REAL INSIGHTS FROM REAL DATA:

Profit Watch

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November 2009

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Even after years of cost cutting, new procurement approaches can deliver dramatic savings

IT BEATS LOOKING FOR CHANGE IN THE SOFA

After several years of cost-cutting, companies may feel they have wrung every drop of savings out of their expense base. But our experience has proven that even companies that have aggressively driven out costs can still benefit from a combination of sophisticated analytics, advanced technology, and deep industry expertise in three key areas:

1.The Usual Suspects

Even in well-mined "plain vanilla" categories like travel, office supplies, and computers, we find that companies can save as much as 10% by improving spend visibility and better managing demand.

Many times, even best-in-class procurement organizations may not be capturing SKU and transaction-level data on a significant amount – as much as 30% – of their basic spend.

By gathering more detailed information from vendors and using advanced data management technology to rapidly pull it all together, we have been able to more accurately categorize spending. This new visibility allows us to recapture overcharges and consolidate purchases.
There are also significant savings in more intensive demand management. A classic example: companies frequently order more powerful computers than their people need. Our analysis at one company conformed specifications to the" real" requirements, resulting in savings of more than 18% without harming productivity.

2. Those Hard-to-Get Categories

Typically, up to 40-50% of a company's non-staff expenses reside in categories where traditional procurement approaches have had only partial success, such as services or embedded/low-choice relationships. Approaching these categories with more knowledge and better tools can lead to substantial savings.

In service categories like advertising, temp labor, and consulting, defining a unit for a "go to market" approach is not a straightforward process. Is an IT temp from Agency A doing the same work as one from Agency B? Shouldn't we measure the output of an advertising agency in marketing impact, not just hours? To answer these questions, purchasers must create ways to normalize and structure data to define and track like-to-like services. This requires combining a deep understanding of demand, output, and industry knowledge with analytic techniques – no easy task, but worth doing, as it can save up to 20% without sacrificing quality.

When vendors have the pricing power – that is, where switching costs are high, vendor relationships are complex and deeply embedded, or there's little competition for services – purchasers can level the playing field by understanding where vendors make their money and just how much they are making. Particularly in areas like technology, where prices have dropped and offerings are complex, knowing as much, if not more, than vendors do about their cost structures gives a distinct leg up at the bargaining table. In certain categories, it can lead to savings of up to 23%.

3.Jobs Better Done By Others

While outsourcing and offshoring are well understood and advanced for many categories, there's more opportunity out there. One fruitful avenue: setting up shared utilities in categories where an outsourced partner can deliver better service at lower prices. For instance, print production is a large part of many companies' infrastructure. Global specialist firms can leverage their scale economies and superior expertise to deliver major cost savings. An added bonus: an often fragmented internal operation becomes consolidated and much less labor-intensive to manage.

Another opportunity: offshoring new categories. For instance, we have found that certain subcategories of legal services – transcription, document review, legal research, and more – are ripe for moving overseas to lower-cost geographies.

However, a detailed understanding of category specifics and vendor capabilities is required to execute this successfully.

Cost Control Remains a Critical Competitive Strategy

The recent economic crisis put cost-cutting front-and-center for corporate competitive strategy. But even as conditions improve, winning companies will be those that find new ways to permanently – and repeatedly – reduce procurements costs, so they can invest in the people and strategies that will drive growth.