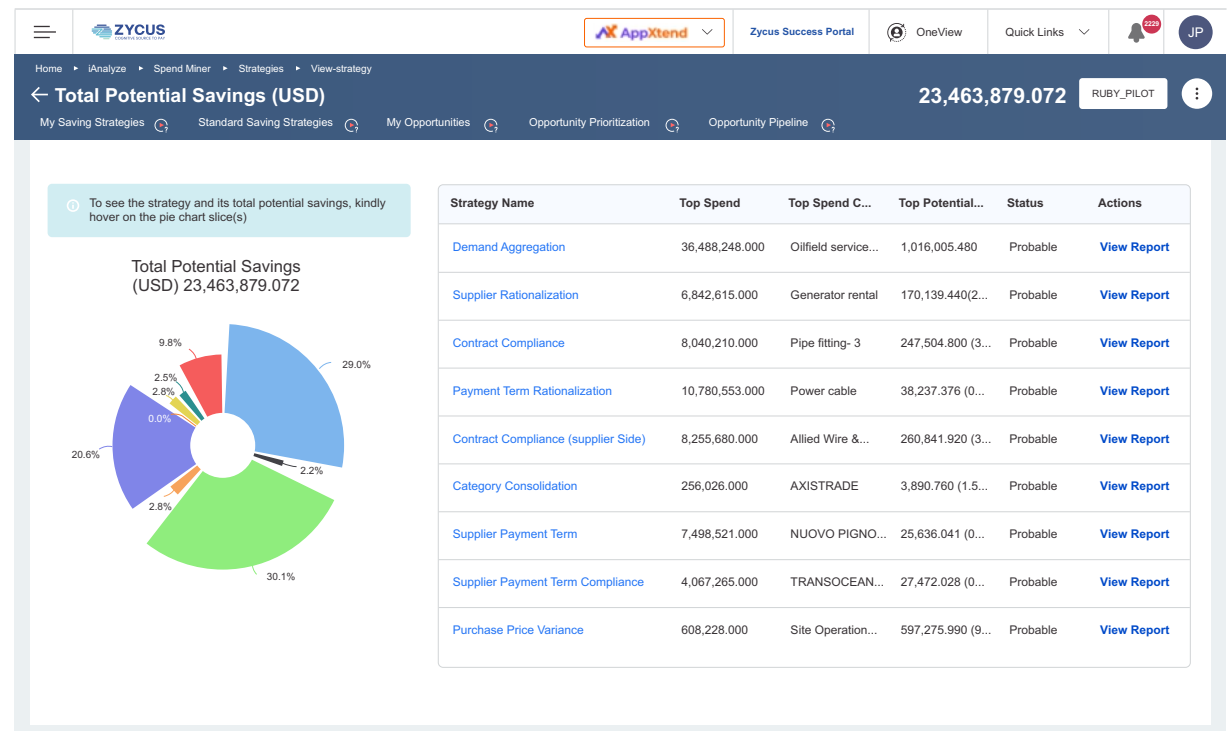
Spend analysis involves a systematic process - classifying spend > gaining visibility into spend trends > identifying savings opportunities. Procurement professionals often have to analyze a lot of data from different systems. This can be a daunting task, but Spend Analysis can help.

Zycus Spend Analysis extracts data from different systems, cleans it, and transforms it into a uniform format. It then analyzes the data and categorizes it according to business impact. This information can

be visualized in reports and dashboards, which can help procurement professionals prioritize trends that have a higher bearing on revenue or effect on business.

The output of this spend analysis review is a summary of purchases by various variables, such as category, supplier, and business unit. The primary objective for conducting spend analysis is to identify and execute opportunities for cost savings. Zycus' automated spend miner (Fig.2) can help you automatically identify savings opportunity.

(Fig.2) Total Savings Potential



Source: Zycus Automated Spend Miner

Execute Identified Savings

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.

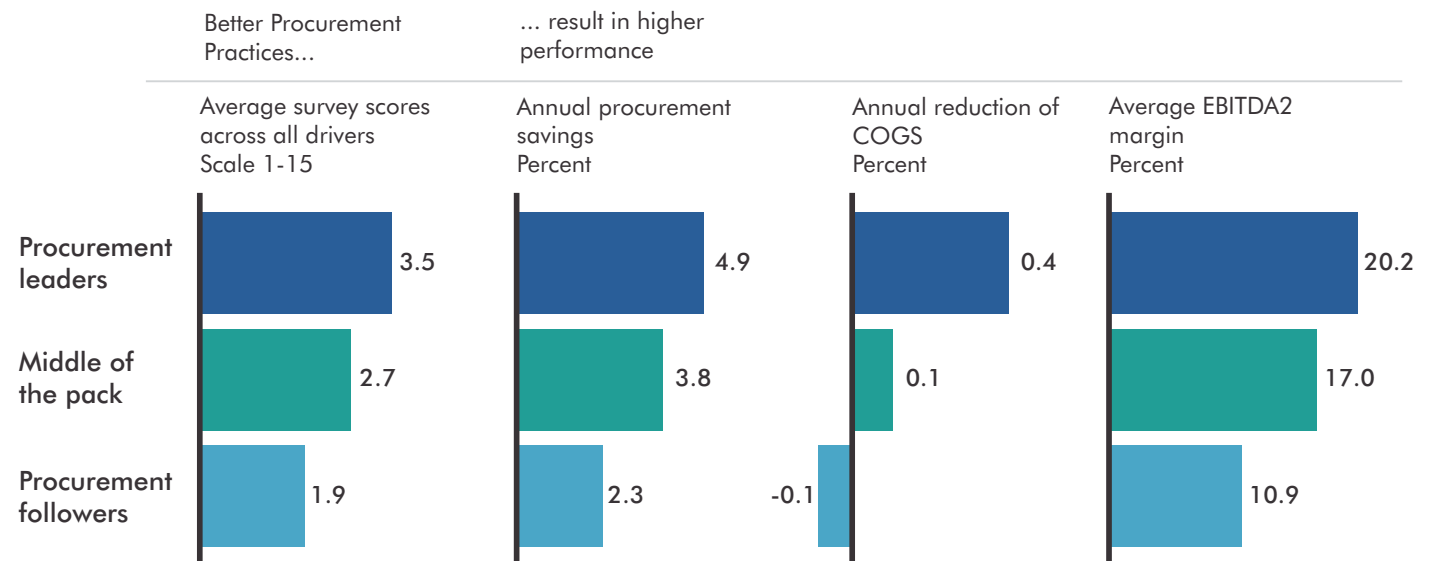
Easy & Early Savings Categories: Begin your strategic sourcing initiative with a category where success is comparatively easier. For example, categories like Office Supplies, where several capable suppliers compete against each other, should be an ideal ground to kick-start the first savings.

Late Savings Categories: Complex categories like health benefits, advertising, travel, fleet services, etc., are complex grounds for savings realization, which take time. While some of these categories may require careful consideration of supplier selection to avert any risk, some will be straightforward. World-class companies that use advanced sourcing solutions have a reputation for yielding higher cost-savings than peer groups using comparatively primitive methods (Fig.3).

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

(Fig.3) Procurement health shows a strong correlation to corporate performance



Source: McKinsey Global Purchasing Excellence

2

Choosing the best sourcing methodology

A recent Association for Supply Chain Management (ASSCM) study found that only 40% of organizations use eSourcing to manage their procurement processes. One reason for underutilized eSourcing is organizations relying on spreadsheets for procurement, missing potential cost savings and other benefits like:

Stakeholder collaboration: eSourcing tools promote stakeholder collaboration, ensuring seamless coordination during sourcing events. With a centralized platform for communication and document sharing, they reduce miscommunication and delays, enhancing alignment and efficiency.

Supplier engagement: These tools boost supplier engagement, leading to increased participation and better response rates. With more active suppliers, sourcing outcomes improve in quality and overall effectiveness.

Data capture: These tools increase supplier engagement, improving participation and response rates, leading to enhanced sourcing outcomes.

A Sourcing professional faces challenges in selecting the most effective negotiation tactic due to the wide range of options available, as shown in (Fig.4) in Zycus' e-Sourcing module.

What is the most beneficial sourcing tactics (e.g. RFI, RFP, RFQ, Auction)?

The ideal sourcing format depends on the organization's specific needs. For more complex purchases, RFPs are commonly used, while RFQs are suitable for simpler ones.

Auctions prove most beneficial with numerous potential suppliers and a cost reduction goal. The choice of auction format varies based on the goods or services being procured, the number of suppliers involved, and the desired outcome. Reverse auctions suit price-sensitive buys, Dutch auctions are preferable when quality matters, and English auctions work well with a large number of suppliers, whereas Dutch auctions are more effective with a smaller number.

(Fig.4) Sourcing Execution – Selecting Negotiation Tactics

The screenshot shows a 'Create Sourcing Event' form with the following fields and options:

- Event Name***: Text input field with a character count of 200.
- Event Description**: Text input field with a character count of 2000.
- Event Type ***: Radio button options: Request for Information (RFI), Request for Proposal (RFP), Request for Quotation (RFQ), and Auction (selected).
- Auction Type ***: Radio button options: English (selected), Japanese, and Dutch.
- Auction Subtype ***: Radio button options: Forward and Reverse (selected).
- Mark this event as**: Checkboxes for Test Event, Public Event, and Two-envelope Bidding.

3

Build a pipeline of sourcing projects to achieve aggressive savings targets

Engage Stakeholders: Collaborate with procurement teams, finance, business unit leaders, and executives. Engage them in sourcing, align objectives with savings targets, and understand their requirements for buy-in and support.

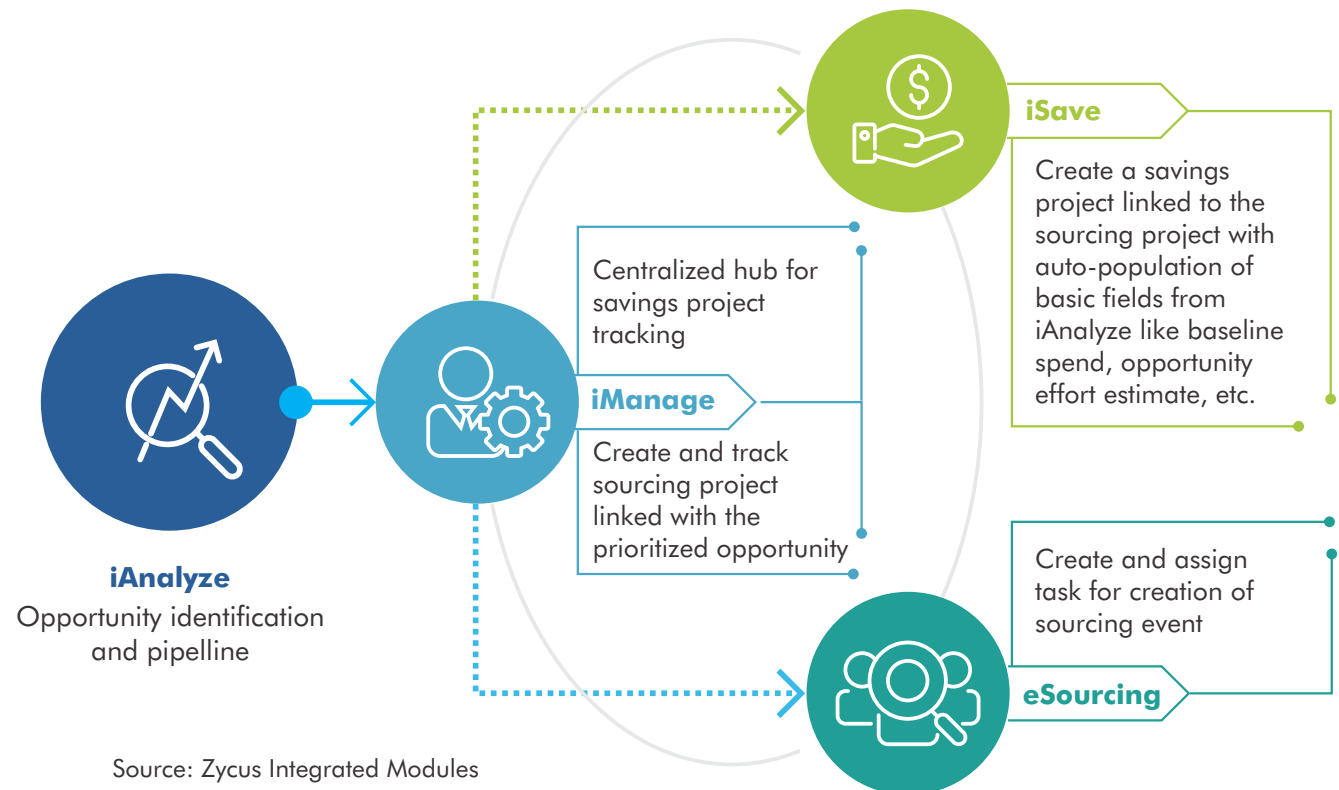
Prioritize Opportunities: Evaluate the identified opportunities based on their potential savings, complexity, and strategic importance. Prioritize projects that offer significant savings potential, align with organizational goals, and can be executed within the desired timeframe.

Develop a Project Pipeline: Create a structured pipeline outlining the sourcing project sequence and timeline. Categorize projects based on their size, complexity, and potential impact. Ensure a balance between quick wins and longer-term strategic initiatives.

Implement Savings Tracking Mechanisms: Establish robust tracking mechanisms to monitor and measure savings from each sourcing project. Develop KPIs and metrics to track progress against savings targets. Regularly communicate achieved savings to stakeholders, showcasing sourcing initiative effectiveness.

To establish an integrated savings tracking system, use Zycus' **eSourcing** solution, iSource. Collaboration features like eForum and an integrated suite(Fig.5) ensure seamless data flow, eliminating redundancies. The system automates feed to Power BI, enhancing **visibility for top management** with interactive visualizations. The dashboard enables streamlined sourcing events and viewing of the opportunity pipeline. It centralizes negotiations and grants access to users from various business units. Zycus will help establish a standardized project template for logging, executing, and tracking savings opportunities across the organization.

(Fig.5) Customized 3 Way Integration



Source: Zycus Integrated Modules

4 Deploy tools & techniques to make sure that savings delivered are auditable and acknowledged by Finance

In today's procurement world, the role of procurement leaders is not just restricted to identifying, implementing & executing means to optimize spend management. Procurement must ensure business advancement by becoming connected, informed, and collaborative with all key stakeholders. Apart from spend optimization techniques, procurement leaders must also ensure they develop, track and facilitate the savings attained to align procurement with business financial performance management. However, as easy as it may sound, procurement faces challenges (Fig.6) in getting finance sign-off on the savings generated.

Challenge

According to Gartner:

- There is no universally accepted definition of savings
- The responsibility of ensuring that savings reach the bottom line is often unclear or even non-existent
- Many different factors impact savings before they reach the bottom line

Solution

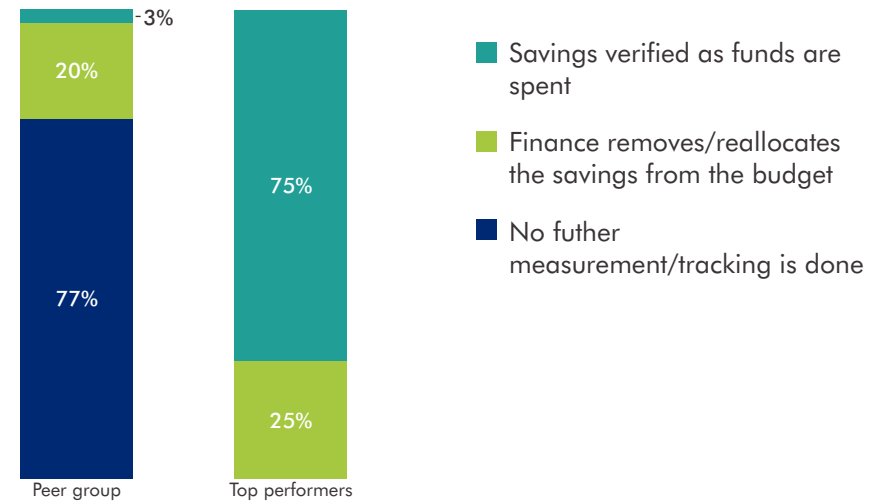
1 Align

With Zycus iSave, procurement organizations can:

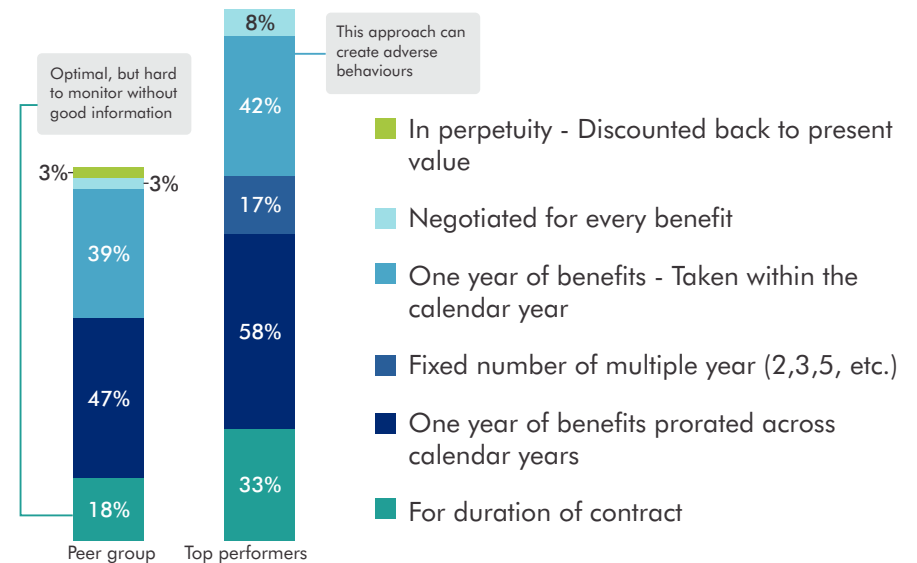
- Structure and share procurement cost-savings information through a single platform
- Calculate and map the impact of procurement savings on top-line financial measures such as profit and loss, cash flow, cost of goods sold, and balance sheet

(Fig.6) Getting credit for savings from finance

Savings are considered booked/achived when negotiated and agreed to by the supplier and...



Sourcing benefits: Length of time procurement is permitted by finance to take credit



Source: Procurement Value Measurement, The Hackett Group

2 Validate:

Deciding how a business will recognize cost savings is a complex process. Will budgets be reduced? Will savings be reinvested? How will savings pies be divided among stakeholder organizations that participate in bringing them about? Will savings be recognized all at once or spread out over a few quarters or years?

Zycus iSave makes these questions easier to answer by enabling procurement to:

- Employ workflow to obtain validation of procurement cost savings from stakeholders
- Allocate savings clearly and equitably among stakeholder organizations

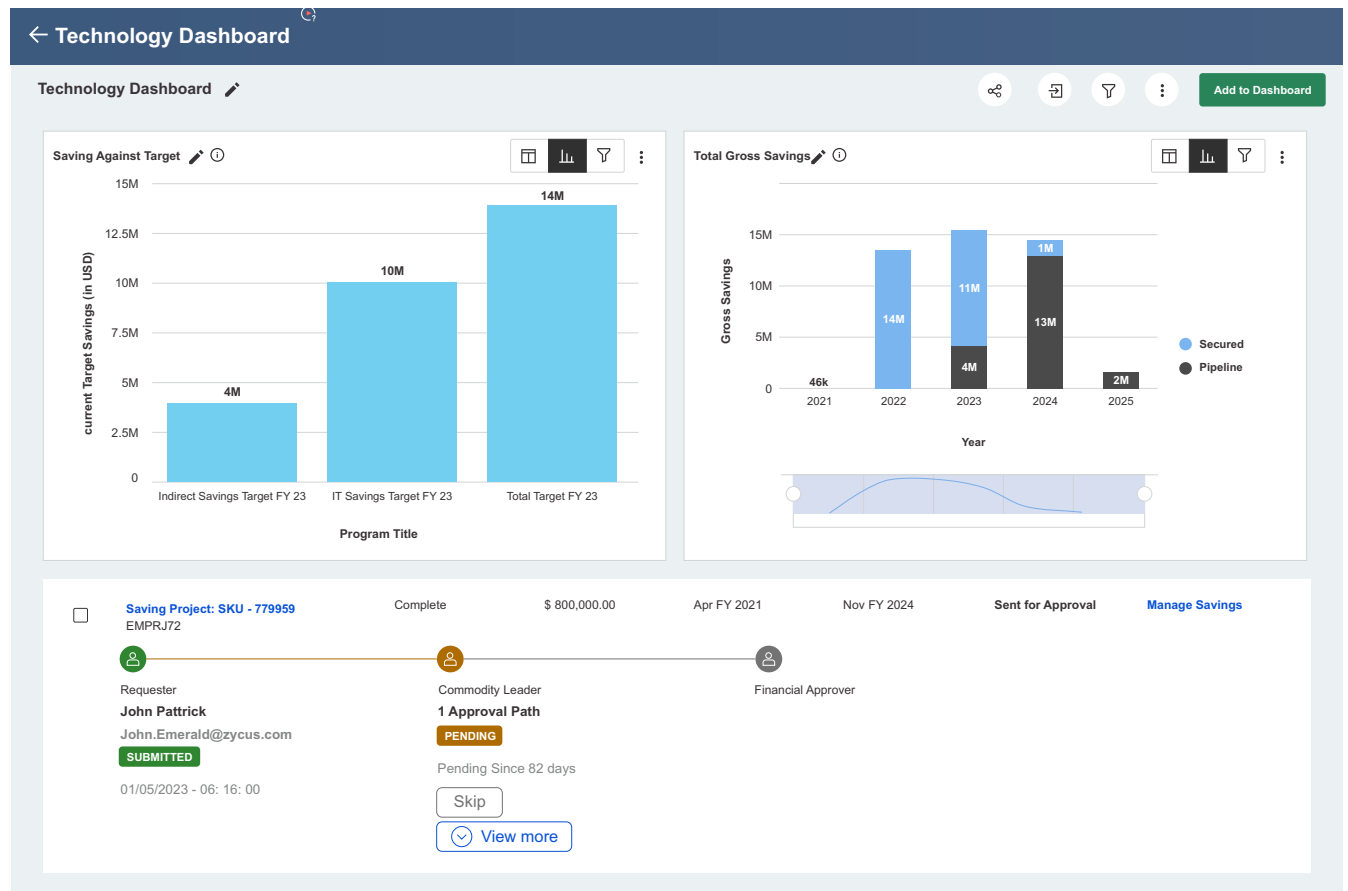
3 Credibility:

Not all cost savings are created equally. Some are driven by strategy, others by market movements. Some are easily mapped to key financial metrics, while others – cost avoidance and process efficiency – require more work and greater collaboration to be accepted as credible and connected to overall business performance.

The Zycus iSave solution addresses these challenges by empowering procurement to:

- Characterize and segregate cost savings types, for example - hard, soft, avoidance, and revenue share
- Characterize savings by sourcing strategy employed, for instance - volume, negotiation, etc.
- Track savings (Fig. 7) through configurable stages – for example, forecasted, realized, actual, budget down, reinvest, and so on and get finance sign-off

(Fig. 7) Tracking Savings Pipeline – Getting Finance Sign-off



5 Steps to mitigate & manage risks that affect procurement savings

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

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

1 Cross-functionality of Risk Management 

2 Aligning Risk Management Activities 

3 Leverage Supply Chain Intelligence 

4 Risk Mitigation Preparedness & Contingency Planning 

5 Track Progress of Changes Implemented & Benefits Realized 



Cross-functionality of Risk Management

encourages separate areas of an organization to assess and develop its risk mitigation strategies to defend the company's overall savings objective. The resilience built in this scenario is stronger enough to support the organization in the event of exposure to unpredictable 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 is, 'What are we 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, internal and external risks must be factored in to prepare complete documentation so that all key stakeholders know the possibilities.



Risk Mitigation Preparedness & Contingency Planning

is necessary to reduce the frequency and severity of impending risks. Being aware of the risk position, associated costs, and timelines for recovery, the organization can guard its savings intention, including cost avoidance. For this, continued visibility of the issue and updating procurement's scorecard can help the 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.



Accelerate your Organization's Strategic Sourcing with Zycus

With this playbook of future-looking practices in mind, you, and your organization, can be prepared for 2023 & beyond. Procurement played a crucial role in reducing costs and navigating new supply chain realities of the last year. Now, it can lead the organization in accelerating growth and meeting new strategic challenges. **Procurement leaders are digitally transforming and need new ways to create value through cost savings and the modernization of legacy processes.**

We're ready to help you drive actual results with our AI-driven strategic sourcing solutions. **Book a Demo** with us today, and take your procurement performance to next level.



The Only Organically Built & Integrated Source-to-Pay Suite in the Industry



Gartner-ranked leader in Strategic Sourcing Suite

"Zycus is ideal for enterprises that want to transform S2C, P2P, or both, especially if they are keen to embrace new uses of AI as part of that transformation."

- The Forrester Wave™, Supplier Value Management Platforms, Q1 2022

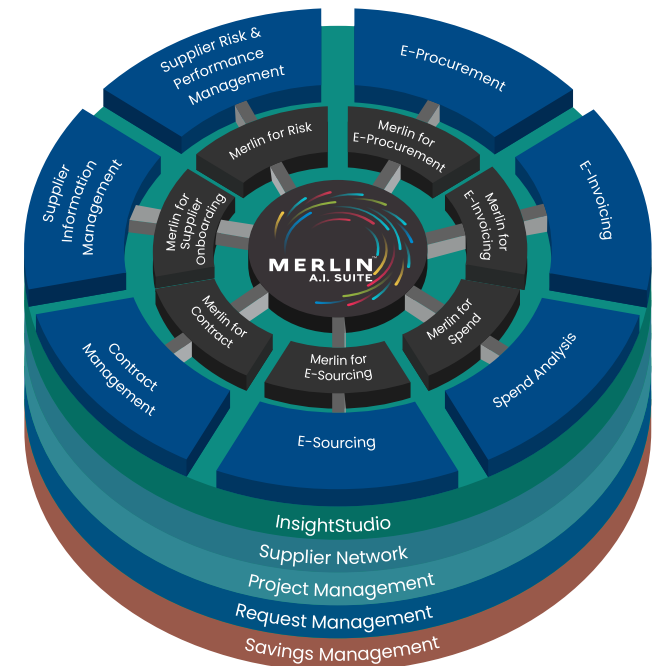


Zycus is the pioneer in Cognitive Procurement software and has been a trusted partner of choice for large global enterprises for two decades. Zycus has been consistently recognized by Gartner, Forrester, and other analysts for its Source to Pay integrated suite.

Zycus powers its S2P software with the revolutionary Merlin AI Suite. Merlin AI takes over the tactical tasks and empowers procurement and AP officers to focus on strategic projects; offers data-driven actionable insights for quicker and smarter decisions, and its conversational AI offers a B2C type user-experience to the end-users.

Zycus helps enterprises drive real savings, reduce risks, and boost compliance, and its seamless, intuitive, and easy-to-use user interface ensures high adoption and value across the organization.

Start your #CognitiveProcurement journey with us, as you are #MeantforMore.



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